

## Church Staff Compensation & Tax Laws

**Missteps vs. Misdemeanors.** Almost all churches commit **missteps** (well intended practices that just happen to be wrong) re: financial and tax related issues because of the complexities of being a non-profit entity in a largely for-profit culture. Local accountants and tax preparers often make missteps on ministerial tax returns if they are unfamiliar with Richard Hammer's 300 page guide on the subject. Church staff, treasurers, and finance teams rarely commit **misdemeanors** (intentionally wrongful or illegal practices), but sadly, it does happen. All of this is why it is wise to seek third party counsel.

**Protecting Integrity.** This is the goal of asking a third party to review your church practices. We serve you as **collaborators**, not Investigators, by offering you many years of ministry experience within our staff. We will help you protect your integrity in the eyes of the church family by helping you: 1) **Correct any missteps**; 2) **Keep accurate records**; and 3) **Have many eyes** watching over your church financial practices. This document will get you in the ballpark, but please feel free to call us.

**Church Staff & the IRS.** There are three ways to view staff in reporting compensation to the IRS:

| <b>Employee Only (W-2)</b>  | <b>Dual Status (W-2)</b><br>(Employee & Self-Employed)  | <b>Self Employed Only (1099)</b>  |
|---|---|---|
| <ol style="list-style-type: none"> <li>1. Non-ordained admin. staff</li> <li>2. Non-ministerial position</li> <li>3. Hours &amp; duties assigned</li> </ol>   | <ol style="list-style-type: none"> <li>1. <b>Ordained pastors &amp; staff</b></li> <li>2. Pastoral/ministerial position</li> <li>3. Duties assigned &amp; selected</li> </ol>   | <ol style="list-style-type: none"> <li>1. Independ. contract laborer</li> <li>2. No church position</li> <li>3. Hours &amp; duties self selected</li> </ol>   |
| <p><u>Compensation/Cost to Church</u></p>   | <p><u>Compensation/Cost to Church</u></p>   | <p><u>Cost to Church</u></p>  |
| <ol style="list-style-type: none"> <li>1. Base salary or hourly wage</li> <li>2. Required match of FICA tax</li> <li>3. Required W-4 form</li> <li>4. NO Housing Allowance</li> <li>5. Optional medical plan</li> <li>6. Optional retirement plan</li> <li>7. Other optional benefits</li> </ol>                              | <ol style="list-style-type: none"> <li>1. Base salary</li> <li>2. NO FICA tax match</li> <li>3. Required W-4 form</li> <li>4. <b>Housing Allowance*</b></li> <li>5. Optional medical plan</li> <li>6. Optional retirement plan</li> <li>7. Other optional benefits</li> </ol> | <ol style="list-style-type: none"> <li>1. Pays for tasks or services</li> <li>2. NO FICA tax match</li> <li>3. Required W-9 form</li> <li>4. NO Housing Allowance</li> <li>5. NO medical plan</li> <li>6. NO retirement plan</li> <li>7. NO benefits</li> </ol> |
| <p><u>Individual Tax Responsibility</u></p>   | <p><u>Individual Tax Responsibility</u></p>   | <p><u>Individual Tax Responsibility</u></p>   |
| <ol style="list-style-type: none"> <li>1. <b>Federal Income tax</b><br/><i>(Church withholds it and pays it Qrtly via 941 on your behalf)</i></li> <li>2. <b>FICA tax</b> (their share)<br/><i>(Social Security; Medicare)<br/>(Church withholds and matches your share and pays Qrtly via 941 on your behalf)</i></li> </ol> | <ol style="list-style-type: none"> <li>1. <b>Federal Income tax</b><br/><i>(You may ask church to withhold it and pay it Qrtly via 941, or you make Qrtly payments to IRS)</i></li> <li>2. You pay <b>SECA tax</b> (total)<br/><i>(Social Security; Medicare)</i></li> </ol>  | <ol style="list-style-type: none"> <li>1. You pay <b>Fed. Income tax</b><br/><i>(Quarterly payments required)</i></li> <li>2. You pay <b>SECA tax</b> (total)<br/><i>(Social Security; Medicare)</i></li> </ol>   |

**\*Housing Allowance** (see attached Sample Housing Allowance Agreement)

1. Must be designated in advance via a signed annual agreement
2. Set the amount higher than expected expenses for the coming year
3. Document all ACTUAL expenses paid out during the year
  - a. **Spent** amount is **not** included in calculating Federal Income Tax
  - b. **Unspent** amt. **is reported and included** in calculating Fed. Inc. Tax
4. Total Housing Allowance **IS** included in calculating SECA Tax

### Hiring an Accountant

1. **Richard Hammer's Tax Guide** is the "Bible" for IRS/Church issues. Make sure they are familiar with this.

2. For a step-by-step guide, go to:  
[www.guidestone.org/Updates/Ministers-Tax-Guide](http://www.guidestone.org/Updates/Ministers-Tax-Guide)

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**Minister and Church Agreement**  
**Minister's Housing Allowance**

**Minister:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Church:** \_\_\_\_\_

**City/St:** \_\_\_\_\_

This agreement between the parties above as of the date above, shall continue for successive years until a new agreement is created, and hereby establishes that an **annual amount** of \$ \_\_\_\_\_ shall be designated as **Housing Allowance** for **duly ordained ministers of the gospel** as provided for by current laws and limits of the I.R.S., which states that the following items are considered to be tax-deductible expenses incurred by the minister:

- |  |  |
|--|--|
| <input type="checkbox"/> Down payment on a home      | <input type="checkbox"/> Furnishings and appliances                            |
| <input type="checkbox"/> Mortgage or rental payments | <input type="checkbox"/> Structural repairs, remodeling                        |
| <input type="checkbox"/> Real estate taxes           | <input type="checkbox"/> Utilities (electric, gas, water, trash pick-up, etc.) |
| <input type="checkbox"/> Property insurance          | <input type="checkbox"/> Yard maintenance and improvements                     |
| <input type="checkbox"/> Home Owner's Assoc. dues    | <input type="checkbox"/> Service companies (lawn, pool, pest control, etc.)    |

1. The pastor must keep records of **actual housing expenses** of the items above per year.  
*(IMPORTANT: If living in a **parsonage**, circle the items above that the pastor is required to pay!)*
2. TAX DEDUCTION is the **total of actual housing expenses PAID OUT** in the taxable year.
3. UNSPENT HOUSING ALLOWANCE **IS** taxable and reported by the pastor on his income tax return.  
*(It is wise to set the annual allowance high, and then report the unspent amount each year)*

Minister's signature: \_\_\_\_\_

Church reps ( Elders?  Finance team?  Personnel team?  Trustees?  Other: \_\_\_\_\_)

Name: \_\_\_\_\_ Signature: \_\_\_\_\_

Name: \_\_\_\_\_ Signature: \_\_\_\_\_

Name: \_\_\_\_\_ Signature: \_\_\_\_\_

Name: \_\_\_\_\_ Signature: \_\_\_\_\_

**Minister and Church Agreement**  
**Salary Deductions for**  
**Tax-sheltered Retirement Accounts - 403(b) Plan**

**Minister:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Church:** \_\_\_\_\_

**City/St:** \_\_\_\_\_

This agreement between the parties above as of the date above, shall continue for successive years until a new agreement is created, and hereby establishes that an **annual amount** of \$ \_\_\_\_\_ (maximum limit is \$66,000 annually), and that \$ \_\_\_\_\_ per month shall be deducted from the minister's monthly take-home pay and sent to their selected retirement account — 403(b) Plan — as administered by the institution below:

Company: \_\_\_\_\_

Address: \_\_\_\_\_

City/ST: \_\_\_\_\_

Representative: \_\_\_\_\_ Phone: \_\_\_\_\_

Minister's signature: \_\_\_\_\_

Church reps ( Elders?  Finance team?  Personnel team?  Trustees?  Other: \_\_\_\_\_)

Name: \_\_\_\_\_ Signature: \_\_\_\_\_

Name: \_\_\_\_\_ Signature: \_\_\_\_\_

Name: \_\_\_\_\_ Signature: \_\_\_\_\_

Name: \_\_\_\_\_ Signature: \_\_\_\_\_