

## Planning Ministerial Compensation

An Overview




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## The Three “P”s of Local Church Expenses



Note: Pastoral ministry expenses might overlap into each of these categories.





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## Some Ground Rules

Two parts to Pastoral ministry costs:

- What is done: Program and/or Property costs
- Who gets it done (Memo #4): Personnel costs






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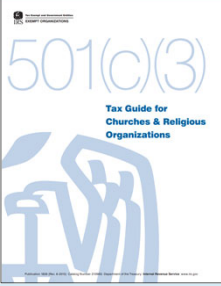
## Some Ground Rules

Ministers have a unique, and favorable, tax status.

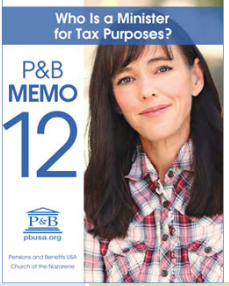
- Determine status:
  - IRS - for tax purposes
  - District Office - for Nazarene benefits




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### Who is a Minister for Tax Purposes?






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## “Minister” Tax Status

- Excludes housing allowance from taxable income (while active and in retirement)
- Self-employed status for Social Security (SECA)
- Exempt from income tax withholding
- Quarterly estimated tax payments required
  - Unless voluntary withholding used (recommended)



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### “Minister” Status

- PBUSA relies on the records of the General Secretary’s office to determine status for benefits purposes.
- The minister is responsible to document what qualifies them for tax purposes.
- The local church employer must remain engaged in the process.



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### Minister Status, per IRS

- “Minister of the Gospel”
- Ordained, licensed, or commissioned; and
- Performs service in the exercise of ministry:
  - Sacerdotal (clergy-related) functions
  - Conduct of religious worship
  - Control, conduct, and maintenance of religious organizations under authority of a church denomination



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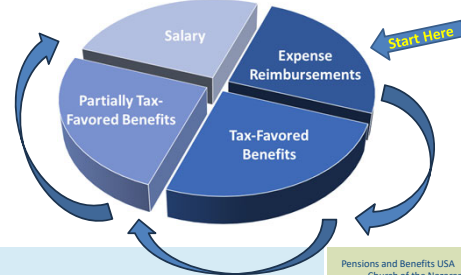
### Minister Status, per IRS

- It is not enough to be “credentialed”
- It also requires “actions” related to ministry



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### It Matters “How” a Pastor is Compensated

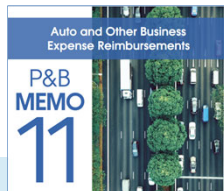


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### Expense Reimbursements

#### Program Expense

- Accountable Expense Reimbursement Plan. Not optional! (Memo #11)
- The Five “W”s of accountability:
  - What, Why, When, Where, Who (all the Who’s)
- Avoid:
  - Awarding unused budget “balances”
  - Reclassifying funds “after the fact”



### Accountable Plan


- EE must substantiate within 60 days
- EE must return unused advances w/in 120 days
  - Excess cannot be treated as a bonus/gift
- Advanced funds issued no more than 30 days ahead of expected use
- These timeframes are important!
- Plan should be in writing and approved by the Board.



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### Prof/Other Expenses

- Entertainment (dining, etc.)
- Subscriptions
- Professional memberships and continuing education
- Should be fully reimbursed to EE's
  - Within budget parameters





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### Auto Expenses

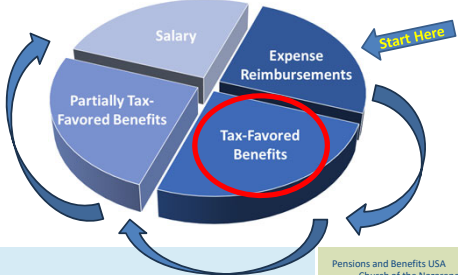
- Auto allowance is “W-2” income
- Actual or mileage reimbursement is best
  - IRS Standard Mileage Rate is simplest
  - Recordkeeping is a must
- Church-provided vehicles
  - Commuting personal/taxable
  - Undocumented business use is taxable \*

\* could force 100% taxable

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### It Matters “How” a Pastor is Compensated




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### Tax-Favored Benefits

The First Level of Compensation

- Why? Not taxable to minister for SECA or Income Taxes.
- What types of benefits qualify?
  - “Health and Welfare” benefits (e.g., health/dental/life insurance)
    - Be sure to meet any ACA health plan requirements
  - Some “cafeteria” benefits (e.g., dependent care)
    - Use the services of a qualified benefits provider or legal counsel when setting up local church-sponsored benefit plans.
  - Employer contributions (match/discretionary) to 403(b) Plan

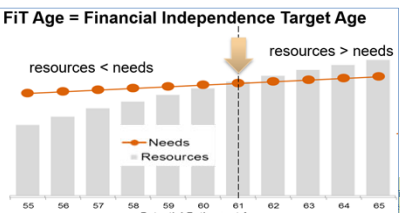


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### Ministers Retirement “FiTness” (2015)

- This review looked at almost 2,000 senior pastors – based on self reporting
- This custom study was prepared and developed with special consideration for items such as housing allowance, pastor taxation, and bi-vocational situations

**FiT Age = Financial Independence Target Age**



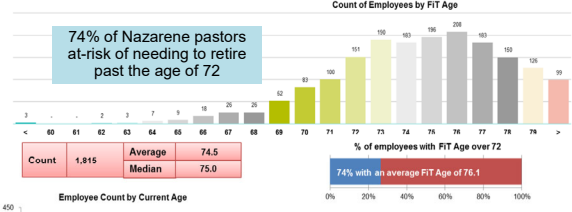
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### Count of Employees by FIT Age

74% of Nazarene pastors at-risk of needing to retire past the age of 72

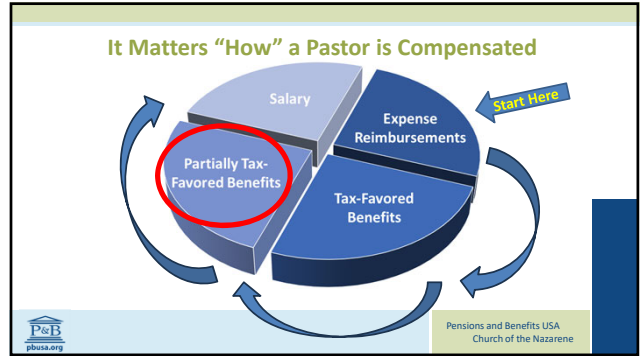
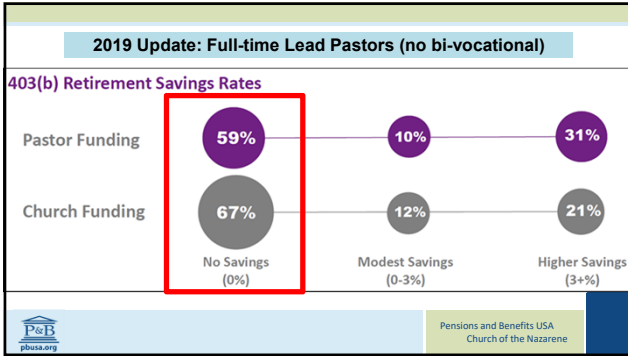
Count	Average	Median
1,815	74.5	75.0

74% with an average FIT Age of 76.1



Contributing Category	Percentage	Count
Contributing At Least 6%	12%	69.4
Contributing Between 3% and 6%	10%	72.9
Contributing Between 0.1% and 3%	10%	74.7
Not Contributing	67%	75.6

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**Partially Tax-Favored Benefits**  
The Second Level of Compensation

- Housing and/or Housing Allowance
  - Memos #1 and #13

Housing for Your Pastor:  
Parsonage or Housing Allowance?

P&B MEMO 1

The Minister's Housing Allowance

P&B MEMO 13

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**Partially Tax-Favored Benefits**  
The Second Level of Compensation

- Three tests for housing exclusion:
  - Designated in advance
  - Spent on qualifying expenses
  - Does not exceed Fair Market Rental Value
- Subject to SECA (social security) taxation
- Certain expenses paid with housing allowance may also be deductible.

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**Church-Provided Parsonage**

- Housing allowance limited to the rental value of a home furnished to them as part of their compensation.
- The minister and the church board should make a reasonable attempt to estimate the value to provide a home.

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**Limits**

- It must be "reasonable". This suggests it should not exceed the level of cash compensation paid to the minister.
- Smaller of:
  - Actual amount used to provide a home;
  - Amount officially designated as rental allowance;
  - Fair rental value of the home, furnishings, utilities, etc.

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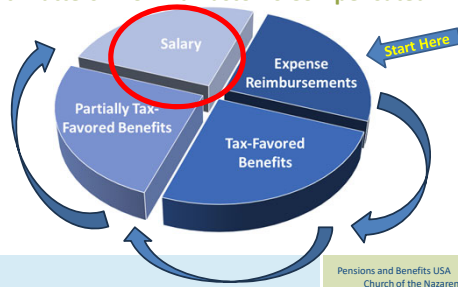
### What Expenses Qualify?

- Generally, any expense to provide or maintain the home. IRS regulations only specify what cannot be used (groceries, toiletries, clothing, cleaning service)
- May include:
  - Rent, principal and interest payments; down payments plus the cost of buying the home
  - Property taxes, utilities, furnishings and appliances, insurance
  - Misc expenses for improvements, repairs, HOA dues, lawn care, cleaning supplies, etc.



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### It Matters "How" a Pastor is Compensated


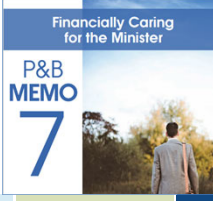


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### Fully Taxable Remuneration

Final Level of Compensation

- Cash Salary!
- How much is enough? (Memo #7)
  - Educational background
  - Experience
  - Level of responsibilities
  - Qualifications/requirements for the position
  - Church's moral responsibility and ability
  - Ministers Compensation Report from PBUSA

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### Sample Minister's Compensation Structure

Description	Item Amount	Taxable for:		Package Total
		Income	SECA	
<b>Accountable Business Expense Reimbursements:</b>				
(a) Standard Mileage	\$ 1,500	\$ -	\$ -	\$ 1,500
Prof Development	500	-	-	500
Retreats	500	-	-	500
Meals/Entertainment	1,000	-	-	1,000
Profession Fees	500	-	-	500
District Assembly	500	-	-	500
General Assembly	500	-	-	500
<b>Subtotal</b>	<b>\$ 5,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,000</b>

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### Sample Minister's Compensation Structure

Description	Item Amount	Taxable for:		Package Total
		Income	SECA	
<b>Fully Tax-Favored Benefits:</b>				
Health Insurance	\$ 3,000	\$ -	\$ -	3,000
Dental Insurance	-	-	-	-
(b) Life Insurance	-	-	-	-
403(b) Contributions	1,500	-	-	1,500
<b>Subtotal</b>	<b>\$ 4,500</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,500</b>

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### Sample Minister's Compensation Structure

<b>Partially Tax-Favored Benefits:</b>				
Housing Allowance:				
Minister-Owned	\$ -	\$ -	\$ -	\$ -
Church Parsonage	15,000	-	15,000	15,000
Rental Allowance	-	-	-	-
<b>Subtotal</b>	<b>\$ 15,000</b>	<b>\$ -</b>	<b>\$ 15,000</b>	<b>\$ 15,000</b>
<b>Cash Compensation:</b>				
Cash Salary (excludes HA)	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000
(c) SECA Reimbursement	4,142	4,142	4,142	4,142
<b>Subtotal</b>	<b>\$ 39,142</b>	<b>\$ 39,142</b>	<b>\$ 39,142</b>	<b>\$ 39,142</b>

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### Sample Minister's Compensation Structure

Description	Item Amount	Taxable for:		Package Total
		Income	SECA	
<b>Accountable Business</b>				
Expense Reimbursements	\$ 5,000	\$ -	\$ -	\$ 5,000
Fully Tax-Favored Benefits	4,500	-	-	4,500
Partially Tax-Favored Benefits	15,000	-	15,000	15,000
Cash Compensation	39,142	39,142	39,142	39,142
<b>Total Minister's Costs</b>	<b>\$ 63,642</b>	<b>\$ 39,142</b>	<b>\$ 54,142</b>	<b>\$ 63,642</b>
Total Exp Reimbursements	(5,000)	-	-	(5,000)
<b>Minister's Comp Package</b>	<b>\$ 58,642</b>	<b>\$ 39,142</b>	<b>\$ 54,142</b>	<b>\$ 58,642</b>



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### Retirement Readiness Requires Local Effort

Local Effort = Amount contributed by the minister and/or local church employer to the 403(b) plan.\*

\* In addition to P&B Budget payments



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### Retirement Readiness – Current APS

APS Descr	Benefit	Budget Alloc Paid	
		P&B	Educ
Base	\$200	50% - 100%	
Bonus	10% of PB Budget Paid	100%	
Local Effort Match	50% (\$250 max)	100%	100%



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### APS Example – Base and Bonus

**Example 1**

Church Budget	\$100,000	Base	Bonus	Match	Total
P&B Paid	99%	\$200	\$0		\$ 200
Educ Paid	99%				
Local Effort	\$0.00			\$0	\$ -
<b>Total APS Benefit</b>					<b>\$ 200</b>

**Example 2**

Church Budget	\$100,000	Base	Bonus	Match	Total
P&B Paid	100%	\$200	\$225		\$ 425
Educ Paid	99%				
Local Effort	\$600			\$0	\$ -
<b>Total APS Benefit</b>					<b>\$ 425</b>



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### APS Example – Base, Bonus and Match

**Example 3**

Church Budget	\$100,000	Base	Bonus	Match	Total
P&B Paid	100%	\$200	\$225		\$ 425
Educ Paid	100%			\$250	\$ 250
Local Effort	\$600				
<b>Total APS Benefit</b>					<b>\$ 675</b>

**Example 4**

Church Budget	\$100,000	Base	Bonus	Match	Total
P&B Paid	100%	\$200	\$225		\$ 425
Educ Paid	100%			\$250	\$ 250
Local Effort	\$1,200				
<b>Total APS Benefit</b>					<b>\$ 675</b>



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### Value of APS and Local Effort

Scenarios	APS and Local Effort Value		
	Annual	Monthly	% of Comp
Example 1	\$ 200	\$ 17	0.40%
Example 2	\$ 1,025	\$ 85	2.05%
Example 3	\$ 1,275	\$ 106	2.55%
Example 4	\$ 1,875	\$ 156	3.75%
Better	\$ 4,500	\$ 375	9.00%
Best	\$ 7,500	\$ 625	15.00%


Note: % of Comp based on \$50,000 salary



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### New Match Program in 2024

- APS program ends in 2023
- New matching program starts Jan 1, 2024
- P&B contributions will be based solely on matching the Local Effort of ministers and churches
- Level of match based on % of P&B Budgets paid




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### New Matching Program

Minister Type	Match (a)			Max Benefit
	PBF %	%	Up To	
Lead/Senior Pastor	100%	50%	\$5,000	\$2,500
	90%	45%	\$5,000	\$2,250
	80%	40%	\$5,000	\$2,000
	70%	35%	\$5,000	\$1,750
Associate Pastor	60%	30%	\$5,000	\$1,500
	50%	25%	\$5,000	\$1,250
	< 50%	0%	\$5,000	\$0


(a) Match applied to the first \$5,000 of Local Effort



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### New Matching Program – Better Example


Better Scenario	Annual	Monthly	% of Comp
Local Pastor	\$ 1,200	\$ 100	2.40%
Local Church	\$ 1,200	\$ 100	2.40%
<b>Local Effort</b>	<b>\$ 2,400</b>	<b>\$ 200</b>	<b>4.80%</b>
<b>PB Match</b>	<b>\$ 1,200</b>	<b>\$ 100</b>	<b>2.40%</b>
<b>Total</b>	<b>\$ 3,600</b>	<b>\$ 300</b>	<b>9.00%</b>



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### New Match Program in 2024

- Matching contributions by P&B will be made quarterly:
  - Within 30 days of each quarter-end
  - Immediate vesting
- Bi-vocational Lead Pastors qualify for match



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### Serving Those Who Serve

888-888-4656

(If English is not your language of choice, please don't hesitate to call P&B representatives who have access to a service that allows ministers to have conversations interpreted in real time in their fluent language).



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### Compensation & Tax Memos

- MEMO # 1: *Housing for Your Pastor: Parsonage or Housing Allowance?*
- MEMO # 2: *Church Employees or Independent Contractors?*
- MEMO # 3: *Tax and Reporting Procedures for Congregations*
- MEMO # 4: *Strategies for Structuring Ministerial Compensation*
- MEMO # 5: *Minimizing Income Taxes for Church Employees*
- MEMO # 6: *Housing Allowance in Retirement*
- MEMO # 7: *Financially Caring for the Minister?*
- MEMO # 8: *The Annual Church Audit*
- MEMO # 9: *Workers' Compensation Laws and the Local Church*
- MEMO # 10: *Can Ministers Opt Out of Social Security?*
- MEMO # 11: *Auto and Other Business Expense Reimbursements*
- MEMO # 12: *Who Is a Minister for Tax Purposes?*
- MEMO # 13: *The Minister's Housing Allowance*



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