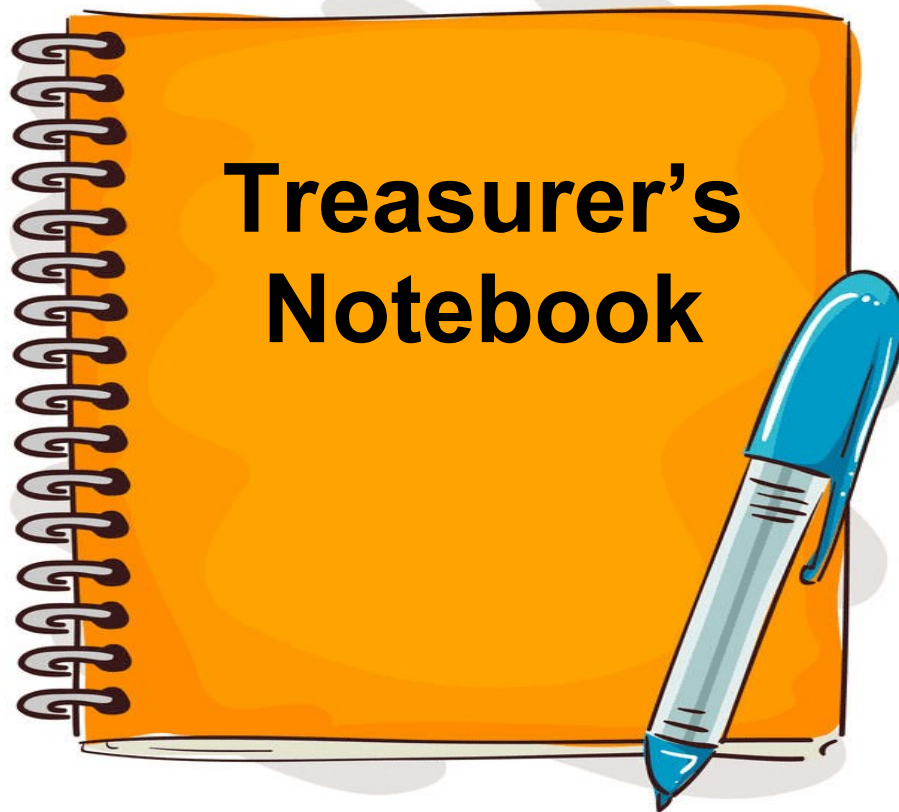


Office of the Treasurer and Administrative Services  
Mailing Address: PO Box 2469 Charleston, WV 25329  
Phone: 304-344-8331 Fax: 304-344-9584



**The calculations used in the printing of this edition  
are based on figures to be used in 2023**



**(The WV Conference is NOT engaged in providing legal or tax services. The service of a competent professional should be sought for legal and tax advice.)**

Revised: May 2023

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## Computing the 2023 Fair Share Factors

The Fair Share Apportionment is determined by multiplying the average of total adjusted expenditures of a local church during each of the three previous years as reported on the local church's Statistical Report by the ratio of the Conference Budget as compared to the total of the reported adjusted expenditures for all churches within the Conference. Below is a listing of the Statistical Report lines used to calculate a church's adjusted total expenditures and an example of an apportionment calculation.

### **From Local Church Statistical Report**

40b. Optional amount paid over charge responsibility (\$7,200 per participant for 2023) for health premium Funded by the church	\$5,796
41a. Total amount paid in base Compensation for pastor	\$40,000
41b. Total amount paid in base compensation for associate appointed by Bishop	\$0
41c. Total amount paid in salary and benefits for Deacons	\$0
42a. Total amount paid to/for Pastor for Housing	\$6,000
42b. Total amount paid to/for associate or any other appointed Clergy for Housing	\$0
42c. Housing for Deacons NOT included in 42b	\$0
43. Total amount paid to/for Pastor and Associates for ARP	\$5,000
44. Total amount paid to/for pastor and associate for any other cash allowances (Non-Accountable)	\$0
45. Total amount paid in salary and benefits for all other church staff	\$5,000
46. Total amount spent for local church program expense	\$20,000
47. Total amount spent for other local church operating expenses	\$20,000
<b>Total Adjusted Church Expenditures (sum of lines listed above)</b>	<b>\$101,796</b>
<b>3 Year Average Adjusted Church Expenditures (current year total added to previous 2 years' totals and divided by 3)</b>	<b>\$100,200</b>
<b>2023 Conference Budget apportioned across all local churches</b>	<b>\$11,915,221</b>
<b>Total Adjusted Average Expenditures of all local Churches</b>	<b>\$34,543,155</b>
<b>Apportionment Rate (Conference Budget divided by Total Adjusted Average)</b>	<b>\$0.3449</b>
<b>Local Church Apportionment (Apportionment Rate multiplied by 3 Year Average Adjusted Church Expenditures to the nearest dollar)</b>	<b>\$34,559</b>

**For each dollar of operating expenditures, a church is apportioned approximately \$0.34 for Fair Share**

**A DETAILED BREAKDOWN EXPLAINING WHERE FAIR SHARE/APPORTIOMENT DOLLARS ARE UTILIZED IS NOW AVAILABLE AT THE FOLLOWING LINK:**

**<https://www.wvumc.org/ministry-support-breakdown/>**

## **Minimum Financial Practices and Internal Controls for Local Churches**

The following guidelines shall be in place for all local churches as a measure of protection for those with financial responsibilities in the church. These minimum standards should be increased for churches with higher volumes of transactions and activities but must not be compromised for those with less. **All local churches shall meet these minimum standards and internal controls.**

1. Treasurer and Financial Secretary shall not be the same person and shall not be in the same immediate family residing in the same household.
2. Counting teams (of at least two unrelated persons) should count offerings and document totals. The treasurer and financial secretary shall not be members of the counting teams.
3. Offerings should be deposited the same or next business day.
4. Offering count details should be given to financial secretary for recording.
5. Offering totals should be given to the treasurer to record deposit.
6. The Financial Secretary's deposit records should be compared to the bank statement to verify deposits (by bank reconciliation reviewer).
7. All donor designations must be recorded and funds used according to designation or returned to the donor.
8. At least two persons should be listed as authorized signatures on all accounts.
9. Financial policy and authority guidelines should be written and approved by the Finance Committee.
10. Invoices or some documentation shall be required for all payments from all accounts.
11. Someone other than the treasurer (with authority by Finance Committee) should approve invoices for payment.
12. The Treasurer should make payments only after the invoice is approved.
13. All accounts should be reconciled monthly.
14. Someone other than treasurer should review bank reconciliation at least bi-annually including bank statements, invoices, checks written, and financial reports.
15. The Treasurer should make detailed report of budget and designated fund activities to the Finance Committee at least quarterly.
16. There must be a full annual audit of ALL accounts should be done (at least in as much detail as the Local Church Audit Guide) every year for all churches. *2016 Book of Discipline 258.4(d)*
17. An I-9 (Employment Eligibility Verification) Form must be completed and kept on file for all employees. When completing the form, the most up to date federal form available at <https://www.uscis.gov/i-9> must be used.
18. Applicable federal and state tax withholding forms must be obtained and retained for each employee. Examples of these are the IRS for W-4 and WV's Form WV/IT-104. These can be found at <https://www.irs.gov/forms-pubs/about-form-w-4> and <https://tax.wv.gov/Business/Withholding/Pages/WithholdingTaxForms.aspx>. Maryland's information

can be found at [https://www.marylandtaxes.gov/individual/income/forms/2020\\_Withholding\\_Forms.php](https://www.marylandtaxes.gov/individual/income/forms/2020_Withholding_Forms.php)

19. An IRS Form W-9 must be obtained and retained from all contractors. This form can be obtained from <https://www.irs.gov/forms-pubs/about-form-w-9>.
20. W-2s must be issued for employees and 1099s issued for nonemployee compensation by January 31 for preceding year (federal law requirement).
21. Payroll tax forms and deposits done as required for payroll amount (federal and state law requirement) - payroll reporting should be completed for the IRS, SSA, and state by appropriate due date for applicable filing method.
22. Housing allowance or exclusions that are approved annually at charge conference should be kept on file (federal law requirement).
23. Churches must obtain at least the minimum required insurance coverage as directed by the General Council on Finance and Administration. These standards can be found at <https://www.gcfa.org/services/legal-services/minimum-insurance-requirements/>.
24. Prepare a list of all church property for insurance purposes - include item description, serial number and value.
25. Prepare list of safety deposit box contents - update authority as needed - access should be allowed by two unrelated people.
26. Computer records should be backed up and password protected for security.
27. Number of persons required for regular financial procedures - **four** - financial secretary, treasurer, person to review and approve invoices, person to review bank reconciliation.

## **Other Guidance for Local Church Finance Persons**

### **REMITTANCES TO ANNUAL CONFERENCE TREASURER**

1. All churches are expected to remit fair share contributions at least monthly and are encouraged to plan for contributing its total fair share apportionment in 11 months to help account for a month where collections may be less than expected.
2. Remittance forms are supplied free of charge by the Conference Treasurer's Office. Please call the Receipts and Accounting Specialist if you do not have any forms on hand – 304-344-8331 ext 40. A packet of forms will be sent to you on request. Included in that packet is a request label to send in along with a remittance when you begin to run low on forms again.
3. Include a remittance form with all money sent to the Conference Treasurer. Do not send checks without any documentation. Remittances include Special Sunday Offerings, as well as Fair Share (Apportionment) payments, District Promotional Funds, Bishop's Appeals, and General Advance Appeals etc. If you do not know the assigned fund numbers, please provide a description on the left side of the remittance form. Ex: 'One Great Hour of Sharing'.
4. Make **all checks** payable to: Conference Treasurer.
5. Make sure the remittance form is complete. This includes the five-digit church number, check number, remittance breakdown, total remitted, name, address, phone and email. If you are remitting for multiple

churches and they are included in the same mailing it is not necessary to provide all the address information on every form, as long as your name and the proper church number is listed on all the forms.

6. Fair share payments may be designated for Category I, II, or III. However, the easiest way to distribute the fair share is to put the total amount to be applied in (fourth) box down which is for 'auto distribution'. In doing this, the total remitted will automatically be distributed among the three categories according to the percentages of the Conference Budget.

#### QUARTERLY AND MONTHLY STATEMENTS

1. For Treasurers that do not have an email address on file in our database, a paper copy of your church statement will be provided on a quarterly basis (with the exception of the month of June) for the first nine months of the year. (In June after Annual Conference we begin making the pastoral appointment changes in the database, so the statements do not get sent out). A paper copy is sent each month the last three months of the year. A statement can be provided upon request as well.
2. If you have an email address on file in our database, then a statement is sent via email every month with the exception of June when we are making pastoral move changes.
3. Only Category I, II, and III payouts are shown with the percentage of payout on the statement. All other remittances will show on the statement in the listings below the apportionment section and will show the amount sent in during that statement period as well as the total sent for the year.
4. Report any discrepancies to the Receipts and Accounting Specialist as soon as possible so any errors may be corrected in a timely manner.
5. Please pay particular attention to any messages that may be on the bottom of the statement. This is where you will see notices and reminders.
6. If you see a listing where money was put into fund 998, please call the Receipts and Accounting Specialist to have this item re-classed. 998 is a holding fund when money was sent, and it was not clear how to distribute it.

#### STATE AND FEDERAL TAXES

1. Worker's Compensation – Worker's Compensation must be paid for all Lay Employees. Unless a church carries insurance to cover potential injuries to the minister, it is encouraged to provide Worker's Compensation for the ministers as well.
2. Unemployment Compensation – Churches are not required to participate in the Unemployment Compensation program.
3. Social Security – Social Security must be withheld from wages of all Lay Employees (secretary, custodian, choir director, organist/pianist, assigned supply). Social Security taxes are never withheld from the salary of people who hold ministerial credentials (Local Pastor, Associate Member of the Annual Conference, Probationary Members, and Full Members of the Annual Conference).
4. Although it is never appropriate to withhold income and Social Security taxes from a pastor's salary for purposes of remitting to the Internal Revenue Service, you may withhold these taxes for the convenience of the pastor, then give the withheld money to the pastor at the end of the quarter for him to file.

#### BUDGET GUIDELINES

1. A BUDGET SHOULD BE PREPARED WHICH CONTAINS LINE ITEMS FOR INCOME AND EXPENSE CATEGORIES.

2. The monthly report to the Finance Committee and Administrative Board/Council should reflect income, expenditures, and balance which follow the line items of the church budget. It should also include a report which compares income and expenditures year-to-date.
3. The treasurer is required to pay expenditures in accordance with the church budget unless otherwise directed by the Finance Committee.

#### STATISTICAL REPORTS and OTHER RECOMMENDATIONS

1. It is recommended that local church treasurers cooperate with the pastor in the preparation of the **ANNUAL STATISTICAL REPORT** to the Annual Conference. The treasurer needs to provide the necessary data to the pastor in order for him/her to complete the report and submit it to be received in the Conference Treasurer's office by JANUARY 31 each year. In order for this report to be completed, **THE DATA PROVIDED BY THE TREASURER NEEDS TO BE IN THE PASTOR'S HANDS NO LATER THAN JANUARY 15**. It is also recommended that the treasurer verify all financial data before the statistical report is sent to the Conference Statistician. Remember: the reporting on the statistical report will determine your church's apportionment figures.
2. The Annual Conference **DOES NOT** carry a surety bond (now more commonly known as crime/employee dishonesty insurance) for persons in the local church who handle or account for money. It is the responsibility of the local church to see that a surety bond is in place for the persons who handle or account for money. This change became effective January 2013. Contact the Treasurer's Office for referral to the Conference Risk Manager for guidance on obtaining coverage for your church.
3. Charge Treasurers may receive and disburse all pastoral support and parsonage funds, such as salary, pension, medical insurance, and parsonage expenses.
4. Charge treasurers should disburse money as designated by the respective local churches. Funds may not be used for any purpose other than the purpose designated.
5. Payment to the Clergy Retirement Security Program (CRSP) which includes the Defined Benefit (DB) and the Defined Contribution (DC) as well as the Comprehensive Protection Plan (CPP) is the responsibility of the Local Church Treasurer or in the case of multiple church charge, one bill is generated which includes all amounts due from each church as one billed amount. (The breakdown for each church's pension responsibility can be found on the Report of Clergy Support, approved at Charge Conference for your church. If you do not receive a copy of the Report of Clergy Support, you may request one from your District Office.) Monthly billing is generated and sent from the Annual Conference Treasurer's Office and comes printed on pink paper, except for the December bill which is printed on yellow paper.

***Questions on implementing these standards? Call or email the Conference Treasurer's Office at 304-344-8331 ext. 35 or email at [jwolford@wvumc.org](mailto:jwolford@wvumc.org).***

# Local Church Tax Reporting Requirements

## I. PAYROLL TAXES FOR EMPLOYERS

- A. Withhold taxes on employees, file forms, and comply with deposit requirements
  - 1. Federal Social Security (NO CLERGY WITHHOLDING)
  - 2. Federal Income Tax (NO REQUIRED CLERGY WITHHOLDING). At the request of the clergy, the employer may withhold income tax for that clergy, pursuant to a Form W-4 and state equivalent of federal W-4 (WV/IT-104 & Maryland MW507). (Retain all tax withholding documents).
  - 3. State income tax withholding (requirements vary from state to state refer to WV/IT-104 & Maryland MW507)

***There is no mandatory federal income tax withholding for clergy; income tax withholding can be done at clergy request, Social Security is never to be withheld for clergy.***

- B. Quarterly Filing Requirements (April 30, July 31, October 31 and January 31 for the first, second, third and fourth quarters)
  - 1. Form 941-Federal
  - 2. State equivalent form (may vary from state to state)

***See separate memo on information for filing federal Form 941- clergy compensation shown on 941 but no information on Social Security and Medicare wages and withholding.***

- C. Annual Filing Requirements
  - 1. Form W-2 must be given to employees by January 31
  - 2. Form W-3 must be filed by January 31

(NOTE: W-2 and W-3 filings can be made electronically in some cases. See the Social Security Administration website at [www.ssa.gov](http://www.ssa.gov) for more details.)

- 3. State equivalent or other requirements vary from state to state

## II. FILING REQUIREMENTS FOR PAYMENTS TO SELF-EMPLOYED INDIVIDUALS

(Such as independent contractors supplying repair or other services to the church)

- A. January 31: File a 1099-MISC and/or 1099-NEC. for individuals who receive compensation in excess of \$600
- B. February 28: File Form 1096 with the IRS together with all other 1099-MISC and/or 1099-NEC forms.



## FORM 941 FILING REQUIREMENTS

Internal Revenue Service Form 941 is the Employer's Quarterly Federal Tax Return. The first report for the year must be filed by April 30 (for the pay period ending March 31). Subsequent filing dates are July 31, October 31 and January 31. Form 941 reports the number of employees, the amount of Social Security and Medicare wages and taxes, as well as the income taxes, which are withheld in each quarterly period. You have already been filing the Form 941 if you currently have an employee(s).

It is the position of the Internal Revenue Service that a church which has only a minister (and no other staff) need **not** file a Form 941 (see letter from the IRS to GCFA in this tax packet). However, if the minister should file a Form W-4, electing to have voluntary income tax withholding, Form 941 is required. Any amounts withheld are reported as income tax on Line 3.

### General Instructions for Filing Form 941

*(Note: complete instructions on filing Form 941 are available at the IRS website, [www.irs.gov](http://www.irs.gov).)*

Make checks payable to "United States Treasury".

File only one form per quarter, even if your church has multiple locations or divisions

Make dollar entries without the dollar sign and comma — 1000.00; show negative amounts in parentheses (1000.00).

Line 1 is for the number of employees.

Line 2 is for the total amount of quarterly wages, tips and other compensation paid to all employees that are subject to federal income tax. The total compensation should **not** include salary reduction pension contributions, any housing or utility allowance, or accountable reimbursement policy payments. Health insurance premiums paid by the church are also excluded. Taxable fringe benefits and travel or other allowances are includable as income.

For Lines 5a-5c, there is no information reported for clergy, as the church must not do any Social Security or Medicare withholding on behalf of clergy. Because of specific code provisions, clergy are always considered self-employed for Social Security taxes. If there is no other staff withholding, these boxes should be left blank.

The box in Line 4 should not be checked (because the wages are subject to Social Security and Medicare taxes through SECA).

Reconcile your year-to-date wage and tax information with the Form 941 that you just filed. This should be done every quarter.

Show employee earnings only up to the Social Security taxable wage base.

Questions have arisen about whether the IRS will be concerned that Social Security and Medicare taxes withheld on Lines 5a-5c (which **must not** include any withholding for clergy) are inconsistent with the compensation paid (which **does** include clergy salary). IRS officials have stated that IRS computers should not identify these disparities. However, should

such an inquiry arise, you should inform the IRS that clergy are considered self-employed for Social Security taxes for services performed in the exercise of ministry under Internal Revenue Code § 3121(b)(8)(A).

### **TIPS FOR RECONCILIATION**

Here are some tips to make the year-end process run of 941s and W-2s as error-free and smooth as possible:

Review all wage and tax categories. Then, prior to processing your W-2s and 941s, verify that all general ledger liability accounts balance.

### **WHAT TO LOOK FOR**

Remember any mid-year changes made in salary reduction pension contributions, housing allowances, accountable reimbursement plans or employer/employee tax withholding accounts. Be prepared to make correcting journal entries for out of balance situations caused by mid-year or year-end adjustments.

Complete your fourth-quarter 941 first, then prior to distributing the W-2s, balance the 941 totals against the W-2s.

### **WHAT TO BALANCE — SOCIAL SECURITY AND MEDICAL TIPS AND WAGES (FOR LAY EMPLOYEES) AND FEDERAL INCOME TAX WITHHELD**

If there are any inconsistencies, you can correct them promptly. Do a preliminary run of the W-2s on plain paper and verify the totals against your annual reconciliation worksheet.

## INFORMATION FOR COMPLETING FORM W-2 FOR CLERGY

The purpose of this document is to give a general explanation to local church treasurers for completing W-2s. You should also obtain the *IRS Instructions for Completing W-2s*. Those *Instructions* may answer questions not specifically addressed in this document. For more specific information, treasurers should consult with their own local tax advisor.

**Box A** – Insert the employee’s social security number

**Box B** – Insert your church’s federal employer identification number (EIN). This is a 9-digit number that is assigned by the IRS. If you do not have one, you can obtain one by submitting a completed Form SS-4 to the IRS. Each local church (or charge) should have its own Employer Identification Number.

**Box C, E, & F** should be self-explanatory.

**Box D** – You do not need to put anything in this box. If you wish you can use this box to assign your own codes to individual W-2 forms.

**Box 1** - Report all wages paid to the employee. Set forth below are two lists, one for the items to be reported in Box 1 and the other for items that are properly excluded.

### ITEMS WHICH NEED TO BE REPORTED IN BOX 1

1. Salary, wages, and bonuses
2. Most gifts which are paid through a church account (to have gifts be non-reportable by the church, parishioners should make checks payable directly to the pastor.)
3. Allowances (other than housing allowances) must be reported as well as reimbursements which are made under a non-accountable expense reimbursement plan. For instance, a travel allowance, continuing education allowance, publications or supplies allowance or other allowance which requires no substantiation is reportable as income.
4. If a per diem arrangement is used, payments in excess of IRS rate.
5. If a standard mileage rate is used, any amounts in excess of the IRS rates.
6. Among taxable fringe benefits, the most common are:
  - a) Employer-provided group term life insurance that exceeds \$50,000 (may be a policy purchased by either the church or provided through an Annual Conference Group Plan. Conference treasurers will need to supply information from conference plans);
  - b) The value of personal use of a church-provided automobile;
  - c) **Moving expenses paid by church on behalf of an employee. It does not matter whether the church reimburses the employee or pays a moving company directly.**
7. Any taxable benefits from a Section 125 (cafeteria) plan (e.g., these benefits would be taxable if the employee chooses cash).

8. Sick leave or disability paid by church or church purchased insurance (unless insurance company issues its own W-2 or 1099).
9. Bargain sale of property (e.g., if a house is sold to a pastor for less than market value).
10. A Social Security allowance or if Social Security is improperly withheld by the church.

#### **ITEMS NOT REPORTED IN BOX 1**

1. Qualified payments to Wespath 403(b) Plan or another qualified plan.
2. Properly designated (in advance) housing and utility allowance.
3. Qualified health and medical plan premium payments and contributions to HSAs and FSAs.
4. Reimbursement of business expenses that are adequately documented and justified, such as under an accountable reimbursement plan.
5. Payments under a qualified salary reduction plan – for medical reimbursement accounts or dependent care assistance.
6. Excludable Fringe Benefits.
  - a) Term Life Insurance (First \$50,000 of life insurance)
  - b) Qualified tuition payments

**Box 2** – List all federal income taxes that you withhold from the employee’s wages during the year. The amounts reported in this box (for all employees) should correspond to the amount of withheld income taxes reported on your four 941 forms for that calendar year. The local church is not required to do any Federal Income Tax Withholding for pastors. However, some clergypersons will file a W-4 Form, in which event the church would do voluntary withholding at the clergyperson’s request. It may be possible using the W-4 Form for the clergyperson to avoid having to pay quarterly estimated taxes.

**Box 3, 4, 5, & 6** are to be left blank for clergy. Clergy are defined as self-employed for Social Security or SECA purposes (under the Internal Revenue Code Section 3121 (b)(8)(A)). **The church should not report Social Security wages and must not do any Social Security tax withholding.** Any Social Security tax withholding done erroneously by the church (which comes from church funds) is additional reportable income to the pastor. If the church wishes to assist the pastor in paying all or a portion of his Social Security taxes, it should add an additional amount to the taxable income paid to the pastor.

**Boxes 7, 8, & 9** are not applicable.

**Box 10** would include any dependent care benefits that are paid.

**Box 11** does not arise for most clergypersons. Amounts contributed to plans administered by Wespath or other 403(b) plans should not be included in this box. However, if the clergyperson has set up some other plan which may not be qualified, this would be an item that would need to be included.

**Box 12** is to be used to show codes and amounts of benefits or contributions for clergy. (See the IRS Form W-2 instructions for a complete list of codes). The following codes are the most relevant for clergy:

1. Code C – If the clergyperson is provided more than \$50,000 in group term life insurance show the premiums attributed to that additional plan coverage.
2. Code E – 403(b) employee salary reduction contributions.
3. Code W – HSA contributions.

**Box 13** is checked if the clergyperson is a participant in the church retirement plan(s).

**Box 14** may be used for additional reporting. You should include information on a parsonage allowance or utility allowance here.

**Box 15-20** Use these boxes to report state and local tax information – states vary on what items are deducted from gross wages.

*The West Virginia Annual Conference of the United Methodist Church, the General Council on Finance and Administration, and Wespath are not engaged in providing legal or accounting services. If legal or tax advice is required, the service of a competent professional should be sought.*

### **Example of Form W-2 for Clergy**

Rev. Sue Service serves as pastor of a local United Methodist church. During the preceding year, Rev. Service lived in a church parsonage furnished by her church, and:

- (1) she received a cash salary of \$40,000 from her church;
- (2) her church properly designated \$5,000 of her \$40,000 cash salary as a housing (or parsonage furnishing and utilities) allowance;
- (3) she made a voluntary, pre-tax, salary reduction contribution of \$900 to the United Methodist Personal Investment Plan (UMPIP);
- (4) she made salary reduction contributions of \$3,500 through a cafeteria plan for her share of her medical insurance premiums and for a Flexible Spending Account (FSA);
- (5) she received a non-accountable travel allowance of \$3,000;
- (6) her church paid \$14,000 on her behalf for medical insurance premiums;
- (7) she received reimbursements from her church of \$2,500 for travel expenses pursuant to an accountable plan; and
- (8) her church made a \$5,000 contribution to the Clergy Retirement Security Program (CRSP) on her behalf.

The local church should complete Rev. Service's Form W-2 as follows:

**Boxes a –f:** Self explanatory.

**Box 1:**  $(1) - (2) - (3) - (4) + (5) = \$40,000 - \$5,000 - \$900 - \$3,500 + \$3,000 = \$33,600.$

Note: Items (6) - (8) are not included in Box 1.

**Box 2:** Leave blank. (Here we assume Rev. Service did not request voluntary federal income tax withholding by the church.)

**Boxes 3 – 6:** Leave blank.

**Box 12:** Enter E for the Code and \$900 for the amount (reflecting the UMPIP contribution)

**Box 13:** Check the Box labeled “Retirement plan” (reflecting the UMPIP contribution)

**Box 14:** Enter “Parsonage Allowance \$5,000.”

**Boxes 15-20:** Complete according to your own state’s requirements.

*The information provided above is intended to serve as general guidance and should not be construed as legal advice. You should consult a tax professional regarding your particular circumstances. In addition, the WVUMC is not recommending any particular salary or housing allowance. The example here is merely illustrative.*

### **FORM W-3 REPORTING REQUIREMENTS**

The Form W-3 - Transmittal of Wage and Tax Statements must be filed annually by employers together with Copy A of the Forms W-2. Basically, the information contained in the Forms W-2 and Forms 941 (filed quarterly) are the basis for the information to be supplied on Form W-3. The Form W-3 must be filed with the Social Security Administration by January 31.

The employer should make sure the Form W-3 wage and withholding information agrees with the total amounts from the Forms W-2 and that the Form W-3 is reconciled with the quarterly Form 941 returns.

Note: According to the IRS instructions for Form W-3, in Box b – Kind of Payer, a church or church organization should check the “941” box even if it is not required to file Form 941 or Form 944 (for example, because the church staff consists of only the pastor).

For more complete information, refer to the Form W-3 instructions available at the IRS website ([www.irs.gov](http://www.irs.gov)).

## **IRS Form 1099 – MISC & Form 1099-NEC**

File Form 1099-MISC or Form 1099-NEC for each person to whom you have paid during the year:

- at least \$600 in:
  - rents;
  - services performed by someone who is not your employee;
  - reimbursed moving expenses
  - other income payments;
  - medical and health care payments;

For the most current instructions and form visit the IRS website.

<https://www.irs.gov/forms-pubs/about-form-1099-misc>

If unsure whether a person is considered an employee or contractor, review the following link.

[https://www.gcfa.org/files/ugd/5524b1\\_2331d149797a492994a034f0ce9e592a.pdf](https://www.gcfa.org/files/ugd/5524b1_2331d149797a492994a034f0ce9e592a.pdf)

### **TEN TAX TIPS**

#### **1. Keep Good Tax Records of Your Own**

- a. Copy of annual housing allowance designation (e.g. approved meeting minutes)
- b. Copy of Accountable reimbursement policy.
- c. Copy of all receipts or other substantiation for business expenses, even when submitted for reimbursement through accountable reimbursement policy.
- d. Your tax returns, plus all substantiation (such as above materials) and worksheets, for at least seven years.
- e. Any other records that might help you substantiate a tax position with the IRS (e.g., materials from seminars, correspondence with IRS agent, materials from our accountant, attorney, annual conference or local church treasurer, etc.).

#### **2. Take a Close Look at Using an Accountable Reimbursement Policy**

- a. Work with local church treasurer and PPRC, with assistance from annual conference treasurer, to help local church understand importance.
- b. Work toward budgeted amount sufficient to cover all reasonable expenses – figure out a way!
- c. Remember: No appointive compensation reduction to fund the policy.

#### **3. Take Maximum Advantage of Housing Allowance**

- a. If you are clergy, you are encouraged take advantage of the housing allowance.
- b. Be sure that the allowance is designated ahead of time (ideal: every fall for the coming year, or prior to a new appointment).
- c. It covers all expenses of operating the home, except food and servants.
- d. If you own your own home, you may not want to rush to pay off mortgage, because you will lose the benefit of the allowance.
- e. Work with your church to ensure that the allowance is high enough to cover all costs – but not higher than the fair rental value and not so high that you are significantly under reporting income.
- f. It is the responsibility of the pastor to notify the church treasurer or person preparing the W-2s for the church if he or she does not have adequate expense to cover the housing exclusion/allowance.
- g. Remember that you owe self-employment tax on the housing allowance or fair rental value of the parsonage.

#### **4. Do Not Opt out of Social Security**

- a. Opting out of Social Security means opting out of Medicare and other benefits of Social Security.
- b. Remember that you can deduct all unreimbursed and non-accountable business expenses when calculating self-employment tax.
- c. Look hard at whether you truly qualify for the exemption – are you conscientiously opposed to receiving any public insurance benefits?

#### **5. “How Will the IRS Ever Find Out?”**

- a. If you have to ask this question, don’t do whatever it is that you’re thinking of doing. Assume that the IRS will find out.

#### **6. Take Advantage of a Health Saving Account (HSA), Health Reimbursement Account (HRA), or Flexible Spending Account (FSA).**

- a. If you are participating in HealthFlex these are options in which you can participate. If you have questions about these options review the following webpage <https://www.wvumc.org/wvumc-health-benefits-plan/> or contact the Treasurer’s Office.
- b. If you are not in HealthFlex, your salary paying unit may have set up a benefit plan that allows you to set aside a portion of your salary, designated by you prior to January 1 of each year, solely to use for your out-of-pocket medical/dental/vision expenses. The designated amount is excluded from your income for income tax and Social Security. Churches should contact a tax professional to ensure such a program is properly established and administered.



- i. The FSA limit is established by the IRS each year and should be confirmed prior to beginning any deduction.
- ii. Unspent monies cannot be returned (use it or lose it).
- iii. Cannot amend during year.
- iv. Cannot use for other expenses.
- v. Not to be mistaken for accountable reimbursement plan/policy.
- vi. The plan also may include dependent care expenses (note: for those who have young children, the inclusion of childcare expenses in this type of plan can be very helpful).

#### **7. Remember to Claim as Income Any “Extra” Money That You Receive for Services Provided**

- a. Honoraria – should be put on Schedule C, and the expenses from this activity may be deducted on Schedule C.
- b. Bonuses (always) and special occasion gifts (in most cases).

#### **8. Remember That You Are Always Self-employed for Purposes for Social Security**

- a. Don't try to compare this with your status as an “employee” for purposes of income tax – you won't figure it out!
- b. It's OK for local church to pay you the “employer” portion of Social Security, as extra income to you, which solves the equity issue of clergy being different from lay employees (but the church may not pay directly to the IRS).
- c. Remember to deduct ½ of self-employment taxes on 1040, line 27.

#### **9. Beware of Tax Schemes That Your Clergy Friends Tell You About**

- a. Rule of thumb: If it's too good to be true, it usually is.

#### **10. Know the Limits on How Much You Can Contribute to your United Methodist Personal Investment Plan (UMPIP) Account**

- a. The limit is established each year by the IRS.
- b. If you are unable to confirm the limits, communicate with your annual conference pension officer and the Wespath to be sure you understand the limit – it is important.

## **United Methodist Church Minimum Insurance Requirements**

During the 2016 General Conference in Portland, OR, Petition 60158, relating to adequate insurance coverage, was adopted. This Petition amends ¶ 2533.2 in *The Book of Discipline (2012)* and alters the responsibilities of a local church's board of trustees as it relates to their report to the charge conference. The current *Book of Discipline* does not provide for any standards to be made available to assist local church trustees in their annual review of insurance coverages. The paragraph now states:

The board of trustees shall annually compare the existence and adequacy of the church's insurance coverages to an insurance schedule annually published by the General Council on Finance and Administration. The purpose of this review is to ensure that the church, its properties, and its personnel are properly protected against risks. The board shall include in its report to the charge conference (¶ 2550.7) the results of its review and recommendations needed to timely bring the church into compliance with the published schedule.

Typical "a la carte" programs designed for businesses allow churches to pick and choose their coverage, which often leads to gaps in coverage. Churches need a package that covers all of the lines of coverage important to a ministry – i.e., sexual misconduct, employment practices, directors', officers' & trustees, employee benefits liability, and coverage for volunteers. This allows for focus on more important aspects of ministry.

This change provides guidance and empowerment to local church boards of trustees in ensuring that the assets of the denomination are protected by adequate insurance coverages. Attached are the current minimum insurance requirements from GCFA. These dedicated (non-shared) limits provide a starting point for churches as they are entrusted to be good stewards in protecting God's assets.

Insurance is now a Disciplinary requirement. However, there is not a penalty for non-compliance prescribed in the Book of Discipline but trustees need to be aware they are personally putting themselves at risk with the church does not have adequate insurance.

## United Methodist Church Minimum Insurance Requirements

*Rev. November, 2019*

*The Book of Discipline* requires local church trustees to annually review and report on the adequacy of local church property and liability insurance coverage “to ensure that the church, its properties, and its personnel are properly protected against risks.” Since 1797, the *Book of Discipline* has provided that the property and assets of local churches are held in trust for the benefit of the denomination. Inadequate insurance puts local church property and assets at risk, including the denomination’s trust interest therein. Therefore, in representing the denomination’s trust interest, the following minimum insurance requirements are adopted for local churches:

**COMMERCIAL PROPERTY & LIABILITY PACKAGE POLICY**, to include the following minimum limits:

***Property***

- ✓ Buildings, Pipe Organs & Contents - Insured to Replacement Value, “Special Risk” Coverage
- ✓ All Church buildings should have an updated replacement cost valuation every five (5) years.
- ✓ The replacement cost valuation must be updated within 180 days if additional square footage is added.
- ✓ A Church building may be insured on an actual cash value basis where replacement cost valuation is not an option available to the Church. The Church should understand that it is being insured on an actual cash value basis and use its best efforts to complete the necessary upgrades and renovations required to qualify for replacement cost valuation coverage.
- ✓ A church building may be insured on a functional replacement valuation basis where it is a desired option on the part of the church or conference. **The church should understand it may only do so with the written approval of the conference.**

***Liability***

- |                                      |            |             |           |             |
|--------------------------------------|------------|-------------|-----------|-------------|
| • Commercial General Liability       | Occurrence | \$1,000,000 | Aggregate | \$3,000,000 |
| • Pastoral Counseling Liability      | Occurrence | \$1,000,000 | Aggregate | \$3,000,000 |
| • Hired and Non-Owned Auto Liability | Occurrence | \$1,000,000 | Aggregate | \$3,000,000 |
| • Employee Benefits Liability (EBL)  | Occurrence | \$1,000,000 | Aggregate | \$1,000,000 |
| • Medical Payments                   |            | \$10,000    |           |             |
| • Sexual Misconduct Liability*       |            |             |           |             |

Church Membership of 500+	Occurrence	\$1,000,000	Aggregate	\$2,000,000
Church Membership under 500	Occurrence	\$250,000	Aggregate	\$500,000

**\*A lower limit of liability may be selected in the event that a state or other jurisdiction places a legally binding limit on the damage awards for sexual misconduct that is lower than the above referenced per occurrence limit. The limit selected may not be lower than the maximum damage award set by the state or other applicable jurisdiction.**

- Crime / Employee Dishonesty                      Occurrence      \$25,000

**DIRECTORS’ & OFFICERS / EMPLOYMENT PRACTICES LIABILITY**, to include the following minimum limits:

- Directors’ & Officers                                              \$1,000,000
- Employment Practices Liability – Option 1                      \$1,000,000 (including Sexual Harassment)
  - Required for churches with 500 or more members or any church with a preschool, school, or camp
- Employment Practices Liability – Option 2                      \$250,000 (including Sexual Harassment)
  - For churches with fewer than 500 members that do not have a preschool, school, or camp

**UMBRELLA / EXCESS LIABILITY**, An Umbrella / Excess Liability policy is suggested for all churches and required for those with a membership of five-hundred (500) or more.

If applicable, this excess policy must extend over Commercial General Liability, Pastoral Counseling, Employee Benefits Liability, Owned Auto, Hired & Non-Owned Auto and Workers Compensation. A higher per occurrence limit may be appropriate based on specific risk characteristics such as church size and/or scope of operations and ministries.

**WORKERS’ COMPENSATION / EMPLOYERS LIABILITY INSURANCE**, as required by state law:

- Bodily Injury by Accident                      Each Accident                      \$1,000,000
- Bodily Injury by Disease                      Policy Limit                      \$1,000,000
- Bodily Injury by Disease                      Each Employee                      \$1,000,000

**COMMERCIAL AUTOMOBILE LIABILITY**, applicable only if the church owns an automobile; to include the following minimum limits:

- Limit of Liability                                              \$1,000,000

## Pension Contribution Requirements 2023

Denominational Average Compensation for 2023 \$76,221.00

Conference Average Compensation for 2023 \$58,554.00

<b>Maximum DB Portion for 2023</b>	<b>10.00%</b>	<b>of</b>	<b>\$76,221.00</b>	<b>\$7,622.10</b>
<b>Maximum CPP for 2023</b>	<b>3.00%</b>	<b>of</b>	<b>\$152,442.00</b>	<b>\$4,573.26</b>

### Eligibility requirements for participation in CPP

Total Appointive Compensation	\$19,055.25
Housing Allowance	<u>\$4,763.81</u>
<b>* Total Compensation</b>	<b><u>\$23,819.06</u></b>

\*Total Compensation must be 25% of the Denominational Average Compensation.  
(Salary plus 25% of salary for housing).

### Example

1) Total Compensation on the Report of Clergy Support Sheet **\$37,000.00**

2) Multiply total compensation by 25% if Parsonage is provided or add actual housing allowance if parsonage is provided

\$37,000.00	X	25%	=		\$9,250.00
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3) Add the two amounts together to arrive at the base for calculation (BFC)

\$37,000.00	+	\$9,250.00	=		<b>\$46,250.00</b>
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4) Multiply the base for calculation number by 10% for CRSP Defined Benefit yearly contribution

\$46,250.00	X	10%	=		\$4,6250
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5) Multiply the base for calculation number by 3.0% for CRSP Defined Contribution yearly contribution

\$46,250.00	X	3%	=		\$1,388
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6) Multiply the base for calculation number by 3.0% for CPP yearly contribution

\$46,250.00	X	3%	=		\$1,388
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7) Multiply the base for calculation number by your chosen percentage for your PIP yearly contribution. The amount must be at least 1% to get a full match of CRSP-DC  
(This can be a fixed dollar amount if you chose instead of a percentage).

\$46,250.00	X	1%	=		\$463
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**2023 WV United Methodist Conference Health, Dental, and Vision Costs**

**ALL PREMIUMS ARE COLLECTED THROUGH BANK DRAFT THE SECOND WEDNESDAY OF EACH MONTH**

**HealthFlex Health Insurance 2023 Participant Premiums\***

Plan / Tier	2023 Total Monthly Premium	Premium Credit (Amount Paid by Church and Conference)			Participant Monthly Premium	Participant Annual Premium	Retiree Pre 65 Monthly Premium (Retired prior to 7/1/21)	Retiree Pre 65 Monthly Premium (Retired after 7/1/21)
		Premium Credit Funded by Local Church	Premium Credit Funded Through Fair Share	Total Monthly Premium Credit				
<b>B1000</b>								
Participant Only	\$ 1,854.00	\$ 600.00	\$ 802.00	\$ 1,402.00	\$ 452.00	\$ 5,424.00	\$ 572.00	\$ 1,052.00
Participant + 1	\$ 3,523.00	\$ 600.00	\$ 2,025.00	\$ 2,625.00	\$ 898.00	\$ 10,776.00	\$ 1,018.00	\$ 1,498.00
Participant + 2 or more	\$ 4,820.00	\$ 600.00	\$ 2,980.00	\$ 3,580.00	\$ 1,240.00	\$ 14,880.00	\$ 1,360.00	\$ 1,840.00
<b>C2000 w/ HRA</b>								
Participant Only	\$ 1,780.00	\$ 600.00	\$ 802.00	\$ 1,402.00	\$ 378.00	\$ 4,536.00	\$ 498.00	\$ 978.00
Participant + 1	\$ 3,382.00	\$ 600.00	\$ 2,025.00	\$ 2,625.00	\$ 757.00	\$ 9,084.00	\$ 877.00	\$ 1,357.00
Participant + 2 or more	\$ 4,626.00	\$ 600.00	\$ 2,980.00	\$ 3,580.00	\$ 1,046.00	\$ 12,552.00	\$ 1,166.00	\$ 1,646.00
<b>C3000 w/ HRA</b>								
Participant Only	\$ 1,550.00	\$ 600.00	\$ 802.00	\$ 1,402.00	\$ 148.00	\$ 1,776.00	\$ 268.00	\$ 748.00
Participant + 1	\$ 2,943.00	\$ 600.00	\$ 2,025.00	\$ 2,625.00	\$ 318.00	\$ 3,816.00	\$ 438.00	\$ 918.00
Participant + 2 or more	\$ 4,025.00	\$ 600.00	\$ 2,980.00	\$ 3,580.00	\$ 445.00	\$ 5,340.00	\$ 565.00	\$ 1,045.00
<b>H1500 w/ HSA</b>								
Participant Only	\$ 1,733.00	\$ 600.00	\$ 802.00	\$ 1,402.00	\$ 331.00	\$ 3,972.00	\$ 451.00	\$ 931.00
Participant + 1	\$ 3,292.00	\$ 600.00	\$ 2,025.00	\$ 2,625.00	\$ 667.00	\$ 8,004.00	\$ 787.00	\$ 1,267.00
Participant + 2 or more	\$ 4,505.00	\$ 600.00	\$ 2,980.00	\$ 3,580.00	\$ 925.00	\$ 11,100.00	\$ 1,045.00	\$ 1,525.00
<b>H2000 w/ HSA</b>								
Participant Only	\$ 1,570.00	\$ 600.00	\$ 802.00	\$ 1,402.00	\$ 168.00	\$ 2,016.00	\$ 288.00	\$ 768.00
Participant + 1	\$ 2,982.00	\$ 600.00	\$ 2,025.00	\$ 2,625.00	\$ 357.00	\$ 4,284.00	\$ 477.00	\$ 957.00
Participant + 2 or more	\$ 4,083.00	\$ 600.00	\$ 2,980.00	\$ 3,580.00	\$ 503.00	\$ 6,036.00	\$ 623.00	\$ 1,103.00
<b>H3000 w/ HSA</b>								
Participant Only	\$ 1,368.00	\$ 600.00	\$ 802.00	\$ 1,402.00	\$ (34.00)	\$ (408.00)	\$ 86.00	\$ 566.00
Participant + 1	\$ 2,601.00	\$ 600.00	\$ 2,025.00	\$ 2,625.00	\$ (24.00)	\$ (288.00)	\$ 96.00	\$ 576.00
Participant + 2 or more	\$ 3,560.00	\$ 600.00	\$ 2,980.00	\$ 3,580.00	\$ (20.00)	\$ (240.00)	\$ 100.00	\$ 580.00

**HealthFlex Dental Plan Premiums (Participant Responsibility)\*\***

Monthly Cost by Tier	Passive PPO 2000	Dental PPO
Participant Only	\$ 50.00	\$ 41.00
Participant + 1	\$ 100.00	\$ 82.00
Participant + 2 or more	\$ 150.00	\$ 124.00

**HealthFlex Vision Plan Premiums (Participant Responsibility)\*\***

Monthly Cost by Tier	Full Service	Premier
Participant Only	\$ 8.00	\$ 14.00
Participant + 1	\$ 13.00	\$ 23.00
Participant + 2 or more	\$ 20.00	\$ 36.00

A "2023 Participant Premium Calculator" can be found at the following link to get a better picture of the total participant premium and contribution costs:  
<https://www.wvumc.org/wvumc-health-benefits-plan/>

**WV United Methodist Conference 2023 Medicare Supplement**

**Monthly Premium Per Covered Individual**

**\$170**

**BLENDED PREMIUM FOR MEDICARE PRIMARY PARTICIPANT & NON MEDICARE ELIGIBLE SPOUSE**

Clergy where one individual is Medicare eligible and one is not the couple will have a combination of rates or blended premium applicable to their specific age and status. The Primary Participant must be the one retired in order for premium to change.

ACTIVE – Actively appointed at least 75% or employed at least 30 hours a week and not Medicare eligible, including through small employer exception. Also, those retired and not yet Medicare eligible.

\* Retirees not yet 65, will continue to be eligible for coverage through the Conference health insurance plan. Those retiring between January 1, 2004 and July 1, 2021 and not yet 65 will be billed the participant amount per their elections and 20% of the rate normally billed to a charge per participant (\$7,200 annually for 2023). Individuals retiring after July 1, 2021 and being younger than 65, will be billed the participant rate according to their plan elections and the full rate normally billed to a charge per participant (\$7,200 annually for 2023).

\*\* Participant can use excess premium credit to pay dental and vision premiums. **Exam Core is included in health insurance premium and no additional cost to participant.**

**CPP INCAPACITY LEAVE** – (Clergy with conference relationship of incapacity leave) Will be billed the participant amount per their elections and 20% of the rate normally billed to a charge per participant (\$7,200 annually for 2023). This provides a means for a discounted premium for these individuals since they no longer have a church to help defray the cost.

## 2023 Benefits Amounts for the Comprehensive Protection Plan

### The 2023 Denominational Average Compensation (DAC) is \$76,221

The following information generally describes the benefit amounts payable under the Comprehensive Protection Plan (CPP) to eligible participants and their beneficiaries. For more information about the terms and conditions of CPP, please see the *CPP Summary Plan Description (SPD)* available at [www.wespath.org/assets/1/7/3097.pdf](http://www.wespath.org/assets/1/7/3097.pdf). Although all efforts have been made to ensure the accuracy of this document, in the event of a discrepancy between this document and the SPD or CPP plan document, the SPD and plan document always govern.

### Active Participant Death Benefits—payable upon the death of an eligible active CPP participant in 2023

- Participant: \$50,000, payable in 12 monthly installments or one lump sum
- Spouse of active participant: 20% of DAC in the year of death (\$15,244 if death occurs in 2023)
- Surviving spouse of active participant: 15% of DAC in the year of death (\$11,433 if death occurs in 2023)
- Child of active participant: 10% of DAC in the year of death (\$7,622 if death occurs in 2023)
- Annual surviving spouse benefit of \$15,244, less the annuity benefit payable from the Clergy Retirement Security Program (CRSP) and other Church-related sources
- Annual surviving child benefit of \$7,622, payable in 12 monthly installments<sup>1</sup>
- Annual surviving child educational benefit up to \$15,244, payable in equal installments<sup>2</sup>

### Retired Participant Death Benefits<sup>3</sup>

Plan Provision	Clergy Who Retire Before January 1, 2013 <sup>4</sup>	Clergy Who Retire January 1, 2013 or later
Death of retired participant	<b>30% of DAC in the year of death</b> (for 2023: \$22,866)	<b>\$20,808</b>
Death of retiree's spouse	<b>20% of DAC in the year of death</b> (for 2023: \$15,244)	<b>\$15,606</b>
Death of retiree's surviving spouse	<b>15% of DAC in the year of death</b> (for 2023: \$11,433)	<b>\$10,404</b>
Death of retiree's child <sup>6</sup>	<b>10% of DAC in the year of death</b> (for 2023: \$7,622)	<b>\$8,323</b>
Annual surviving child benefit Payable in 12 monthly installments <sup>1</sup>	<b>10% of DAC</b> (for 2023: \$7,622)	<b>10% of DAC</b> (for 2023: \$7,622)
Annual surviving child educational benefit Payable in installments <sup>2</sup>	<b>20% of DAC</b> (for 2023: \$15,244)	<b>20% of DAC</b> (for 2023: \$15,244)

<sup>1</sup> Ages 17 and younger. Benefits are paid through the month in which the child attains age 18.

<sup>2</sup> Ages 18 through 24 and attending school full-time. Half of the annual benefit may be paid if the child is attending a secondary school or post-secondary school. The remaining half may be paid if the child is attending a post-secondary school. If the child enters a post-secondary institution of higher learning prior to age 18, the post-secondary educational benefit may become effective at that time.

<sup>3</sup> To be eligible for death benefits in retirement, a clergyperson must have been covered in CPP for a requisite number of years, e.g., 11 of the last 14 years or at least 25 years in CPP, as described in the SPD.

<sup>4</sup> Benefit available at this level for eligible retirees who retired before January 1, 2013, regardless of date of death.

<sup>5</sup> Benefit available at this level for eligible retirees who retired on or after January 1, 2013, regardless of date of death.

<sup>6</sup> Age 18 and younger, age 19 and older if dependent upon the participant or upon surviving spouse of the participant due to behavioral or physical condition that existed prior to age 19, or age 24 and younger and receiving surviving child benefit.

### Disability Benefits

The disability benefit equals 70% of plan compensation for the plan year in which the first payment is effective, with plan compensation capped at 200% of the DAC. The disability benefit is reduced by any disability benefits payable under the Social Security Act.<sup>7</sup>

Participants receiving CPP disability benefits may also be eligible to receive retirement plan contributions to either CRSP or the United Methodist Personal Investment Plan (UMPIP)<sup>8</sup>. If eligible for CRSP, CPP will contribute a nonmatching contribution of up to

2% of plan compensation (as defined by CRSP), in monthly installments, to the participant's CRSP defined contribution account. In addition, participants eligible for CRSP may be eligible for a matching contribution based on participant contributions to UMPIP, up to 1% of plan compensation.

If not eligible for CRSP but eligible for UMPIP, CPP may contribute up to 3% compensation (as defined by UMPIP) to the participant's UMPIP account based on the UMPIP plan sponsor's adoption agreement elections.

<sup>7</sup> Other reductions may apply in accordance with the terms of the SPD, as determined by Wespath Benefits and Investments (Wespath).

<sup>8</sup> Please see the CRSP SPD ([www.wespath.org/assets/1/7/3480.pdf](http://www.wespath.org/assets/1/7/3480.pdf)) and UMPIP SPD ([www.wespath.org/assets/1/7/3502.pdf](http://www.wespath.org/assets/1/7/3502.pdf)) for additional information on eligibility as a disabled participant. SPDs are available on the Wespath Benefits and Investments section of [wespath.org](http://wespath.org), under **Retirement**, select "**Plans**."

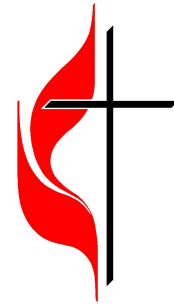




# West Virginia Annual Conference The United Methodist Church

*Conference Treasurer  
Conference Board of Pensions  
Director of Administrative Services*

***Jamion Wolford***



**TO:** Pastors, Chairpersons of PPR Committees, and Treasurers

**FROM:** Rev. Amy Shanholtzer, Dean of the Cabinet  
Jamion Wolford, Conference Treasurer

**DATE:** **July 16, 2022**

**RE:** 2023 Pastor's Compensation

Greetings! We write concerning the responsibility of the Pastor/Staff-Parish Relations Committee to make recommendations to your Charge Conference for the upcoming compensation package for your pastor.

Your careful attention to detail in completing the "Charge Conference Report of Clergy Support" is critically important. This document provides common information needed for the pastor, the local church, the District office, the Conference Treasurer's office, and Wespath. **It is imperative that this information is complete and correct or forms will be returned slowing the process for pension and other financial matters.**

We hope that you will foster an atmosphere of teamwork and shared concern by including the pastor in your deliberations, discussion of needs, desires and goals. As a matter of fact, after the Total Appointive Cost has been arrived at, the rest of the top of the sheet is pastoral responsibility. The result of this open communication will be improved clergy morale, deeper understanding and appreciation by lay leadership.

Thank you for the good work that you do in the ministry and mission of the Church. Your District Superintendent and Jamion Wolford, the Conference Treasurer, are ready to assist you with matters related to the Report of Clergy Support. Parish workshops for churches and/or parishes are available from the Conference Treasurer upon request.

## **I. INFORMATION FROM ACTION OF THE ANNUAL CONFERENCE:**

- A. During the 1998 Session of the West Virginia Annual Conference the "Standard of Clergy Support" was adopted. This placed in one listing what is required to provide for all pastors appointed to full-time ministry.

### **WEST VIRGINIA ANNUAL CONFERENCE STANDARD OF CLERGY SUPPORT**

- A parsonage as recommended by the Conference Parsonage Standards.

- Parsonage utilities as defined by Conference Fiscal Policy #7.
- The means to participate in the conference sponsored hospital/medical insurance.
- The means to participate in the Clergy Retirement Security Plan (CRSP).
- The means to participate in the Comprehensive Protection Plan (CPP).
- An “accountable reimbursement plan” (sometimes called an expense account) to cover the costs of a pastor’s performance of pastoral duties including educational requirements.
- Base compensation for the work required and in consideration of ministerial competence, skill development, and years of experience.

B. As required by the Book of Discipline, the Annual Conference establishes the minimum compensation required for full-time ministry. The following categories have been set by the 2022 session for 2023:

***Category I Members in Full Connection; Probationary Members who are Seminary Graduates serving under full-time appointment. \$39,000***

***Category II Associate Members \$37,000***

***Category III Full-time Local Pastors; Student Probationary Members and Student Associate members. \$36,000***

**This is the minimum amount that must be reported in box 5 on the Report of Clergy Support.**

C. The Commission on Equitable Compensation made the following recommendation which was adopted by the 2022 Session of the Annual Conference:

*The commission recommends the minimum amount of an accountable reimbursement plan for pastor’s expenses to be \$2,000 for each charge.*

This means that each church/charge will need to establish an accountable reimbursement plan for the pastor if the pastor chooses to take advantage of this option.

## **II. INSTRUCTIONS FOR THE 2023 REPORT OF CLERGY SUPPORT**

**Make sure to the header section of the worksheet is complete; the District Office will be completing their box. The line “Local Churches on the Charge totals” at the top of the sheet is important.** On multiple church charges, the Charge Conference determines, in consultation with each church, the percentage of the Charge totals to be paid by the individual churches. Please be sure to provide this information; the Excel document of this Report of Clergy Support can assist with each church’s specific dollar figures with this information. You must provide the percentage for each church. **The first church listed on the line for “Local Churches on the Charge” will be listed as the “Billable Church.”**

**Note: When using the Excel document some boxes, especially in the header section, use drop down options and one of those options must be selected.**

**All amounts provided should be annual totals, unless otherwise approved by Superintendent.**

**Box #1 – Salary Paid by Local Church**

- This amount is the gross annual salary agreed to between the minister and the church.
  - This amount is prior to any withholdings, deductions, allowances, or exemptions.
  - This amount does not include any supplements paid by parties other than the church.

**Box #2 – Salary Supplement**

- Total supplement(s) received from any source other than church or charge.
- **Any request for salary supplement(s) must be made with the Conference Superintendent.**

**Box #3 – Amount Paid by Church Toward Health Insurance In lieu of Conference Plan**

- Any payments made by the church to the pastor or on the pastor’s behalf for health insurance not provided through the Conference’s health insurance plan is considered income and needs to be included on this line.
- Amounts in this box will not be included in income for retirement benefit or contribution calculations.

**Box #4 – Other Taxable Income**

- Other taxable income planned to be paid by the church to the pastor.

**Box #5 – Total Compensation**

- This amount is the pastor’s gross salary and sum of boxes 1-4.
- **This total must be equal to or greater than the minimum compensation level in the appropriate clergy category as found in the “Equitable Compensation Guidelines” for full-time appointments.**
- IMPORTANT – All calculations for the Clergy Retirement Security Program (CRSP), the Comprehensive Protection Plan (CPP) and United Methodist Personal Investment Plan (UMPIP) are in conjunction with parsonages and housing items and should be made using box #5 less box #3).
- In the case of Part-time Pastors, equitable compensation guidelines do not apply. Their compensation may be set at an agreeable level, however, remember that a charge must also pay Clergy Retirement Security Program (CRSP) on that amount if pastor’s total appointment is 50% or greater. However, part time local pastors may waive participation from CRSP but to do so must complete the waiver form provided by the Conference Treasurer’s Office.
- **ANY CHANGE IN THIS AMOUNT MUST BE DONE WITH CHARGE CONFERENCE ACTION.**

**Box #6 – Clergy Health Insurance Premium and Health Account Contribution**

- Total of health insurance premium(s) and any additional elected health account contributions withheld from pastor’s payroll.
  - Amount is equal the total participant elected health, dental, and vision premiums.
  - If elected, include any participant health saving account or flexible spending account contributions.
  - See Conference Health Insurance Rate sheet for a listing of monthly premiums.
  - **The charge must pay the amount by an automatic draft from a church checking or savings account.**

**Box #7 – Pastor’s UMPIP (Before Tax)**

- This is an optional amount determined by the pastor, deducted from the pastor’s payroll prior to taxes being withheld, and paid directly to Wespath by the church. This can be a flat dollar amount or a percentage. If a percentage, it must be calculated the same way as CRSP and CPP (see Pension Calculation Worksheet). **Note: The pastor must choose either before tax or after-tax election and have this election form on file with the local church. The pastor must contribute at least 1% to be**

**eligible for the additional 1% match from the church. You may call the Conference office at 304-344-8331 ext. 41 for information and forms.**

- Because the church/charge is their own Plan Sponsor Manager, billing address changes must be initiated by the church/charge. To change a UMPIP billing address with Wespath the following steps will apply:
  - On letter head submit the following information – Primary Contact (generally the Treasurer, or whoever is paying the invoice), Billing Address, Participant Information (including birthdate and Social Security #), Fax to 1-800-866-5195 or mail to Wespath 1901 Chestnut Ave., Glenview, Illinois, 60025-1604 or email to [prcwebteam@wespath.org](mailto:prcwebteam@wespath.org).
  - The above instruction would also apply if a past payment needs to be submitted.

#### **Box #8 – Medical Reimbursement Plan Outside of Conference Insurance plan**

- Cafeteria Plan 125 (medical reimbursement plans) are pretax salary reduction plans available to clergy for specific deductions such as medical expense and dependent childcare. These plans require IRS filing of different forms on an annual basis. Please check with a CPA or other qualified individual to explore the possibility of this plan. Forms and instructions are included with Charge Conference packet or contact Conference Treasurer's office.

#### **Box #9 – Housing Exclusion**

- Housing exclusion is a deduction from taxable income allowed for clergy.
- **No money is paid to pastor or withheld from pastor's payroll for this deduction.**
- The default amount is \$4,000 annually; however, if a pastor seeks a greater exclusion, he or she must request this through their Conference Superintendent.
- **Note: Regarding housing exclusion – The pastor must report the unspent portion of the exclusion on his or her 1040 as additional taxable income.**

#### **Box #10 – Taxable Wages**

- Amount will calculate for you if using the Excel document.
  - If not using Excel, this is Total Compensation less boxes 6-9.
- If there is no other taxable income such as moving expense, this box should equal box 1 on the W-2.

#### **Box #11 – Pastor's UMPIP (After-Tax)**

- This is an optional amount determined by the pastor, deducted from the pastor's payroll after taxes are withheld, and paid directly to Wespath by the church. This can be a flat dollar amount or a percentage. If a percentage, it must be calculated the same way as CRSP and CPP (see Pension Calculation Worksheet). **Note: The pastor must choose either before tax or after-tax election and have this election form on file with the local church. The pastor must contribute at least 1% to be eligible for the 1% match from the church. You may call the Conference office at 1-800-788-3746 ext. 41 for information and forms.**
- This contribution could be a roth contribution or simply an after-tax election.
- Because the church/charge is their own Plan Sponsor Manager, billing address changes must be initiated by the church/charge. To change a UMPIP billing address with Wespath the following steps will apply:
  - On letter head submit the following information – Primary Contact (generally the Treasurer, or whoever is paying the invoice), Billing Address, Participant Information (including birthdate and Social Security #), Fax to 1-800-866-5195 or mail to Wespath 1901 Chestnut Ave., Glenview, Illinois, 60025-1604 or email to [prcwebteam@wespath.org](mailto:prcwebteam@wespath.org).
  - The above instruction would also apply if a past payment needs to be submitted.

#### **Box #12 – All Other After-Tax Deductions**

- This could be money the pastor elects to have withheld from his or her check for any other agreed upon reason.

### **Box #13 – Net Income**

- Annual amount paid to pastor after all withholdings.
  - This is the amount used to calculate the amount the pastor will receive in their payroll check.
  - This does NOT represent taxable income.

### **Box #14 – Church UMPIP**

- This is an optional amount paid by the church/charge into the pastor's personal UMPIP.
- This is paid directly to Wespath and administered by the church/charge and is not taxable as long as within IRS limits.

### **Box #15 – Health Insurance Paid by Charge Over Charge Responsibility**

- Only used if a church/charge elects to pay more than the charge's responsibility (\$7,200 for 2023) of the pastor's health care premium(s) and/or additionally elected health account contributions.

### **Box #16 – Housing Allowance in Lieu of Parsonage**

- Amount agreed upon by charge to pay pastor for housing expenses in addition to his or her salary.
- These additional funds would not be considered taxable income, as long as they are administered in agreement with IRS regulations.

### **Box #17 – Accountable Reimbursement Plans**

- By action of the 2022 Annual Conference Session, each charge is to establish an accountable reimbursement plan for pastor's professional business expenses at a minimum of \$2,000. **This is a minimum guideline for full-time clergy.**
- Accountable Reimbursement Plans are the professional business expenses to do ministry; the expenses are only for what is expended, if not used the money is NOT given as supplemental pay to the pastor. Expenses **must** be submitted to the church/ charge treasurer in a consistent manner.
- Remember that the recommendation of the Annual Conference is only a minimum; the business *needs (travel, continuing education, etc.) are determined by the pastor in consultation with the church/charge and are part of the Appointive Cost.*
- **Money provided to the pastor for attending Annual Conference should be included in the ARP. Advances can be given, but receipts must still be provided upon return from Annual Conference and any unexpended funds must be returned.**
- For any information needed regarding ARP policy as well as Medical Reimbursement forms, you may contact the Conference Treasurer's office (304-344-8331, ext 35). As always, the information received from the Conference Treasurer is only meant to give general guidance, not legal advice.

### **Box #18 – Total Appointive Cost**

- **This is the figure used by the Cabinet in the appointment making process.**

### **Box #19 - Parsonage Utilities**

- All parsonage utilities should be in the name of the church/charge; the church/charge shall be responsible for 100% of these costs. Base telephone service at the parsonage is also included and can be in the name of pastor.
- **It is understood that this figure is only an estimated cost on this report.**
- These expenses are not part of the "Total Appointive Cost."

## **Boxes #20-22 – Contributions for Clergy Retirement Security Program (CRSP) and Comprehensive Protection Plan (CPP)**

- Totals are calculated automatically if the Excel document is used.
- Make sure to select whether the church/charge has a parsonage as that is a factor in the formula.
- If not using the Excel document, use the “*Pension Contribution Requirements for 2023*” sheet to calculate CRSP (Clergy Retirement Security Program) and CPP (Comprehensive Protection Plan).
- Every charge with a full-time pastor must pay both CRSP and CPP, if the pastor meets eligibility requirements for CPP. UMPIP is optional at the choice of the pastor.
- Charges that are served by Part-time Local Pastors or less-than-full time pastors (serving at least ½ time) pay CRSP but cannot pay CPP because part-time pastors are not eligible for CPP.
- **Remember – calculations of CRSP, CPP, and UMPIP are based on Box #5 less Box #3 and housing options.**
- The Conference does not pay any pension costs associated with any of the supplement payments.
- All **CRSP and CPP** payments must be paid directly to the Annual Conference (checks payable to “Conference Treasurer”). These bills will come from the Conference Treasurer’s office and **MUST** be sent to the Conference. **UMPIP payments must be sent to Wespath.**

## **Box #23 - Charge Insurance Responsibility (\$7,200 and/or Medicare Supp)**

- \$7,200 for 2023 for HealthFlex
- \$2,040 per covered individual for Conference Medicare Supplement

## **COMPLETING THE REPORT OF CLERGY SUPPORT**

- **ACQUIRE ALL SIGNATURES FOR THE FORM AND ENSURE ALL PARTIES RECEIVE A COPY OF THE FORM FOR THEIR RECORDS.**
- **CHURCH MUST SUBMIT TO THE DISTRICT OFFICE.**
- **IF A CHANGE IS NECESSARY, CONTACT THE SUPERINTENDENT TO DETERMINE WHETHER A CHARGE CONFERENCE IS REQUIRED.**

## **III. INSTRUCTIONS FOR COMPLETING THE 2023 “ASSIGNED SUPPLY REPORT OF SUPPORT”**

**Make sure to the header section of the worksheet is complete; the District Office will be completing their box. The line “*Local Churches on the Charge totals*” at the top of the sheet is important.** On multiple church charges, the Charge Conference determines, in consultation with each church, the percentage of the Charge totals to be paid by the individual churches. Please be sure to provide this information; the Excel document of this Report of Supply Support can assist with each church’s specific dollar figures with this information. You must provide the percentage for each church. **The first church listed on the line for “Local Churches on the Charge” will be listed as the “Billable Church.”**

**Note: When using the Excel document some boxes, especially in the header section, use drop down options and one of those options must be selected.**

**All amounts provided should be annual totals, unless otherwise approved by Superintendent.**

## **Box #1 – Salary Paid by Local Church**

- This amount is the gross annual salary agreed to between the assigned supply pastor and the church.
  - This amount is prior to any withholdings, deductions, allowances, or exemptions.
  - This amount does not include any supplements paid by parties other than the church.

## **Boxes #2-4 – Other Taxable Income**

- Other taxable income planned to be paid by the church to the pastor.

#### **Box #5 – Gross Wages**

- Amount of pastor’s income prior to any deductions or tax withholdings and is the sum of boxes 1-4.
  - “Assigned Supply” are lay persons and as such do not work under Equitable Compensation Guidelines and are not eligible for any benefits. Note: The Charge must withhold Social Security (FICA) and Medicare taxes and must withhold Federal and State Income Tax because they are lay employees and not considered supply.
  - **ANY CHANGE IN THIS AMOUNT MUST BE DONE WITH CHARGE CONFERENCE ACTION.**

#### **Box #6 – Supply Health Insurance Premium**

- Health insurance premium withheld from pastor’s payroll.
  - Amount is equal the total participant elected health, dental, and vision premiums.
  - See Conference Health Insurance Rate sheet for a listing of monthly premiums.
  - If elected, include any participant health saving account or flexible spending account contributions
  - Assigned Supply Pastor is eligible for Conference Health Insurance Plan if he or she is assigned at least 75%. Responsible Superintendent determines percentage of assignment.
  - **The charge must pay the amount by an automatic draft from a church checking or savings account.**

#### **Box #7 – Pastor’s UMPIP (Before Tax)**

- This is an optional amount determined by the pastor, deducted from the pastor’s payroll prior to taxes being withheld, and paid directly to Wespath by the church. This can be a flat dollar amount or a percentage. You may call the Conference office at 1-800-788-3746 ext. 41 for information and forms.
- Because the church/charge is their own Plan Sponsor Manager, billing address changes must be initiated by the church/charge. To change a UMPIP billing address with Wespath the following steps will apply:
  - On letter head submit the following information – Primary Contact (generally the Treasurer, or whoever is paying the invoice), Billing Address, Participant Information (including birthdate and Social Security #), Fax to 1-800-866-5195 or mail to Wespath 1901 Chestnut Ave., Glenview, Illinois, 60025-1604 or email to [prewebteam@wespath.org](mailto:prewebteam@wespath.org).
  - The above instruction would also apply if a past payment needs to be submitted.

#### **Box #8 – Other Before Tax Deduction(s)**

- Any know pretax deductions elected by pastor.

#### **Box #9 – Taxable Wages**

- Amount will calculate for you if using the Excel document.
  - If not using Excel, this is Total Compensation less boxes 6-9.
- If there is no other taxable income such as moving expense, this box should equal box 1 on the W-2.

#### **Box #10 – Employee/Pastor's Portion of FICA & Medicare (7.65% of taxable wages)**

- The amount to be withheld from the pastor’s payroll checks for the employee’s portion of payroll taxes.
- This amount must be remitted and reported timely according to payroll tax guidelines.
- The following link provides IRS guidance and forms for withholding, remitting, and reporting payroll taxes: <https://www.irs.gov/businesses/small-businesses-self-employed/employment-taxes>

#### **Box #11 – Federal Income Tax Withholding**

- The amount to be withheld from the pastor’s payroll checks for the employee’s federal income taxes.
- Pastor should be completing an IRS Form W-4.

- The following link provides IRS guidance and forms for withholding, remitting, and reporting federal taxes withheld: <https://www.irs.gov/businesses/small-businesses-self-employed/employment-taxes>

#### **Box #12 – State Income Tax Withholding**

- The amount to be withheld from the pastor’s payroll checks for the employee’s state income taxes.
- Pastor should be completing a state withhold form.
- The following links provide state guidance and forms for withholding, remitting, and reporting federal taxes withheld: WV: <https://tax.wv.gov/Business/Withholding/Pages/WithholdingTaxForms.aspx>  
Maryland: <https://www.marylandtaxes.gov/index.php>

#### **Box #13 – Pastor’s UMPIP (After-Tax)**

- This is an optional amount determined by the pastor, deducted from the pastor’s payroll prior to taxes being withheld, and paid directly to Wespath by the church. This can be a flat dollar amount or a percentage. You may call the Conference office at 1-800-788-3746 ext. 41 for information and forms.
- This contribution could be a Roth contribution or simply an after-tax election.
- Because the church/charge is their own Plan Sponsor Manager, billing address changes must be initiated by the church/charge. To change a UMPIP billing address with Wespath the following steps will apply:
  - On letter head submit the following information – Primary Contact (generally the Treasurer, or whoever is paying the invoice), Billing Address, Participant Information (including birthdate and Social Security #), Fax to 1-800-866-5195 or mail to Wespath 1901 Chestnut Ave., Glenview, Illinois, 60025-1604 or email to [prewebteam@wespath.org](mailto:prewebteam@wespath.org).
  - The above instruction would also apply if a past payment needs to be submitted.

#### **Box #14 – All Other After-Tax Deductions**

- This could be money the pastor elects to have withheld from his or her check for any other agreed upon reason.

#### **Box #15 – Net Income**

- Annual amount paid to pastor after all deductions and withholdings.
  - This is the amount used to calculate the amount the pastor will receive in their payroll check.
  - This does NOT represent taxable income.

#### **Box #16 – Employer/Church's Portion of FICA & Medicare (7.65% of taxable wages)**

- The amount to be by the church for the employer’s portion of payroll taxes.
- This amount must be remitted and reported timely according to payroll tax guidelines.
- The following link provides IRS guidance and forms for withholding, remitting, and reporting payroll taxes: <https://www.irs.gov/businesses/small-businesses-self-employed/employment-taxes>

#### **Box #17 – Church UMPIP**

- This is an optional amount paid by the church/charge into the pastor’s personal UMPIP.
- This is paid directly to Wespath and administered by the church/charge.

#### **Box #18 – Health Insurance Paid by Charge Over Charge Responsibility**

- Only used if a church/charge elects to pay more than the charge’s responsibility (\$7,200 for 2023) of the pastor’s health care premium(s) and/or additionally elected health account contributions.

#### **Box #19 – Accountable Reimbursement Plans**

- Accountable Reimbursement Plans are the professional business expenses to do ministry; the expenses are only for that which is expended, if not used the money is NOT given as supplemental pay to the pastor. Expenses **must** be submitted to the church/ charge treasurer in a consistent manner.



- **Money provided to the pastor for attending Annual Conference should be included in the ARP. Advances can be given, but receipts must still be provided upon return from Annual Conference and any unexpended funds must be returned.**
- For any information needed regarding ARP policy, you may contact the Conference Treasurer's office (304-344-8331, ext 35). As always, the information received from the Conference Treasurer is only meant to give general guidance, not legal advice.

**Box #20 - Parsonage Utilities**

- All parsonage utilities should be in the name of the church/charge; the church/charge shall be responsible for 100% of these costs. Base telephone service at the parsonage is also included and can be in the name of pastor.
- **It is understood that this figure is only an estimated cost on this report.**
- These expenses are not part of the "Total Appointive Cost."

**Box #21 - Charge Insurance Responsibility (\$7,200)**

- \$7,200 for 2023 under HealthFlex

**COMPLETING THE ASSIGNED SUPPLY REPORT OF SUPPORT**

- **ACQUIRE ALL SIGNATURES FOR THE FORM AND ENSURE ALL PARTIES RECEIVE A COPY OF THE FORM FOR THEIR RECORDS.**
- **CHURCH MUST SUBMIT TO THE DISTRICT OFFICE.**
- **IF A CHANGE IS NECESSARY, CONTACT THE SUPERINTENDENT TO DETERMINE WHETHER A CHARGE CONFERENCE IS REQUIRED.**

**Parsonage Standards**  
**The West Virginia Annual Conference**  
**The United Methodist Church**

**Approved – June 2001**

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**INTRODUCTION**

**PURPOSE:**

These standards are provided by the West Virginia Annual Conference to help churches and clergy to achieve consistent living conditions necessary for effective Christian ministry.

The West Virginia Annual Conference affirms the use of parsonages throughout the conference.

Standards provide for the cooperative care and maintenance of the parsonage. It is to be celebrated that the cooperative arrangements are a way for both the church and the pastor to enter into a joint stewardship and mutual respect of the property that is maintained as a perpetual residence for pastoral occupants. It is understood that at least an annual needs assessment and review of the residence will be conducted on an agreed date and time.

The church today demands that a pastor be not only an itinerant preacher, as was the early circuit rider, but a resident pastor and responsible citizen in the community. In order to meet these needs, and to call persons to a dedicated ministry, the church must provide living conditions which will establish an adequate foundation for effective ministry.

**DEFINITIONS:**

The words “shall” and “recommended” as used in this document are defined as follows:

**Shall:** indicates a required component of the standards.

**Should:** indicates an item which is strongly recommended by the standards.

**Recommended:** indicates an item which should be considered when possible and which would enhance parsonage living.

## 1. STRUCTURAL STANDARDS

Parsonage *should* be of sound construction, providing living space of approximately 2,000 square feet or more.

### 1.2. Location:

1.2.1. Parsonage *should* be located in or near the community of the church or in a central location if more than one church is on the charge.

1.2.2. The parsonage *shall* be located in a residential neighborhood.

1.3 The parsonage *shall* meet all local building, utility and zoning codes.

1.3.1. The parsonage *shall* include a kitchen, living room, dining room, family room, a minimum of 3 bedrooms, preferably 4, laundry room, garage and storage, a minimum of 2 baths.

1.3.2. All plumbing, heating, and electrical systems *shall* meet the local and/or state building codes.

1.4 The office *should* be provided in the church. However, if it is not provided in the church, it *should* be provided in the parsonage. Office (either in the parsonage or church) *should* be equipped with adequate bookshelves, desk, files, storage closet for supplies, copying machine, computer or word processor, and telephone.

1.4.1. Charge *should* consider Internet access and cellular phone provided for pastor's use.

1.4.2. If the office is in the house, it *should* have an outside entrance.

1.4.3. The office space is in addition to rooms required in section 1.3.

1.5 Entrances: Entrances *should* be sheltered, and doors *shall* have workable locks.

### 1.6. Windows and Doors:

1.6.1. It is *recommended* that all windows throughout the house be energy efficient. Suitable window treatments *shall* be provided.

1.6.2. All windows and fixtures *should* be in good working order.

1.6.2. Window/door screens and storm windows (or combination windows) *shall* be provided.

1.7. Electrical: Electrical service *shall* meet all state and local codes. There *should* be a minimum of 200 amp grounded service with labeled circuit breaker. There *should* be a maximum of 6 receptacles or lights to each breaker. There *should* be a minimum of one electrical outlet on each wall longer than 6 feet to limit the need for extension cords.

1.7.1. Electrical work shall be done by certified personnel.

### 1.8. Heating and Cooling

1.8.1. Central heat which can maintain 68 degrees throughout the house is *recommended*.

1.8.2. Insulation which meets the standards of the local utility company *shall* be provided to add to the comfort of the house and the conservation of fuel.

1.8.3. Central air conditioning, window air conditioners, or ceiling fans in each bedroom *shall* be provided for summer cooling according to the climate of the area. A whole house attic fan is recommended.

### 1.9 Water

1.9.1. Domestic hot water, with a forty (40) gallon minimum tank, *shall* be provided.

1.9.2. Outside faucets *shall* be provided.

1.9.3. Effective drainage and sewage *shall* be provided.

## 2. LOT STANDARDS

2.1. Grounds: The grounds *should* be well-graded and drained. A relatively flat lot is preferable.

The parsonage lot *shall* include lawn, shade trees, shrubbery, space for garden and flower beds and hard surface walks to each door.

2.2. Maintenance, lawn care and snow removal *shall* be mutually arranged between the pastor and the charge.

2.2.1. Power lawn mower, hedge trimmer and snow removal equipment (if needed) *shall* be provided by the church.

2.3. The pastor or family will care for personally desired gardens and play equipment. The possible removal of such equipment *shall* be negotiated between the pastoral family and the Parsonage Committee prior to a pastoral transition.

2.4. A safe fenced area *should* be provided in the yard as needed for children and/or pets.

### 3. HANDICAP ACCESSIBILITY

(2000 Discipline, ¶ 2543 or applicable sections of current Discipline.)

- 3.1. It is *recommended* that no bi-level or split level homes be built or purchased for use as parsonages in the West Virginia Annual Conference. Continued use of such homes as parsonages limits the appointability of some pastors and pastors with family members with handicapping conditions.
- 3.2. It is *recommended* that doorways accommodate wheelchair accessibility.
- 3.3. It is *recommended* that ramped entrances have a 2% or less gradient.
- 3.3. When a parsonage is bought or built, it *shall* provide on the ground level: 1) one room that can be used as a bedroom by a person with a disability; 2) a fully accessible bathroom; 3) fully accessible laundry facilities. (2000 Discipline ¶2543.d).

### 4. EXTERIOR HOUSE STANDARDS

- 4.1. It is *recommended* that the exterior finish of the house be of low maintenance materials such as brick, stone, or durable non-asbestos siding.
- 4.2. All surfaces *should* be kept in good repair including: painting of siding and trim, repointing brick or stone and caulking of windows.
- 4.3. The parsonage roof *shall* be of good quality and inspected and repaired regularly to prevent leaks.
- 4.4. Sidewalks *shall* be smooth and of concrete or other durable surfaces.
- 4.5. Adequate lighting and Ground Fault Interrupt (GFI) outlets *shall* be provided for exterior electrical work.

### 5. SECURITY

- 5.1. Parsonages *shall* provide a safe and secure environment.
- 5.2. Deadbolt locks on external doors, secure windows with locking system, and external lights *shall* be provided.
- 5.3. Electronic security systems or other security measures *shall* be provided in areas where there is a threat of crime or violence. The threat of crime *shall* include theft and burglary of other homes or businesses in the area.
- 5.4. Working and approved smoke detectors and carbon monoxide detectors *shall* be provided. Radon testing, when needed, *shall* be provided.

### 6. GARAGE

- 6.1. There *should* be a garage or carport. Two car capacity is preferable.
- 6.2. If a garage is not provided, off-street parking *should* be available for two cars.
- 6.3. Garage floor and driveway *shall* be of hard surface and in good repair.
- 6.4. There *shall* be adequate overhead lighting and access lighting.
- 6.5. There *shall* be an easy operating overhead door. Automatic door opener is *recommended*.

### 7. BASEMENT

(Where applicable)

- 7.1 The area *shall* be clean and dry, of either concrete or block construction, painted with water-sealing masonry paint, with a sealed or covered concrete floor.
- 7.2 The area *shall* be regularly tested for radon and treated as needed.
- 7.3 Dry, water free space *shall* be available for storage of personal items and moving wardrobes.
- 7.4 A de-humidifier *shall* be furnished if necessary.
- 7.5 If required living space is located in the basement, then these areas *shall* meet the standards listed for rooms specified in section 9 and have a finished ceiling.

## 8. STORAGE

8.1 Heated storage *shall* be provided to protect liquid products, i.e., paint, canned goods, etc. as well as excess furnishings, boxed items, off-season clothing, food freezer, etc., that require protection from rust, mildew and cracking.

8.2 Storage for lawn and garden tools, mowers, snow blowers, tillers, tires, ladders, etc., may be unheated.

8.3 Sometimes a charge may need to expand or add storage due to pastoral families moving from parsonages of various sizes and the needs that may be encountered due to that fact.

8.4 All storage areas *shall* be kept safe and secure, dry, and readily accessible.

## 9. INTERIOR ROOM STANDARDS

### 9.1 Kitchen

#### 9.1.1 Utilities

9.1.1.1. A family sized (20-22 cu. ft) frost-free refrigerator *shall* be provided.

9.1.1.2. A high-efficiency range, preferably self-cleaning *shall* be provided.

9.1.1.3. A dishwasher *shall* be provided.

9.1.1.4. A garbage disposal *shall* be provided when it would not interfere with septic tank use.

9.1.2. A double sink with mixing faucets *shall* be provided.

9.1.3. Kitchen cabinets *shall* be of standard size and quality with drawers and shelving. Counter space, covered with easily maintained surface of ceramic, laminate, or Corian type material, *shall* be provided. Sufficient storage space for food, dishes and cooking utensils *shall* be provided.

9.1.4. At least three GFI electrical outlets *shall* be provided above the counters. A minimum of two circuits for the area *should* be provided and consideration should be given to dedicated circuits for the refrigerator, dishwasher and microwave oven.

9.1.5. An attractive ceiling light *shall* be provided.

9.1.6. Floors *shall* be covered with non-skid linoleum/tile or stain resistant carpet.

9.1.7. There *should* be adequate space for a dinette or breakfast bar in the kitchen.

### 9.2 Living Room

9.2.1 Shall provide a minimum of 180 square feet (15' X 12') or larger.

9.2.2 Wall to wall carpet or hardwood floor with an area rug *shall* be provided.

### 9.3 Dining Room

9.3.1. *Shall* be adequate size and easily accessible for family dining and entertaining.

9.3.2 Wall to wall carpet or hardwood floor and area rug *shall* be provided.

9.3.3 There *should* be an attractive overhead light fixture.

### 9.4 Bathrooms

9.4.1. Tile or vinyl floor covering is preferable.

9.4.2. Modern, workable fixtures *shall* be provided.

9.4.3. Outlets above the countertops *shall* be GFI standard.

9.4.4. A switch controlled ceiling light and ventilation fan *shall* be provided.

9.4.5. A minimum of one bath *shall* provide a tub with shower in good working condition.

9.4.6. A mirror and a medicine cabinet, or a combination *shall* be provided.

9.4.7. Standard towel bars *shall* be provided.

9.4.8. Adequate linen storage, with shelving, *shall* be provided.

### 9.5 Bedrooms

9.5.1. All bedrooms *shall* be individually accessible.

9.5.2. Each room *shall* have a closet.

9.5.3. Wall to wall carpet or hardwood floors with area rugs *shall* be provided.

9.5.4. Each room shall be large enough for ease of movement around furniture.

Suggested minimum for master Bedroom: 180 sq. ft. (15' X 12'). Other bedrooms minimum of 144 sq. ft. (12' x 12')

9.5.5 Bedrooms *should* contain attractive ceiling light and a wall-switched outlet.

### 9.6 Family room

9.6.1. *Shall* have wall to wall carpeting or hardwood floor with area rug.

9.6.2 There *should* be attractive lighting.

#### 9.7. **Laundry Room**

9.7.1. Automatic washer and dryer with proper exterior venting *shall* be provided.

9.7.2. There *should* be adequate lighting and workspace. 41

9.7.3. There *shall* be a utility sink.

#### 9.8 **Window Treatments**

9.8.1 The church *shall* provide window treatments in every room (e.g. blinds, drapes, curtains)

#### 9.9 **Other furnishing**

9.9.1 All other furnishings *shall* be the responsibility of the pastor and family.

### 10. **PROVIDED UTILITIES**

*(Listed utilities are in effect from either former guidelines or conference rulings since the former guidelines were approved)*

Utilities *shall* be paid by the local church including heat, gas, electricity, fuel, water, water conditioning system and maintenance where needed, basic local telephone service (not including long-distance), sewage, and trash disposal. Church *shall* provide good television reception by cable, satellite or antenna. Church is responsible for costs associated with initial installation; pastor is responsible for monthly fees where applicable. In order to minimize fees and deposits, the utilities, including the telephone, shall be in the name of the local church or charge, unless this results in a higher business rate schedule.

### 11. **MAINTENANCE:**

11.1. Pastor and family may do maintenance when needed but *shall not* be required to do it.

Materials required for maintenance shall be provided by the church/charge.

11.2 Interior painting *should* be done when walls/trim become stained and cannot be restored by cleaning; or at the time of a change of appointment (upon consultation with the incoming pastor);

11.3 Or at a minimum of once every five years.

#### 11.3. **Carpet**

11.3.1 Padding and Installing: Carpets *should* be professionally laid, and padding should be 5/8 or 7/16 inches thick. It is *recommended* that new carpet be laid in the spring or the fall.

11.3.2. Cleaning: Carpets *should* be cleaned as needed in the main living areas with a minimum of every two years. Church shall pay for the cleaning.

11.3.3 Replacement: For medium to high grade carpet, evaluation of wear *should* be made after 8 years in high traffic areas (living room, dining room, hallways), 10 years in lower traffic areas.

11.4. Discarded items or replaced appliances *shall* be removed from the parsonage or church property within three weeks after replacement.

11.5 Chimney examination and cleaning *shall* be done at least annually, especially in the case of fireplace or wood-burning stoves.

#### 11.6. **Water**

11.6.1 Sewer and septic systems *shall* be examined and cleaned regularly.

11.6.2 Private water supplies *shall* be tested according to the US EPA recommendations.

#### 11.7. **Major Renovations**

11.7.1 Major renovations *should* be done as quickly as possible and coordinated with the parsonage family schedule.

11.7.2. If major renovations are planned for a moving year, they *shall* be coordinated with both outgoing and incoming pastors to minimize the disruption to both families.

11.8. All smoke detectors, carbon monoxide detectors, and fire extinguishers *shall* be checked annually, by the pastor, and by the church at a change of appointment.

## 11.9 Vermin Control

11.9.1. Foundation walls, attic eaves and soffit areas *shall* be secure to keep out rats, mice, bats, birds and squirrels.

11.9.2 Termite and other insects *shall* be controlled through certified annual inspections and treatment, where needed.

## 11.10 Parsonage Record Book:

The record book *shall* include an up-to-date listing of all appliances, window and floor coverings owned by the church. It *shall* include all warranties, guarantees, repair lists, and the instructions for the use of equipment belonging to the parsonage. The record *shall* indicate when and from whom purchased and whom to call for service. The record book *shall* also include records of improvements. A copy of the parsonage standards *shall* be included in the parsonage book. The record book *shall* be kept in the parsonage.

## 12. ONGOING MAINTENANCE:

12.1 The church *shall* budget annually, equal to 2 1/2% of the replacement value of the parsonage, for repairs, renovations, remodeling, or replacement as specified in the annual parsonage needs assessment.

12.1.1 A discretionary parsonage repair fund for the use of the pastoral family is *recommended* (a minimum of \$500 is suggested.) Any surplus at the end of the fiscal year shall be kept in reserve to provide funds for future replacement of appliances.

12.2 Any major improvements which cost over 10% of the value of the parsonage *shall* comply with ¶2520 of the 2000 *Discipline* or applicable sections of successive *Discipline*.

12.3 An escrow account *should* be maintained by the church for large repairs in the parsonage.

12.4 Insurance *should* be equal to 80 - 90 % of replacement value of the parsonage.

12.5 Renters Insurance to cover possessions of pastor's family *should* be maintained by the pastor.

## 13. NEEDS ASSESSMENT: (2000 Discipline, Par 2532.4)

The parsonage is to be mutually respected by the pastor's family as the property of the church and by the church as the private home of the pastor's family. An annual review *shall* be conducted by the Trustees or Parsonage Committee, PPR Chairperson, and the pastor/parsonage family by walking through the parsonage to discover needed repairs, improvements and decorations. Special attention *shall* be given to health and safety factors. The initiative *should* be assumed by the Trustees/Parsonage Committee or the pastor, since it is their joint responsibility to maintain the parsonage in good condition and will be conducted at a mutually agreed upon time. The parsonage, however, is the pastor's home and any assessment *shall* be scheduled in plenty of time to meet with the convenience of the family with the pastor being present. Needs reported by the pastor between the annual reviews *shall* be dealt with as the need arises. During the Needs Assessment, a copy of the Parsonage Standards and a list of improvements done over the past year *should* be available. A periodic "Open House" hosted by the parsonage family is a *recommended*, but optional, social gathering. ***This does not take the place of the needs Assessment.***

## 14. MOVING

### 14.1 Responsibilities of the outgoing parsonage family at the time of the move:

14.1.1 Remove all personal property from the parsonage.

14.1.2 Leave the house clean, particularly appliances, closets, cabinets and bathrooms.

***Professional cleaning is recommended.***

14.1.3 Remove or arrange for removal of all trash and discarded items.

14.1.4 Collect all parsonage keys and give them to the incoming pastoral family. Be certain that all keys (church and parsonage) are clearly identified.

14.1.5 Leave notes on whom to call in case of emergency.

14.1.6 Leave notes on whom to call for service and repairs.

14.1.7 Sanitize the house for pet odors and smoking odors.

14.1.8 Leave the parsonage book where it is readily available.

## 14.2 Responsibilities of church/charge at the time of a move:

14.2.1 Wash curtains, dry clean drapes and window coverings or replace as needed, and wash all windows.

14.2.2 Have all carpets cleaned immediately following the incoming move. Treat hardwood floors as applicable.

14.2.3 Have all smoke detectors, carbon monoxide detectors, and fire extinguishers checked and in proper working order.

14.2.4 Have all appliances in good repair and working order.

14.2.5 Have all faucets, drains, and drain closures in good working order.

14.2.6 Painting and repairs should be made in coordination with the incoming family's needs.

14.2.7 Parsonage should be cleaned between occupants to make the parsonage ready for the new pastor.

### ***Professional cleaning is recommended.***

14.2.8 It is the church's responsibility to see that the Cabinet Checklist (see 14.4.1) is completed.

## 14.3 Costs:

14.3.1 The cost of professional moving, subject to limitations, *shall* be paid by the church or charge to which the pastor is moving. This cost will be assumed by the Conference in the case of Superintendents or other special conference appointments.

14.3.2 The Charge or Conference *shall* be responsible for paying the moving costs up to 16,000 pounds.

14.3.3 The pastor *shall* be responsible for paying the moving costs in excess of 16,000 pounds.

14.3.4 Professional packing, wardrobes and boxes furnished by the movers *shall* be the expense of the pastor.

14.3.5 When a pastor moves from outside the Conference, the charge *shall* only be responsible for that portion of the cost from the Conference boundary to the charge.

## 14.4 Miscellaneous

14.4.1 A moving checklist provided by the District Superintendent *shall* be completed and signed by the pastor and a representative of the church before moving.

14.4.2 For retired pastors and spouses or surviving spouses of pastors who have died while in active pastoral service, the Annual Conference *shall* pay the moving expenses of one move.

## 15. PET CARE:

While it is the right of the parsonage family to have pets, it is also the responsibility of the pastor and his/her family to assume proper care for the maintenance of pets and property. With regards to the parsonage, this involves the following:

The pastor *shall*:

Provide proper care for pets as approved by humane society guidelines.

15.2. Assume the financial responsibility for and obtain the permission of local church as to the construction and maintenance of semi-permanent pet facilities, i.e. kennel, dog house, etc.

15.3. Dismantle and remove any facility constructed by the pastor/family upon his/her reappointment, unless permission is secured from the local church and incoming pastor as to its remaining intact.

15.4 Replace/repair damage done by the pets to the carpets, flooring, drapes, walls, doors, etc., and assume *all* associated financial costs.

15.5. Upon moving, the pastor/family must do a thorough job of cleaning areas where the pet(s) resided, including pest control (especially fleas).

15.6 It is *recommended* that pets be boarded or otherwise removed from the house prior to the move, so that hair and allergens can be eliminated.

15.7. Removal of pet damage and odor will be part of the inspection prior to a move. If the parsonage is not cleaned/deodorized to the satisfaction of the inspecting body, then the outgoing pastor will be liable for professional cleaning expenses.

## ADOPTED RECOMMENDATIONS FOR DISPOSITION OF CHURCH OWNED FURNITURE

following the 2001 Annual Conference, churches will begin the process of providing unfurnished parsonages, except for the items listed in section 9. This will allow clergy families to begin acquiring furniture on their



own, and it will also remove an item of potential concern on the part of the local church. The disposition of the local church's parsonage furniture will be a matter for each local church's Board of Trustees to decide with due consideration being given to the needs of the resident clergy family.

We purpose the following time table. This will allow for parsonage families to obtain needed furniture at a reasonable rate. Furnishings may be made available to the current residing pastoral family on or before the next Annual Conference, or when they depart the current residence. The church may consider providing the furniture as a gift.

**Annual Conference 2000** – Parsonage Proposal Presented for Study

**Annual Conference 2001** – Parsonage Standards Proposal Adopted

**Annual Conference 2002** – Bedrooms no longer furnished by Local Churches

**Annual Conference 2003** – Kitchen/Family Rooms no longer furnished by Local Churches

**Annual Conference 2004** – Living/Dining Rooms no longer furnished by Local Churches

## **COMPLIANCE**

1. The Board of Trustees or Parsonage Committee of each local church *shall* make a written report at its Charge Conference, demonstrating either compliance with these standards or specific plans to come into compliance with these standards.
2. The District Superintendent, in consultation with the pastor, the Board of Trustees, and the Staff-Parish Relations Committee, shall be responsible for ensuring that these standards are met.
3. If a church or charge chooses not to bring their parsonage into compliance with standards, the areas where they remain out of compliance will be reported at charge conference. This information will be communicated to a pastor being asked to accept an appointment to the charge. Compliance with the Parsonage Standards is an important part of the annual consultation process for pastoral appointments.
4. Lay member(s) of Annual Conference are responsible for taking these standards back to every local church or charge Board of Trustees.
5. Where compliance with standards requires the purchase or major modifications of the parsonage, it is expected that execution of such plans would begin within ten years of approval of standards by the Annual Conference.

# ANNUAL PARSONAGE NEEDS ASSESSMENT CHECKLIST

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

1. The general overall parsonage structure is:
  - a.  excellent  good  fair  poor.
2. Are the walls cracking?  Yes  No
3. Are the floors sagging?  Yes  No
4. Is the exterior of the parsonage in need of repair?  Yes  No  
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5. Are all locks in working order?  Yes  No
6. Do outside lights work?  Yes  No
7. Are the windows/screens in good condition?  Yes  No
8. Is the roof in good condition?  Yes  No
9. Is the carpeting in good condition?  Yes  No
10. Was the carpet professionally cleaned this year?  Yes  No
11. Is the tile/linoleum in good condition?  Yes  No
12. Are the other floors in the parsonage in good condition?  Yes  No
13. Are they in need of refinishing?  Yes  No
14. Are the window treatments in good condition?  Yes  No
15. Do the window treatments need cleaned or repaired?  Yes  No
16. Is the plumbing in good working order?  Yes  No
17. Is the caulking around bathtub/shower and sinks in good condition?  Yes  No
18. Is the electrical system adequate and in good working order?  Yes  No
19. Is the heating system functioning adequately?  Yes  No
20. Has the heating system been inspected this year?  Yes  No
21. Is the refrigerator-freezer in good working order?  Yes  No
22. Is the stove/oven in good working order?  Yes  No
23. Is the dishwasher in good working order?  Yes  No
24. Is the garbage disposal in good working order?  Yes  No
25. Is the washing machine in good working order?  Yes  No
26. Is the dryer in good working order?  Yes  No
27. Are smoke and fire alarms installed and in operating condition?  
 Yes  No
28. Does parsonage discourage handicapped person occupancy?  
 Yes  No
29. Is parsonage energy efficient?  Yes  No
30. Are all utilities being provided according to conference standards?  Yes  No
31. Is the lawn mower and hedge trimmer in good working condition?  Yes  No
32. Are there repairs that need to be made to the parsonage?  
 Yes  No
33. Are improvements planned for the coming year?  Yes  No

34. Does the parsonage meet conference standards?  Yes  No

35. If the parsonage does not meet conference standards, where is it not in compliance?  
 Yes  No

Signed \_\_\_\_\_  
Chairperson of Pastor-Parish Relations

\_\_\_\_\_  
Signed \_\_\_\_\_  
Pastor of Charge

# ACCOUNTABLE REIMBURSEMENT POLICY

## Background

An accountable reimbursement policy in the context of a local church or church agency is a written plan that requires a pastor or administrative employee to account for legitimate business expenses paid or incurred by him/her solely for the benefit of the church or church agency. A proper accountable reimbursement policy requires the individual to be “accountable” for the business expenses incurred, by giving an adequate accounting for those expenses. If a proper accountable reimbursement policy is in place, then reimbursed business expenses need not be reported on his/her federal income tax return as income. IRC Section 62(a)(2)(A); IRS Regulation 1.162-17. Adequate accounting for business expenses means the submission of an account book, diary, statement of expense, or similar accurate records maintained by the individual in which the information regarding expenses is recorded at or near the time of the expenditure, together with supporting documentary evidence, such as receipts. (IRS Regulation 1.274-5(e)(4)).

In order to be accountable, a policy must:

- **Be adopted** through an official action by the paying church or nonprofit.
- **Be written.** Your accountable reimbursement plan should be as detailed as possible and contain all of the following rules and regulations.
- **Have a business connection.** Your reimbursement plan can only provide payment for legitimate expenses with a business purpose, incurred solely for the benefit of the paying entity.
- **Require proper substantiation** of the expense, including a written record made at or near the time of the expenditure, plus documentary evidence, such as receipts.
- **Require substantiation be submitted within a "reasonable" period of time.** No more than 60 days after the expense is incurred.
- **Reimbursements cannot be made by reducing the employee's salary.**

An accountable reimbursement policy is very different from an “allowance” because of these requirements. Instead of paying an “allowance” for travel and other business expenses ahead of time, with its use to be monitored by the pastor, it means reimbursing the pastor for actual expenses. An accountable reimbursement plan has several distinct advantages:

- a) When properly set-up and administered, the reimbursed expenses will not go on a 1099 or W-2 and therefore need not be deducted on a Schedule C or Schedule A; this advantage is particularly important now that pastors will be filing as “employees” for purposes of federal income taxes and thus will not be able to use Schedule C any longer (except for expenses incurred directly in connection with honoraria for weddings, funerals and similar self-employed assignments);
- b) Since these funds do not appear as part of compensation, they need not be deducted on the (SE Schedule) to determine Social Security taxes, which will be easier for pastors administratively;
- c) Clergy can avoid certain additional taxes that may result from the Deason and Dalan court decisions, which require certain reduction in both Schedule A and Schedule C deductions as they relate to “tax exempt” housing allowance income.
- d) When properly administered, an accountable reimbursement policy minimizes questions from the IRS regarding whether any given expense is truly a legitimate business expense.

There can be certain administrative disadvantages to an accountable reimbursement policy as well:

- a) They may require more work for local church treasurers, as each treasurer must review receipts and issue payments or prepare reconciliation’s accordingly;

- b) These policies must be established on a “use it or lose it” basis, which means that unspent amounts in such plans may not be paid over to the pastor at the end of the year (if they are, the entire amount then becomes reportable and taxable as income to the pastor);
- c) These policies may not be funded via appointive compensation reduction, which will be perceived as a disadvantage for some churches that cannot afford to establish a funded plan (one way to offset this potential disadvantage is to fund the plan through monies that otherwise would have been used for a raise for the pastor for the upcoming year);

#### How to Set-Up an Accountable Reimbursement Policy

While there is no prescribed form for an accountable reimbursement policy, attached is a sample policy, together with forms that may be used by a pastor to “account” for their legitimate business expenses. Any church or church entity is free to establish a different policy, based on its unique needs. All that is really necessary for proper establishment of the policy is a simple resolution adopted by the administrative council/board or charge conference at the beginning of each calendar year, establishing a budgeted amount for the reimbursement of authorized clergy business expense. If the attached sample policy is used, it should not be amended or altered in substance, because it includes all of the elements that are recommended for such a policy.

# SUGGESTED REIMBURSEMENT POLICY WORKSHEET

The following are suggested items for inclusion in this Reimbursement Policy. It is only the bottom total under “9” which is put in the policy itself. This worksheet is for budgeting purposes and it is permissible for the reimbursed individual to shift items from one area to another.

Automobile (standard federal mileage rate), parking and tolls	_____
Books, subscriptions and periodicals, such as professional journals	_____
Professional dues	_____
Religious materials, vestments and business gifts	_____
Continuing education and seminars (as approved by the SPR Comm. and/or the Comm. on Finance)	_____
Entertainment required for Church business	_____
Travel fares, lodging and meals while on business for the Church	_____
And other such business expenses, if any (as approved by the Comm. on Staff Parish Relations and/or Comm. on Finance)	_____
TOTAL*	_____

\* Total in this column must be the same as total reimbursement amount set forth in the first paragraph of the Policy. Administrative Council/Board action is required for an increase to the total. To allow for the pastor/staff person’s spending discretion, only the total is necessary to be reported as a line item in the Charge Conference approved budget and in the policy document. Circumstances dictate that the above expenses will vary from church to church and from time to time. Nonetheless, expenses assumed by the pastor/staff person in excess of Total are not excludable from reported compensation. Expenses in excess of reimbursement may or may not be deductible from taxable income on the pastor/staff person’s tax return.

## Examples of Improper Reimbursement Items\*\*\*

Mileage to church from home for daily work (considered personal) - Mileage to home and back to church for lunch break

Meals with friends at which church matters are discussed

Spouse's travel under most circumstances (see example of proper reimbursement in limited circumstances above)

Vacations

Trips to visit sick relative

Trips to funeral home where that pastor is personally paid an honorarium for service (may be deducted on a Schedule C)

Tickets to attend the play "Joseph and His Amazing Technicolor Dream Coat"  
Expenditures (e.g., travel, books, phone calls) to research a book or article

Continuing education primarily for personal improvement

A computer used primarily by family

Everyday clothing, including business suits

Alcohol, even as an item on a receipt for a business meal

Medical expenses (may be part of a cafeteria or flexible spending accountable reimbursement policy)

Childcare/dependent expenses (may be part of a cafeteria or flexible spending reimbursement plan)

Life or disability insurance premiums

Medical insurance premiums (may be part of a cafeteria or flexible spending plan)

Charitable contributions, tickets to charity functions

Expenditures related to a private business or generating income from a non-church source

Housing related expenses (e.g., utilities, furniture, upkeep (these are part of the housing allowance)) except to the extent they relate to an office

Subscriptions to a national news magazine for the pastor's personal use

*\*\*\*The items listed, in most cases, are improper. There may be some circumstances, particularly where the church has directed the staff person to make the expenditure for church mission, when these items may be proper. Each individual church must, in consultation with staff, make its own decision about what expenses are "professional and business" expenses and whether it will cover those items.*

## Examples of Proper Reimbursement Items\*

Reasonable travel and related expenses for attending meetings (e.g., annual conferences, United Methodist meetings, etc.) \*\*

Church-approved trips to preach at another church

Trips to meet with the district superintendent, bishop or director of connectional ministries

Trips to visit members at hospitals, nursing homes, or parishioner's homes

Lunch meetings with officers of the church to discuss church business

Supplies for the church office (e.g., paper, pens, forms, notebooks, etc.)

Church-related continuing education

A computer required for church work

Vestments worn for worship

Church-related books and periodicals

Office furnishings and equipment (e.g., desk, chairs, telephone, etc.)

Spouse's travel expenses where the spouse accompanies the pastor **but only if the spouse was required by the church to be present for a business purpose** (e.g., the spouse is an elected delegate to the church meeting or group in charge of registration at the meeting and making a speech to the business meeting, etc.)

Business-related automobile operating expenses (if standard mileage rate was not used)

Long distance telephone calls to church when on vacation

Church-related telephone calls from the parsonage (most telephone expenses are covered under the housing allowance)

Many business related (non-personal) expenses allowable on Schedule C of the IRS tax return

*\*The items listed are, in most cases, proper. There may be some circumstances in which the church has specifically prohibited purchases. Each individual church must, in consultation with staff, make its own decision about what expenses are "professional and business" expenses and whether it will cover those items.*

## Q&As - ACCOUNTABLE REIMBURSEMENT POLICIES

The following questions and answers are intended to assist local churches and organizations in establishing and maintaining accountable reimbursement policies for their clergy and staff. Also, at the end of this document, there are some examples of proper and improper expense reimbursements.

### 1. What is an accountable reimbursement policy and why should we have one?



For business and tax reasons, in most instances, it is in the best interests of the church and its staff to have in place an accountable reimbursement policy to pay for the business expenses that are necessary to do the ministry of the church.

These policies are simply a method for claiming and reimbursing professional or business expenses rather than providing an expense allowance. It's as simple as this: A church sets up a budget for the pastor's professional and business expenses, such as travel, continuing education, subscriptions, etc. When the pastor incurs a professional or business expense, s/he submits a claim with backup substantiation. The church either pays the expense directly or reimburses the pastor.

## **2. Are accountable reimbursement policies only for clergy?**

No. The church can set up the policy to cover the business expenses for all staff. When answers or examples refer to pastors, it is for illustration purposes and not meant to exclude other staff.

## **3. What are the advantages of an accountable reimbursement policy?**

There are several advantages to using an accountable reimbursement policy. (a) Convenience: Staff reports the business expenses to the church and not to the IRS - this means that none of the expenses are reported on Forms W-2 and there is no need to worry about IRS forms or calculating deductions. (b) Data: It gives the church an accurate account of the "cost" of ministry and allows members to understand the financial support necessary for staff to do their work well. (c) No complex rules: the Deason rule does not apply (it otherwise requires clergy to reduce the deduction for business expenses proportionately if they have a tax exempt housing allowance). (d) Fewer limits: Certain limits on business meals are avoided. (e) Tax savings: It takes the place of Schedule C and may save on taxes.

## **4. What are the disadvantages of an accountable reimbursement policy?**

There are two minor disadvantages: The clergyperson's work expenditures are subject to more review by church members and some privacy may be lost. Also, the funds in the accountable reimbursement budget belong to the church and may not be given outright to the pastor at year-end if there is money left unspent.

## **5. What needs to go in an accountable reimbursement policy?**

It's as easy as this. All you need is a written policy, which can be as simple as a short paragraph in the form of a resolution or a detailed plan, depending on the church's own needs and structure. This tax packet includes easy to implement sample policies (short and long). Most churches will want to have a budget amount which will "cap" the allowed amount for each staff person. It can be helpful (but it is not required) for the pastor, SPR committee, and finance committee to develop the budget together, with an idea of the types of expenses that can be expected.

## **6. When should the policy be set up?**

The policy should be set up and funded when the church is doing the budget for the upcoming year. Once a written policy is in place, the church only needs to examine the budget funding for the accountable reimbursement policy each year.

## **7. How should the policy be funded?**

Out of the church's budget, just like other expenses of running the church. The church needs to look at its budget and determine what amounts are necessary to pay for reasonable business expenses that fulfill the mission of the church, together with what it can reasonably afford. It is important for the church to realize that business expenses are properly church expenses and not something that the staff must cover from their own personal funds. It is important to review past expenditures (and future needs) carefully to arrive at an amount adequate to pay for the business expenses and at the same time within budget constraints.

## **8. Can the church "reduce" or "restructure" the pastor's salary to fund the accountable reimbursement policy?**

The IRS has stated that it is currently reviewing some aspects of this issue. But until further notice from the IRS, churches should avoid these types of arrangements.

**9. Can monies budgeted in the past for a travel allowance be used instead to fund an accountable policy?**

Yes. For example, when the church is setting up its budget, it may reallocate the pastor's travel allowance (or other allowances other than a housing allowance) into an accountable reimbursement policy. By doing so, the church does not have to report the new travel reimbursement as part of W-2 income.

**10. Can the church and the pastor negotiate compensation at the beginning of a new appointment that includes funding of an accountable reimbursement policy?**

A pastor coming into a new appointment has the ability to create a salary/compensation/benefit package that includes an adequately funded accountable reimbursement policy. The best approach is to budget for the policy out of church funds because these expenditures are for professional expenses which staff need to do their job.

**11. What expenses/categories/items should be part of the policy?**

Attached to the sample "long-form" policy included in this tax packet is a worksheet designed to help churches determine an acceptable budget for an accountable policy. The worksheet lists examples of appropriate business expenses that may be included (*e.g.*, business automobile expenses, parking, tolls, office supplies, business postage, office equipment, business-use computers, software, professional books/subscriptions, professional dues, religious materials, vestments, business gifts, continuing education, business entertainment, travel, etc.) There may be other business expenses that are appropriate to include, depending on the unique mission of your church. It is important to note that the categories on the worksheet are suggestions for budgeting, not rigid expense categories; the staff person, in consultation with the SPR chair and/or treasurer, or finance committee chair, may shift expenses during the year from one category to another. *Also see the examples at the end of these Q&As for suggestions about proper and improper reimbursements.*

**12. Should the church reimburse the staff member or pay for their business expenses directly?**

Either approach is acceptable. The staff person may submit a bill and ask that the church pay it. Alternately, s/he can substantiate the expense and ask that the church reimburse him/her. This tax packet includes a sample voucher form that can be used to submit requests for payment or reimbursement. Some churches provide certain members of their staff with business credit cards or long-distance phone cards (restricted to business use) to make substantiation and bill payment easier. However, a credit card statement alone is not enough substantiation.

**13. How should expenses be substantiated?**

The IRS requires an adequate accounting by the employee and maintenance of good records by the employer. The IRS requires actual receipts for any expense over \$75.00. The church may use this figure or set a lower limit. (*e.g.*, GCFA requires receipts for all expenses over \$25.00.) The documentation should show (or be listed on the receipt itself): the purchase, amount, date, place, and the business nature of the expense. For example, if the pastor purchased a \$10.25 notebook, the substantiation would not require a receipt, but at the very least should state, "Purchased Notebook for \$10.25 on 1/5/01 for keeping accountable reimbursement records for church." A meal expense might state, "\$5.90 lunch on 1/5/01, in Centerville while meeting with district superintendent." Another example is \$150 expenditure for a continuing education seminar where the staff can submit the invoice for payment by the church to the vendor. Or, if the staff person paid personally, an acknowledgment of payment by way of a receipt for the seminar or the invoice with a front and back copy of a canceled check would be adequate to substantiate the reimbursement to the staff person.

**14. When must substantiation/receipts be provided to the church?**

The IRS requires that all substantiation of expenses occur within a reasonable time (within 60 days will be deemed reasonable) of the expense being paid or incurred. Using the above example of a notebook

purchased on 1/5/01, the expense substantiation should be submitted no later than 3/4/01, to qualify as an accountable reimbursement. It is a good practice to turn in receipts at least every two weeks, to prevent forgetting about expenses or losing back-up receipts.

**15. Can the church make advance payments? When must the staff substantiate the expenses?**

Yes, it is appropriate to allow advances, if the church wishes to do so and has an adequate accounting system to track the substantiation for or reimbursement of advances. If an advance is given and exceeds the amount of business expense substantiated, the staff person must return the excess within a reasonable time (within 120 days will be deemed reasonable) of the date incurred or paid.

**16. Who gets original receipts and documentation?**

The church should be given the originals of receipts and written documentation and the staff person should keep a copy. It is unlikely that the staff person would ever need the copies unless s/he needed to substantiate expenses in excess of the amounts reimbursed.

**17. Can the church give to the pastor at the end of the year any monies in the accountable policy not spent during the year?**

No. The funds budgeted should not be shifted to a bonus or any other type of payment. This could jeopardize the entire accountable reimbursement policy. The monies can be used by the church for other types of expenses (e.g., for mission, to reserves, or as a carry over to the accountable reimbursement budget line for next year).

**18. Can the church increase the funding of the accountable reimbursement policy during the year?**

Yes. If the church has additional funds or wants to shift budgeted funds from one account to another, it may do so. (No shifting is allowed from salary to an accountable policy).

**19. Which church officer should be responsible for reviewing the propriety of the items submitted and which officer should be responsible for paying the expenses?**

There is no single correct way to handle this responsibility. One method is to have the chair of the SPRC (in consultation with the committee) review and approve the submitted expenses and for the treasurer to handle payment. This avoids conflicts that may arise concerning the appropriateness of a given expense if all of the responsibility is on the treasurer. Under any arrangement, it is important for someone, with credibility and respect to carefully review all of the submitted requests for reimbursement to ensure their appropriateness. Also, someone needs to be in charge of monitoring all expenses to ensure budget compliance, timely reporting, return of any advances and the like.

**20. How should confidential items be handled in terms of substantiation and reporting?**

When the pastor makes confidential visits to parishioners, s/he may want to write “private” or “confidential visit with church member” on a travel log. The pastor should at least be able to answer any questions or share information about these entries in confidence with the chair of the SPRC.

**21. Is the Holy Land trip and related educational materials an allowable expense under the Accountable Reimbursement Plan?**

If a church and Minister agree that a Holy Land trip is a desired event for educational purposes it would be allowable. Precautionary measures should be taken to adequately document the decision in the minutes of the Church’s Administrative Board.

**22. What does the IRS consider to be a properly reimbursable business expense and is it different for a church than a for-profit oriented business?**

A business expense is one that is directly related to the purposes and goals of the organization and is reasonably necessary to fulfill those goals. The basic idea applies to all organizations, from the smallest widget

manufacturer to the largest business corporations in the U.S., from the smallest rural church to the mega churches, even though the goals of a church are different from the goals of a business. It is necessary that expenses relate to the church's unique mission and that they are not personal expenses of the pastor. For example, it would not be proper for a minister to claim a travel reimbursement for the expense of visiting a sick relative who is not a member of the church and who lives 100 miles away, even if part of the purpose of the trip was to give spiritual comfort. The primary reason for the trip is to visit a relative. If a pastor went on a two-week vacation with his/her family and also preached at two churches during the trip, reimbursement for the travel vacation expenses would not be proper. Some of the expenses related to the preaching would be appropriate if the pastor's church encouraged such preaching arrangements during vacations, the pastor obtained approval for this, and the pastor incurred additional expenses on the trip for going to those church locations. If the personal nature of the expense is the primary consideration, it is not a business expense. Also see the sample list of proper and improper reimbursement items at the end of these Q & As.

**23. May a church tell a pastor not to spend funds even if the expense may be a proper business expense?**

Yes. The question suggests a conflict between the pastor and the treasurer's or the SPR committee's view of necessary or authorized expenses as they relate to the mission of the church. The best way to resolve most conflicts is to try to understand them, discuss them, and come to some agreement. For example, it is hoped that most churches would agree that annual conference related committee work and travel are part of each church and pastor's commitment to the connectional system (these would be legitimate business expenses). If a conflict over such conference expenses exists, the DS may be able to facilitate some meeting of minds (or pocketbooks). A difficult problem may arise when the church and the pastor view their mission differently. If the church does not approve of the clergy's involvement in an international mission project and finds it to be outside of the church's mission, the pastor should not submit travel or related expenses for such an activity. These issues should be explored ahead of time with the SPRC to avoid misunderstandings.

**24. What happens if a new pastor is appointed in June and the previous pastor has already spent all of the funds in the accountable reimbursement policy account for that calendar year?**

The best answer is that this type of situation should not arise in the first place, because the departing pastor, SPRC chair, and treasurer should make sure that it does not occur. These individuals all need to monitor the expenses and make sure that the accounts, absent unusual circumstances, are spent proportionally throughout the year. However, if this scenario should occur, it is possible to add to the accountable reimbursement policy for the new pastor, if funds are available elsewhere in the budget.

**25. Who owns the equipment and other items purchased under the accountable reimbursement policies?**

The church. If a church has paid for items through an accountable reimbursement policy, the equipment or other property belongs to the church, unless there is some other agreement. This issue of ownership usually does not come up until a pastor receives a new appointment and wishes to take equipment with him/her. It is not an issue in relation to travel, continuing education, professional dues, or entertainment expenses, which are not "tangible" things. Likewise, it would not often be a problem for office supplies, postage, periodicals or personal religious supplies, such as robes. These items are used up or are so personal that they have limited or no value to the church. A computer is the most common item that raises this question. In this day and age, it is important for the church to supply staff with a computer. However, if the pastor needs a computer, and the church has not budgeted for this purchase, the pastor may want to use accountable funds to make this purchase. While the pastor is at the church, the pastor uses the computer for business purposes. What happens when the pastor, Rev. Dos, who purchased a computer with accountable reimbursement funds, leaves? Rev. Dos decides she likes her computer and wants to take it to her new appointment. She approaches the chair of the SPRC and offers to personally purchase the computer for current fair market value (a purchase, at fair market value, would not be a taxable event). The SPRC decides to give the computer to Rev. Dos. The gift is a taxable event and the value of the gift for income tax purposes is the current fair market value.

**26. Do accountable reimbursement policies include the housing allowance?**

No. These are totally separate and need to be established and maintained separately. Accountable reimbursement policies are for business expenses, are available to all church staff, and can be used by any business or organization. Housing allowances relate only to clergy, as ministers of the gospel, and are authorized specifically by Internal Revenue Code § 107.

**27. Do accountable policies include a cafeteria plan (flexible spending plan) for medical reimbursements?**

No. However it is possible to set up cafeteria or flexible spending plans that may allow church staff to have medical reimbursements, dependent care reimbursements, and life insurance coverage, without income tax consequences.

*All of the above arrangements need to be set up properly in a separate resolution or plan, with the assistance of a tax and benefits advisor, and must conform to the applicable Internal Revenue Code provisions.*

**28. Are there any pension concerns when using an accountable reimbursement policy?**

No. Amounts that are paid as accountable reimbursements are not part of “includible compensation” for certain pension contribution limitations established by IRS rules.

**29. What are the implications of an accountable reimbursement policy for local church/conference reporting information?**

GCFA’s Local Church Report to the Annual Conference and Local Church and Pastor Compensation and Expense Worksheet forms have been changed to show the distinction between **reimbursements** established for the pastor and **allowances** paid to the pastor. In the Report, line 66 is for reimbursements and line 67 is for allowances (other than the housing allowance that is put on line 65).

**30. How should “ticketless” airline expenses be substantiated?**

It is necessary that the documentation show the date, place, and amount and business reason for the trip. The IRS has suggested that the itinerary from a travel agency and/or the airline receipt, along with an explanation of the reason for the travel, should be sufficient.

*These Q & As are provided to give suggestions for establishing an accountable reimbursement policy. It is important to examine each situation closely to determine the correct result, because each church setting, ministry, budget and pastor are unique.*

*The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.*

# LONG FORM

## ACCOUNTABLE REIMBURSEMENT POLICY

The \_\_\_\_\_ United Methodist Church ("Church") recognizes that certain expenses of ministry paid by the pastor/staff person are part of the ordinary and necessary costs of ministry in this Church/charge. Accordingly, we hereby establish an accountable reimbursement policy to defray them directly. The reimbursement account shall be an annual line item in the Church budget. It shall be in addition to the pastor's annual salary and housing. The reimbursement account for 20\_\_ shall be \$\_\_\_\_\_. (*Amount may be determined by using the attached suggested worksheet.*)

The following requirements for the policy are binding upon the Church and upon \_\_\_\_\_, its pastor/staff person.

Accordingly, the Church hereby establishes an accountable reimbursement policy, pursuant to IRS regulations and upon the following terms and conditions:

1. The pastor/staff person shall be reimbursed from the reimbursement account for his/her ordinary, necessary, and reasonable business expenses incurred in the conduct of the ministry for, and on behalf of, the Church. The following expenses are budgeted in this accountable reimbursement policy, as suggested for the work needs of the pastor/staff person.
2. The committee on SPR/PPR chairperson, Church payroll person, or treasurer, (as designated by the Church) must be given an adequate accounting within 60 days after the expense is paid or incurred. The adequate accounting shall include, but not be limited to, a statement of expense, account-book diary or other similar record showing the amount, date, place, business purpose, and business relationship involved. Such documentation shall include receipts for all items of \$75 or more (*a church may set a lower amount*). Appropriate documents, cash receipts, canceled checks, credit card sales slips, and contemporaneous records (for those non-receipt expenses less than \$75), must be attached to each expense report. A log of total miles per day and enumeration of their general purpose shall suffice to substantiate automobile mileage, but under no circumstances will commuting mileage between the pastor's home and Church office be reimbursed. Copies of the documentary evidence and expense report shall be retained by both the pastor/staff person and the Church.

The committee on SPR chairperson (or treasurer) shall be responsible for approving the expense. The committee on SPR chairperson (or treasurer) shall exercise his/her discretion regarding the adequacy of the substantiation and the appropriateness of any reimbursement. Questions arising in these areas will be resolved by the SPR chairperson (or treasurer), subject to the review and approval of the committee on SPR/committee on finance.

3. It is the intention of this policy that reimbursements will be paid after the expense has been incurred by the pastor/staff person. However, should circumstances require payment of an advance for any particular anticipated expense, the pastor/staff person must account for the expense as described above and return any excess reimbursement within 120 days after the expense is paid or incurred. Any excess advance must be returned to the Church before any additional advances are provided to the pastor/staff person.
4. Budgeted amounts not spent must not be paid as a salary bonus or other personal compensation. If such payments are made, the entire amount of the accountable reimbursement policy account will be taxable income to the pastor/staff person. The Church will be required by law to report that amount as part of the pastor's/staff person's compensation. Disposition of any unspent balances remains at the discretion

of the committee on finance/the council/charge conference in building the budget for the next Church year.

5. It is understood by the various parties that all elements of this resolution must be carefully followed to prevent the Church from being required by regulation to include all reimbursements as income on the pastor's/staff person's Form W-2. The primary responsibility in this regard is on the pastor/staff person to report and adequately account for his or her expenses to the committee on SPR chairperson, church payroll person, and/or treasurer.

Adopted on \_\_\_\_\_, 20\_\_\_\_, by the Church Council [Charge Conference]

of the \_\_\_\_\_ United Methodist Church.

\_\_\_\_\_  
Chair, Church Council

\_\_\_\_\_  
SPR/PPR Chairperson/Church Treasurer

\_\_\_\_\_  
Pastor/Staff Person

\_\_\_\_\_  
Secretary

*This is a sample of an accountable reimbursement policy. The specifics of each policy should be reviewed by each church and minister considering their specific concerns. If legal or tax advice is required, the services of a competent professional advisor should be sought.*

## SHORT FORM ACCOUNTABLE REIMBURSEMENT POLICY

The following resolution is hereby adopted by the church council of \_\_\_\_\_. It will be effective for the calendar year \_\_\_\_\_ and all future years unless specifically revoked or superseded.

The church pastor (or other employee(s)) will be reimbursed for ordinary and necessary business expenses incurred in the performance of his or her responsibilities when he/she substantiates the amount, business purpose, date, and place of the expense.

This substantiation must be provided to the chair of the pastor parish relations committee (or church treasurer) within sixty (60) days of incurring the expense. The individual must return to the church any amounts received in excess of the substantiated expenses within one hundred twenty (120) days of receipt.

The church will not report any properly substantiated reimbursement payments as income on any Form W-2.

\_\_\_\_\_  
Chair, Church Council

\_\_\_\_\_  
Committee on SPR/PPR Chairperson

\_\_\_\_\_  
Pastor/Staff Person

\_\_\_\_\_  
Secretary

\_\_\_\_\_  
Treasurer

(The church may wish to designate certain items which it elects to have covered by this policy, such as travel, continuing education, attendance at annual conference, books, subscriptions, work supplies, vestments, etc. There may be a cap or dollar amount on the total reimbursable business expenses that will be paid, for example: "The reimbursement amount shall be no more than \_\_\_\_\_." The church may also want to require pre-approvals by the treasurer or SPR/PPR chair of business expenses in excess of \$ 500 (or any other amount deemed appropriate). These additional requirements should be included in the policy.)

*This is a sample of an accountable reimbursement policy. The specifics of each policy should be reviewed by each church and minister considering their specific concerns. If legal or tax advice is required, the services of a competent professional advisor should be sought.*



## IRS Forbids Funding Accountable Reimbursements out of Salary Reductions

Section 1.62-2(d)(3) of the income tax regulations prohibits accountable plans from reimbursing employee business expenses through salary reductions. This regulation effectively put an end to a common church practice that allowed many clergy to enjoy the advantages of an accountable plan without any additional cost to the church. In the past, many churches adopted accountable plans under which a minister's substantiated business expenses were reimbursed out of his or her own salary. For example, assume that First Church pays Rev. G \$500 each week, and also agrees to reimburse his substantiated business expenses for each month out of the first payroll check for the following month. Assume further that Rev. G substantiated \$300 of business expenses for January. The church issued Rev. G his customary check of \$500 for the first week of February, but only \$200 of this check represents taxable salary while the remaining \$300 represents a nontaxable reimbursement under an accountable plan. Only the \$200 salary component of this check is included on Rev. G's W-2 (or 1099) form at the end of the year. This arrangement was practiced by many churches. In some cases, a church agreed to reimburse a minister's substantiated expenses up to a specified amount, with any additional expenses being reimbursed out of salary reductions.

Unfortunately, regulation 1.62-2(d)(3) prohibits this practice for accountable reimbursement plans. Such arrangements are not "illegal". They simply cannot be "accountable". Churches that continue to use this practice must recognize that all reimbursements paid through salary reduction will now be treated as paid under non-accountable plan. In explaining the regulation, the IRS observed:

Some practitioners have asked whether a portion of an employee's salary may be re-characterized as being paid under a reimbursement arrangement. The final regulations clarify that if [an employer] arranges to pay an amount to, an employee regardless of whether the employee incurs . . . deductible business expenses . . . the arrangement does not meet the business connection requirement of [the regulations] and all amounts paid under the arrangement are treated as paid under a non-accountable plan . . . Thus no part of an employee's salary may be re-characterized as being paid under a reimbursement arrangement or other expense allowance arrangement.

Regulation 1.62-2(d)(3) contains the following example:

Employer S pays its engineers \$200 a day. On those days that an engineer travels away from home on business for Employer S, Employer S designates \$50 of the \$200 as paid to reimburse the engineer's travel expenses. Because Employer S would pay an engineer \$200 a day regardless of whether the engineer was traveling away from home, the arrangement does not satisfy the reimbursement requirement of [paragraph \(d\)\(3\)\(i\)](#) of this section. Thus, no part of the \$50 Employer S designated as a reimbursement is treated as paid under an accountable plan. Rather, all payments under the arrangement are treated as paid under a non-accountable plan. Employer S must report the entire \$200 as wages or other compensation on the employees' Forms W-2 and must withhold and pay employment taxes on the entire \$200 when paid.

Regulation 1.62-2(d)(3) came as an unpleasant shock to many clergy, both because it conflicted with a very common practice among nonprofit and for-profit employers, and also because there was no advance warning that the IRS was considering such a rule. Your editor contacted the IRS national office on numerous occasions, seeking clarification of the IRS position. The IRS responded in writing, confirming that the regulation prohibits churches from using salary reductions to fund business expense reimbursements under accountable reimbursement arrangements. In explaining its interpretation, the IRS noted that the tax benefits available to accountable reimbursement arrangements (i.e., the employer's reimbursements are not reportable as income to the employee) are based on the fact that the reimbursements are coming out of the employers revenue and accordingly it "has an incentive to require sufficient substantiation to ensure the allowance to the employee is limited to actual business expenditures incurred on the employer's behalf and for the employer's benefit". This

justification simply does not apply when an employee's business expenses are reimbursed out of his or her own salary (through salary reductions). Example:

Assume that an employee working for Corporation A is paid \$40,000, designated as salary, and is not entitled to any additional amount under a non-accountable plan. If the employee decides to incur \$2,000 in employee business expenses, that amount is deductible only as a miscellaneous itemized deduction, subject to the two-percent floor. By contrast, assume that an employee working for Corporation B is paid \$47,000, designated as salary, and is given an additional \$4,000 for the year, designated as an expense allowance pursuant to a non-accountable plan. Under the arrangement the employee may retain any part of the \$3,000 whether the employee substantiates to the employer, regardless of the amount of employee business expenses.

There is no justification for different tax treatment of these two employees who receive (and can retain) identical dollar amounts from their employers and who make identical employee business expenditures. The IRS concluded:

A salary reduction arrangement which "reimburses" and employee for employee business expenses by reducing the employee's salary will not be treated as an accountable plan because it does not meet the reimbursement requirement. This is the result regardless of whether a specific portion of the employee's compensation is designated for employee expenses – or the portion of the compensation to be treated as the expense allowance varies from pay period to pay period depending on the employee's expenses. If the employee is entitled to receive the full amount of annual compensation regardless of whether or not any employee business expenses are incurred during the taxable year, the arrangement does not meet the reimbursement requirement.

What is the effect of the regulation? Consider the following:

1. Regulation 1.62-2(d)(3), as interpreted by the IRS, will result in harsh tax treatment for clergy who report their income taxes as employees and who have unreimbursed business expenses or expenses reimbursed under a non-accountable arrangement. Perhaps the most common type of non-accountable arrangement is the monthly car allowance. It is imperative for churches that require clergy to pay for their own business expenses, or that pay clergy a monthly allowance (or otherwise reimburse expenses without proper substantiation) to consider seriously the adoption of an accountable reimbursement arrangement.
2. The harsh limitations on the deductibility of an employee's unreimbursed and non-accountable reimbursed expenses are not avoided by classifying a minister as self-employed. Most clergy who report their income taxes as self-employed would be reclassified as employees by the IRS if audited and their reporting status questioned.
3. Can the restrictive regulation be avoided by proper drafting of a minister's compensation package? To illustrate, let's assume that First Church and Rev. K are discussing compensation for the next year, and that the church board proposes to pay Rev. K \$30,000. However, since it will require Rev. K to pay his own business expenses, the church board decides to pay Rev. K a salary of \$26,000 and establish a separate church account for \$4,000 out of which substantiated business expenses will be reimbursed. At the end of the year, any balance remaining in the reimbursement account would belong to the church, not Rev. K (i.e., it would not be distributed to Rev. K as a "bonus" or as additional compensation). Since Rev. K has no right to any of the reimbursement account funds (\$4,000) unless he adequately substantiates his business expenses, this arrangement should be permissible under the regulation. The church has not "agreed to pay an amount to an employee regardless of whether the employee incurs deductible business expenses." Unfortunately, the IRS disagreed with this conclusion in a 1993 private letter ruling. The IRS was asked if the following arrangement could be considered to be accountable:

Company X proposes to modify the district manager's compensation arrangement to allow each district manager to elect on an annual basis and prior to the beginning of each calendar year to reduce the amount of gross commission payable to him for the upcoming calendar year. Under the arrangement, the district manager may elect to reduce his gross commissions by a percentage ranging from 0 to 40%. In exchange for the reduction in commissions, Company X will pay the district manager's business expenses for the calendar year up to a maximum amount equal to the amount by which the district manager elected to reduce his commissions. Company X will pay only for expenses that satisfy the business connection and substantiation requirements of . . . the income tax regulations. If the expenses a district manager incurs in a calendar year are less than the amount by which the gross commissions were reduced, the excess amounts will be forfeited and may not be carried over and used for expenses incurred in the next calendar year.

The IRS, in concluding that such an arrangement is not accountable, observed:

[A]n employer may not re-characterize a portion of an employee's salary as being paid under a reimbursement arrangement or other expense allowance arrangement. . . . [I]n order to have an accountable plan, section 62(c) of the Code and the regulations thereunder contemplate that the reimbursement or other expense allowance arrangement provided by an employer should be amounts paid to an employee in addition to salary. This conclusion is supported by the preamble to the final regulations . . . which provides that no part of an employee's salary may be re-characterized as being paid under a reimbursement arrangement or other expense allowance arrangement. IRS Letter Ruling 9325023.

The IRS ruled in 1993 that a regulation prohibiting the funding of business expense reimbursements under accountable plans may not be avoided by "salary restructuring" agreements.

Based on this most recent precedent, the best approach is for churches to adopt accountable reimbursement policies that reimburse clergy (and other church workers) out of church funds. Churches that are concerned with unlimited reimbursement arrangements can set a maximum amount that will be reimbursed per employee. A more aggressive approach would be for a church to designate a minister's salary and then set up a business expense reimbursement account in two separate actions, without any indication that the reimbursement account is being funded out of what otherwise would be the minister's salary. The IRS may view these separate actions as sufficiently unrelated to be consistent with an accountable reimbursement arrangement. There certainly is no guarantee that this approach will work, since the IRS may conclude that it constitutes a "restructuring" of the minister's salary and as such is incompatible with an accountable plan.

Key point: the IRS issued audit guidelines for its agents to follow when auditing ministers. The guidelines inform agents that if a church has a salary reduction arrangement which "reimburses" a minister for employee business expenses by reducing his or her salary, the arrangement will be treated as a non-accountable plan. This is the result "regardless of whether a specific portion of the minister's compensation -is designated for employee expenses or whether the portion of the compensation to be treated as the expense allowance varies from pay period to pay period depending on the minister's expenses. If the minister is entitled to receive the full amount of annual compensation, regardless of whether any employee business expenses are incurred during the taxable year, the arrangement does not meet the reimbursement requirement."

Observation. The guidelines instruct IRS agents to be alert to salary reduction arrangements that are used to fund reimbursements under an "accountable" arrangement. According to the IRS, accountable plans cannot reimburse employee business expenses out of salary reductions. The important point is this-the guidelines are educating IRS agents as to this issue, and so it is now far more likely that salary restructuring, and salary reduction arrangements will be discovered and questioned in an audit.

## HOUSING ALLOWANCE INFORMATION

Clergy who are in the exercise of ministry can exclude a portion of his/her income as a housing allowance pursuant to the provisions of Section 107 of the Internal Revenue Code. In order to properly take a housing allowance exclusion, the clergy and his/her salary-paying unit must follow a few procedures outlined below.

1. **Explanation of "Housing Allowance"** This allowance is often referred to as a "parsonage allowance" for a clergyperson who has a parsonage provided to him/her, as a "housing allowance" for a clergyperson who owns his/her home, and as a "rental allowance" for a clergyperson who rents his/her home. Some churches designate utility allowances or furniture allowances, as well, which are excludable from gross income under the housing allowance provision of Code Section 107. For the purpose of this summary, the term "housing allowance" will be used to refer generally to all allowances. Sample housing allowance language and notification forms are at the end of this summary.
2. **Church Designation of the Housing Allowance.** One of the most important requirements for having housing allowance exclusion is one that is often overlooked. A clergyperson's local church or salary-paying unit prior to the clergyperson receiving compensation must establish a housing allowance.

A housing allowance resolution should be adopted by the church or other salary paying unit prior to the calendar year (or new appointment) and be placed in the minutes of the church council or charge conference. If a parsonage is provided and the church pays all expenses directly, the resolution should indicate that the church is providing its pastor with a parsonage and that no rent or other fee is being charged. If a parsonage is provided but the pastor is expected to provide for furnishings, utilities, and other housing-related expenses out of his/her own resources, then the church, through its adoption of a resolution, should designate a sum as a housing allowance.

If no parsonage is provided to the pastor and the pastor rents or is buying his/her own home, the church through its adoption of a resolution should designate a sum as housing allowance.

If the salary-paying unit fails to designate a housing allowance prior to the beginning of the calendar year or a new appointment begins, a designation may be made later. However, housing-related expenses incurred prior to the designation may not be excluded under Section 107. A salary-paying unit may amend a housing allowance resolution during the calendar year if the original designation proves to be too low. However, the amended allowance designation *will* only apply prospectively.

3. **The Amount to be Excluded from Income.** One aspect of the housing allowance issue that is often misunderstood is that the amount designated by the salary-paying

unit is *not*, in law, necessarily the amount that may be excluded by the clergyperson. The amount designated is *only* one of *three factors* that must be considered.

- a. The amount which may be excluded is *the lesser of*
  - 1) The amount designated as the housing allowance exclusion,
  - 2) The amount expended by the clergyperson for housing
  - 3) The legally determined fair rental value of the residential property occupied by the clergyperson.

For example, if the salary-paying unit designates \$10,000 as a housing allowance, the clergyperson spends \$9,000 on housing, and the fair rental value is \$9,000, the clergyperson is limited to an exclusion not to exceed \$9,000. If the fair rental value was \$8,000, the clergyperson would be limited to \$8,000.

- b. **The Amount Designated.** There appears to be no limit as to the amount that a local church or other salary-paying unit *may* designate as a housing allowance. (For example, a part-time pastor could have 75% of his/her salary designated as housing allowance). Some churches simply declare a percentage of salary; other churches designate a specific amount based upon estimates given to them by their clergy. Either method of determining the amount seems to be adequate. It would seem that if a church or a clergyperson is unsure as to the amount, it is better to designate a larger amount. [As explained in Section 4, the difference will be recaptured as taxable income.)

- i. A salary-paying unit may amend a housing allowance resolution during the calendar year if the original designation proves to be too low. An amended allowance designation will only apply prospectively. If a church established a housing allowance of \$10,000 on June 30, 2014, \$5,000 would be the amount excludable for the remainder of 2014.

- c. **The Amount Expended.** The second factor controlling the amount that can be excluded from gross income is the amount expended by the clergyperson for housing. Expenses for food and servants are not considered for this purpose to be directly related to providing housing.

- i. For a clergyperson who rents housing, actual expenses may include rental payments, utilities and furnishings. For a clergyperson who owns his/her own home, actual expenses include mortgage and related interest payments, real estate taxes maintenance, capital improvements, utilities, and furnishings. (The Tax Reform Act of 1986 grants the full deduction for mortgage interest and real estate taxes even if a rental allowance exclusion is taken by the taxpayer. Payments for an equity line of credit may not be included as a housing allowance expense unless the money was used for actual housing-related expenses, such as a room addition or capital improvements on the house.) Although not specifically listed, insurance premiums for the property logically could be included.

- ii. The expenses must occur in the tax year in which the clergyperson is to exclude those expenses from his/her gross income. In one instance, the Internal Revenue Service privately ruled that a clergyperson could not exclude a rental allowance amount equal to the amortization of his advance payment for lifetime rental of his retirement home. The clergyperson paid a flat fee in advance for the lifetime rental. Utilities, maintenance and insurance payments were due yearly. The clergyperson excluded as rental allowance the maintenance, utilities, insurance and one-fourteenth of the advance rental. The IRS ruled that the rental allowance was limited to the utilities, maintenance and insurance.

d. **The Fair Rental Value.** In 1971, the Internal Revenue Service issued a Revenue Ruling which imposed a third factor upon clergy who own their own home: the amount excluded from gross income cannot exceed the fair rental value of the housing.<sup>10</sup> While the authority of the IRS to issue such an interpretation of law has been questioned by some clergy tax commentators, this Revenue Ruling has not been successfully challenged in any judicial forum.

- i. According to the above-mentioned Revenue ruling and current publications issued by the Internal Revenue Service, the "fair rental value" of a clergyperson's housing includes, in addition to the fair rental value of the housing (with furnishings), the fair rental value of appurtenances such as a garage and the cost of utilities.
- ii. The legally determined fair rental value of a clergyperson's housing seldom becomes a federal income tax issue if the amount excluded is reasonable based upon location of the housing. However, in determining the amount of the exclusion, the clergyperson should make a bona fide, if informal, calculation so that, if ever challenged, he/she would be able to substantiate the amount of the exclusion. If the clergyperson actually rents the house, the amount of the rent would be persuasive evidence as to the fair rental value (unless there is some family connection, or the individual has some other legal interest in the property). There are other, equally obvious methods of calculating a fair rental value: examination of listings with local realtors, verification of actual rents paid for any comparable housing in the neighborhood or community (as adjusted for special advantages or disadvantages of the specific property), a statement from a realtor estimating the amount which would be typical to rent a similar property or a survey of newspaper advertisements of similar houses for rent in the community.
- iii. The amount determined as the fair rental value is important, the clergyperson is then required to pay a self-employment (Social Security) tax on that amount. (See Section 5 below for further discussion below.)

4. **Reporting Housing Allowance to IRS.** Unlike most deductions that are available to clergy, the housing allowance is an exclusion from gross income. Accordingly, the amount of the housing allowance exclusion does not need to be reported to the Internal Revenue Service on any governmental informational return.
- a. However, if the amount designated is greater than the amount which is excludable under Section 107 (See Section Two above), then the difference must be reported as taxable income. There are two methods by which this may occur.
  - b. **Church Determination Method.** Under this method, the local church treasurer would compute the amount of the exclusion. By the end of the January following the calendar year for which the housing allowance was made, the clergyperson would give his/her local church treasurer documentation with respect to the actual housing-related expenses incurred by the clergyperson. The local church treasurer would then determine the actual amount that may be excluded by applying the three-part test. If the amount designated is greater than the amount expended or the fair rental value, then the local church treasurer would increase the amount of gross compensation reported on IRS Form W-2. For example, the Housing Allowance amount is \$11,000. The pastor tells the treasurers/he spent only \$10,500. The treasurer adds \$500 to the W-2 amount.
  - c. **Estimated Exclusion Method.** Under this method, the local church treasurer would report on the clergy's IRS Form W-2 the gross amount paid to the clergyperson minus the amount designated as a housing allowance. If the amount designated is greater than the amount expended or the fair rental value; then it would be the responsibility of the clergyperson to report the difference as additional income on his/her IRS Form 1040. For example, the clergyperson above who did not spend \$500 of the allowance reports that \$500 as additional income for income tax purposes.
  - d. While both methods are appropriate, the second method is the one illustrated by the IRS in its Publication 517. The second method also imposes less of an administrative burden upon the local church treasurer who is often a volunteer. The first method, however, ensures that the pastor will not unknowingly forget to report income. If the first method is chosen by the church, the church should incorporate in its resolution a statement adopting this method.
5. **Amount Excluded Is Self-employment Income.** The housing allowance exclusion is made only for federal income tax purposes. The amount excluded (or if parsonage is provided, the fair rental value; or if both are provided, a combination of both) is *included* in computing the self-employment (Social Security) tax for the clergyperson. In the above example, the clergyperson reports the full \$11,000 for self-employment tax purposes.

## **Expense Categories Allowable under Pastor's Housing Exclusion**

All expenses must relate to the primary living quarters used as the 'parsonage', whether owned by the church, rented by the church, owned by the pastor, or rented by the pastor. Expenses related to alternate houses, lake cottages, etc. are not allowable.

The following expenses may be used to justify the Housing Exclusion for active or retired pastors so long as they are paid out of the pastor's own funds. The total excluded may not exceed (the fair rental value of the 'parsonage', including furnishings and utilities).

Rent

Mortgage Interest Mortgage Principal Payment

Down Payment

Closing Costs

Real Estate Taxes

Assessments on the Property

Utilities

Trash & Garbage Removal

Repairs and Maintenance Property and Liability Insurance

Lawn Care, Snow Removal, etc.

Gas, Parts, Repair & Maintenance of Lawn Mower, Snow Blower, and any other home care equipment.

Home furnishings for living in those quarters, including furniture, TV, VCR, radio, linen, bedding, glassware, dinnerware, silverware, rugs, curtains, and shelving, etc.

Cleaning supplies including soap powder, dishwashing detergent, floor cleaner, and wax, etc.

Light bulbs and other replaceable items

NOT allowable are personal hygiene items, food, clothing, and maid service.