

PAYROLL



Most ministers are employees for federal income tax purposes under the tests currently used by the IRS and the courts and should receive a *Form W-2 Wage and Tax Statement* from their church reporting their taxable income. However, ministers are self-employed for Social Security (with respect to services they perform in the exercise of their ministry).

Ministers' wages are exempt from federal income tax withholding. This means that a church may not withhold income taxes from a minister's paycheck without specific written permission. And, since ministers are self-employed for Social Security with respect to their ministerial services, a church does not withhold the employee's share of FICA from a minister's wages. Ministers must prepay their income taxes and SECA using the estimated tax procedure, unless they enter into a voluntary withholding arrangement with their church.

Hammer Tax Guide for 2019

For additional information refer to [Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers](#).



Compensation Guidelines & Terms of Call

Presbytery Compensation Guidelines are updated every year and can be found in the file cabinet on the Presbytery website.

<https://www.presbyteryofli.com/file-cabinet/> under the tab
Committee on Ministry-Compensation/Benefits

Every Pastor in the Presbytery has a current Term of Call.

Terms of call for Temporary Pastors are issued every year by the Committee on Ministry, and approved by the Session.

Churches with Installed Pastor's must update the terms of call and send them to the Presbytery Office for the Committee on Ministry.

There are two different forms:

Pastor's in a Manse

Pastor's with a Housing Allowance, for those who own or rent a house.



TERMS OF CALL FOR PASTORS IN MANSES

Terms of call items that are part of payroll

The Presbytery of Long Island
Committee on Ministry
Compensation and Benefits

D.02.01

TERMS OF CALL FOR PASTORS IN MANSES

This form is to be used by and with the Committee on Ministry for approving terms of call and terms of contracts for pastors living in manses. Please refer to the Presbytery's current year compensation program for additional explanation and minimum requirements.

Name _____

Years Since Ordination _____

Church _____

Number of Active Members _____

Position _____

Full Time _____ or _____

Effective Date _____

Cash Salary _____

Manse Allowance _____

Tax-Deferred Investment _____

Free Use of Manse (annual fair rental value _____)

Full Utilities: heat, electricity, and water (approximate annual cost _____)

Pension and Medical Dues _____

Additional Insurance _____

SECA Tax Reimbursement _____

Automobile Expense Reimbursement _____

Pastoral Ministry Expense Reimbursement _____

Continuing Education Expense Reimbursement _____

Vacation _____

Continuing Education Time _____

Maternity/Paternity Leave _____

Moving Expenses _____

Payroll

Cash Salary - W2 Box 1

SECA Tax Reimbursement - W2 Box 1

Tax-Deferred Investment

The amount a pastor requests to be deducted from his/her cash salary for the 403 (b) goes in box 12 code E

Manse Allowance/Free Use of Manse annual fair rental value. This will be discussed later in the presentation.

TERMS OF CALL FOR PASTORS WITH HOUSING ALLOWANCE

Terms of call items that are part of payroll

The Presbytery of Long Island
Committee on Ministry
Compensation and Benefits

D.02.02

TERMS OF CALL FOR PASTORS WITH HOUSING ALLOWANCES

This form is to be used by and with the Committee on Ministry for approving terms of call and terms of contracts for pastors receiving Housing Allowances. Please refer to the Presbytery's current year compensation program for additional explanation and minimum requirements.

Name _____

Years Since Ordination _____

Church _____

Number of Active Members _____

Position _____

Full Time _____ or _____

Effective Date _____

Cash Salary _____

Housing Allowance _____

Tax-Deferred Investment _____

Pension and Medical Dues _____

Additional Insurance _____

SECA Tax Reimbursement _____

Automobile Expense Reimbursement _____

Pastoral Ministry Expense Reimbursement _____

Continuing Education Expense Reimbursement _____

Vacation _____

Continuing Education Time _____

Maternity/Paternity Leave _____

Moving Expenses _____

Payroll

Cash Salary - W2 Box 1

SECA Tax Reimbursement - W2 Box 1

Tax-Deferred Investment

The amount a pastor requests to be deducted from his/her cash salary for the 403 (b) goes in box 12 code E

Housing Allowance

The Housing Allowance is a portion of the cash salary and is coded in the payroll system so that is not included in Box 1 but rather shows up in Box 14.

2021 Guidelines

Includes proposed changes to become effective for existing calls and contracts, January 1, 2021; for new calls and contracts, October 1, 2020

The minimum cash salary shall be increased one-half of one percent for each year since a pastor's ordination, up to 30 years.

The minimum cash salary shall be increased by \$2,000 for churches with 151-350 members, \$4,000 for churches with 351-500 members, and \$6,000 for churches with over 500 members.

Cash Salary for a Pastor living in a Manse

The 2021 minimum cash salary shall be \$51,000.

The cash salary is an aggregate of cash salary, including the manse allowance, plus the amount put into the defined contribution plan, or 403 (b)

Cash Salary for a Pastor with a Housing Allowance

The 2021 minimum cash salary shall be \$76,400.

The cash salary is an aggregate of cash salary, the housing allowance, plus the amount put by the pastor into the defined contribution plan, or 403 (b).



Terminology

Although the Presbytery uses the word Manse the IRS uses the word Parsonage.

Internal Revenue Code Section 107 addresses providing parsonages and paying housing allowances.

Under IRC Section 107(1), a minister may be provided a parsonage for his or her use.

Under IRC Section 107(2), the minister may request a portion of his or her compensation package to be designated as a housing allowance

Housing/Parsonage Allowance

The housing allowance is an exclusion from income, not a deduction.

A housing allowance can be taken only if the amount to be excluded is officially designated as a housing allowance by your congregation through a resolution, meeting minutes or a budget before compensation is paid for the tax year to which it applies.

You may exclude from your income only the **smallest** of the following amounts:

- the amount designated in advance of your expenditures as your housing/parsonage allowance for the current tax year;
- the amount spent for your primary residence (mortgage principal and interest, utilities, taxes, insurance, furnishings, maintenance, etc.); or
- the current fair market rental value of your home, including furnishings, plus the current year cost of your utilities (no matter whether your home is owned or rented).

Determining Fair Market Rental Value

The fair market rental value of the home, as furnished, plus utilities.

No guidance is provided by the IRS on the acceptable methodology for determining the fair market rental value of a 'furnished home. The fair market rental value may be determined using a real estate professional or by locating comparable published rental rates in the local area. The rental value should be reevaluated every three to five years, and the minister should obtain proof of the rental value, in writing, as part of his tax records.

The source for the fair market rental value should be independent to the minister (i.e., it should not *be* provided by a relative, friend, or church member).

***Be Aware:**

If a minister skips this step and is audited by the IRS, the IRS will go with any rental value they determine. Since IRS exams occur two to three years after a tax year, any value determined by the IRS may not reflect the true value existing in the tax year. If the real estate market has declined, this can be detrimental to the minister's tax calculation.

Elaine Sommerville

Church Compensation: From Strategic Plan to Compliance

Parsonage Allowance

For churches providing a parsonage, a cash parsonage allowance may also be provided to cover any of a minister's out-of-pocket housing expenses.

For ministers in a parsonage, the church should provide the minister with the fair market rental value of the parsonage by listing it in Box 14 of Form W-2.

*Be aware:

The amount excluded from income is the **smallest** of the following amounts:

- the amount designated in advance of your expenditures as your parsonage allowance for the current tax year;
- the current fair market rental value of your home, including furnishings, plus the current year cost of your utilities.

In most cases the Parsonage Allowance would be a small amount for expenses not covered by the church. Designating a parsonage allowance could be a disadvantage for the Pastor, increasing their taxable income. The remedy could be a reimbursable account for these expenses in the churches budget.



Housing Allowance

The housing allowance is excluded from federal income tax but not self-employment tax.

The housing allowance is an exclusion from income and should not be reported as part of a minister's gross wages, either on Form 941 or Form W-2;

At the end of the tax year, the church should provide the amount of housing allowance paid to a minister by listing it in Box 14 of Form W-2.

The housing allowance is intended to cover the expenses of the primary residence. (owned or rented) Including:

Mortgage payment, including interest

Payments on a home-equity mortgage or loan when the proceeds have been used on housing expenses

Rent

Insurance

Taxes

Utilities;

Landline phone—but not a cell phone;

Lawn care and landscaping;

Repairs and maintenance;

Cleaning, but not including any services provided for the personal care of the family

Furnishings;

Down payments; and

Homeowner's association dues



Under-spending of the Housing or Parsonage Allowance

The amount of housing allowance excluded from federal income tax is the lowest of the three:

- the amount designated in advance of your expenditures as your housing/parsonage allowance for the current tax year;
- the amount spent for your primary residence (mortgage principal and interest, utilities, taxes, insurance, furnishings, maintenance, etc.); or
- the current fair market rental value of your home, including furnishings, plus the current year cost of your utilities (no matter whether your home is owned or rented).

Expense documentation of each of the above and the analysis to determine the taxable amount should be kept for three to six years after a minister's tax return is filed.

The Pastor should notify whoever creates the W2 if the allowance will be underspent. The difference is added as income to the W2 – Box 1



SECA

While ministers are employees for federal income tax reporting purposes, they are self-employed for Social Security purposes. This “dual status” means they pay a Self-Employment Contributions Act (SECA) tax; that is both the employee’s and employer’s share of Social Security and Medicare taxes.

The Presbytery Terms of Call include a Social Security “allowance” to help the minister pay SECA taxes. But a Social Security allowance is extra income. The minister will have to report the allowance as income for federal income tax purposes and as income for SECA tax purposes.

The primary ways of paying SECA-type social security are:

- The pastor files Form 1040-ES - quarterly estimated tax payments on 4/15, 6/15, 9/15 and 1/15
- Voluntary federal income tax withholding agreement - the minister asks the church to withhold enough federal income taxes to cover the SECA obligation. Or the minister can ask for complete withholding.
- The minister asks for “additional” withholding to cover the SECA obligation

The Board of Pensions

Taxation of Death Benefit - Imputed Income

Taxation of Death Benefit Dues Calculator

<http://www.pensions.org/calc/taxDeathBen>

This calculator determines the imputed income, if any, that must be reported on members' W-2 forms for death benefits coverage through the Benefits Plan.

The amount is reported on the W2 it will increase the cash salary in Box 1 and also be in Box 12 Type E

Tax Deferred Investment

The amount on this line in the Term of Call is the amount the church contributes to the Pastor's 403 (b). This shows up on a expense line and is not part of the payroll.

In addition the Pastor can designate a portion of their salary to their 403 (b). The cash salary in Box 1 is reduced by this amount and the number goes in Box 12 Type E.

Reimbursable Expenses or Payroll

Some churches give a Pastor a car allowance rather than a mileage reimbursement.

Items like car allowance that appears on a paycheck increases a Pastor's taxable income.



Pulpit Supply and 1099

If you will be paying a Pastor who is doing Pulpit Supply more than \$600 in a year you will need to file a 1099 Misc.

The IRS announced that the **1099-NEC** is only **replacing** the use of Form **1099-MISC** for reporting independent contractor payments.