

**Compensation Package Worksheet**

For: \_\_\_\_\_

Year: \_\_\_\_\_

**Salary Component:**

\$ \_\_\_\_\_ Base Salary

\$ \_\_\_\_\_ Housing/Manse Allowance

\$ \_\_\_\_\_ Total Salary Component

**Benefit Component:**

\$ \_\_\_\_\_ Social Security Allowance\*

\$ \_\_\_\_\_ Health Insurance

\$ \_\_\_\_\_ Group Term Life Insurance

\$ \_\_\_\_\_ Disability Insurance

\$ \_\_\_\_\_ Employer Retirement Contribution (Excluding Salary Reduction Contribution)

\$ \_\_\_\_\_ Total Benefit Component

**NOTE:** Professional Allowances are best referred to as "Expense Reimbursements" and not considered when putting together the salary package. See explanation on the last page.

\* The social security allowance will be taxable as additional salary for an ordained minister. The allowance is shown for illustrative purposes in the Benefit Component because this is normally where the employer's share of the social security tax (7.65%) is considered in other organizations. See Explanation on page 3.

**CHURCH/ORGANIZATION:**

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

Church Representative: \_\_\_\_\_ Date: \_\_\_\_\_

## Explanations

### Salary Component:

**Base Salary** - This figure should be the first component computed. It should be agreed upon before proceeding to other items.

**Housing/Manse Allowance** - To compute housing allowance you must determine the actual housing expenses to be incurred. Common expenses include:

- \_\_\_\_\_ 1. Rental/Mortgage Payment (Principal and Interest) <sup>a</sup>
- \_\_\_\_\_ 2. Utilities (Including local telephone, cable, water, gas, electric, etc.)
- \_\_\_\_\_ 3. Maintenance (Minor repairs) <sup>b</sup>
- \_\_\_\_\_ 4. Furniture (Net Rental Value) <sup>c</sup>
- \_\_\_\_\_ 5. Homeowner's/Renter's Insurance
- \_\_\_\_\_ 6. Real Estate Taxes
- \_\_\_\_\_ Total Housing Expenses

<sup>a</sup> Ministers are limited to the actual incurred expenses. The primary housing expense for a minister is usually the mortgage or rent payment for a home. For minister's purchasing a new home, the down-payment may also qualify as a housing expense (so long as total housing expenses do not exceed "Fair-Rental Value").

<sup>b</sup> Minor repairs (small paint work, fence repair, minor storm damage repair, replace small items, etc.) are excludable in the year incurred. Large repair work (new roof, new driveway, new room addition, etc.) may be considered an actual expense (so long as total housing expenses do not exceed the "Fair Rental Value" of the home).

<sup>c</sup> Furniture expenditures are deductible if they do not exceed the net rental value of the furniture. Determining the rental value could be difficult to obtain but is possible by calling furniture rental stores.

To determine manse allowance ministers must compute the **net rental value** of the home provided by the church. There are a number of methods, yet to be tested by the court, to determine the rental value. The first is to find what comparable homes are renting for in the local community. This may be accomplished by contacting a realtor or referencing the local newspaper classified ads. The second is to use 1% of the market value of the home as the monthly rental amount (e.g. an \$80,000 home would produce a net rental value of \$800 per month). The third is using 40% of base salary. Finally, remember to include utilities if the church is paying them when computing the manse allowance because they are not considered part of the rental value.

Be sure to include an amount for maintenance and furnishings (and utilities if not paid by the church) when compiling the manse allowance. Many ministers who live in manses pay maintenance and furnishing costs out of their own pockets.

**NOTE:** The amount excludable for housing allowance in any given year is the lesser of:

1. Actual amount of housing expenses incurred
2. Amount designated by church
3. Fair Rental Value (plus utilities, etc.).

There is no limit to how much can be designated by the church as housing allowance. However, the amount which is excludable for tax purposes is limited by law. Thus, having more designated by the church than actually spent is permissible as long as a minister does not exclude more than actual (or rental value) on his tax return. Amounts declared as housing allowance but not spent must be added back to taxable income. A minister does not pay income tax on his housing/manse allowance if indeed he does use the allowance for housing related expenses. However, a minister must pay social security tax on the full housing/manse allowance if he participates in social security.

Housing allowance cannot be designated retroactively. For example, in July a minister cannot go back and designate a housing allowance for January through June. For this reason it is very important to designate the housing allowance before the beginning of the year. One safeguard to use would be to include the words "... housing allowance for 2004 and all future years" when designating the housing allowance in the session minutes.

#### **Benefit component:**

**Social Security Allowance** - Ministers are considered self-employed for social-security tax purposes. Because of this, the minister must pay the full 15.3% of the tax (other employees pay 7.65% and their employer matches this with an additional 7.65%). It is a tremendous benefit to the minister if the church elects to provide a social security allowance equal to what the church's share of the social security tax would have been.

Please note, however, that this allowance is not excludable from income and must be included as additional salary and taxed as such (thus increasing both social security tax and income tax). The church cannot pay this allowance directly to the IRS because the IRS views the minister as self-employed for social security tax purposes.

**Health Insurance** - It is recommended that a good health insurance policy be obtained. It is usually best to be included in a group plan because of purchasing power and group underwriting guidelines which are more favorable. If this is not available/possible, it is recommended that health insurance be obtained with a quality insurance carrier. The help of a competent health insurance agent should be obtained. Make sure that the church pays the premium so that the benefit is considered a non-taxable benefit rather than taxable income to the minister.

**Group Term Life Insurance** - As a benefit, group term life insurance may be obtained through a denominational plan or through a competent insurance agent. Only the first \$50,000 of group coverage paid for by the church is a tax free benefit. Group coverage over this amount is a taxable benefit. Any universal life or whole life coverage paid for by the church is taxable in its entirety. The PCA offers group term life coverage.

**Disability Insurance** - Most churches neglect providing disability insurance for their ministers. The probability of becoming disabled is much higher than one might expect. Disability insurance helps to replace the income that the minister will no longer receive once he becomes disabled. Disability insurance should be provided unless the church is willing to continue to pay the salary during disability. Coverage is available through the PCA group plan.

**Retirement Contribution** - Many ministers do not begin to save for retirement until they are close to retirement. Even then some do not make sufficient contributions to reach their retirement goals. An adequate church retirement plan can help to ensure that the minister is saving for his retirement.

The easiest way for a church to provide a retirement plan for their minister is through a 403(b) tax-sheltered annuity, such as the PCA Retirement Plan. Through this retirement vehicle a church can make contributions to the plan on their minister's behalf and shelter the contributions from the minister's current taxes. Additionally, the minister may make contributions by executing a salary reduction agreement. Once the amount is determined and the agreement is signed, the church begins to withhold the appropriate amount and contribute it to the PCA Retirement Plan. This method will reduce the minister's taxable income by the amount contributed. Please note that a salary reduction comes out of the minister's salary and thus is **not** considered in the benefit component. Only contributions made by the church over and above the minister's salary should be considered in the benefit component. For a minister, neither income taxes nor social security taxes are paid on the amounts contributed through salary reduction.

Denominational retirement plans like the PCA Retirement Plan provide tax benefits that are not available through a commercial plan. For example, when an ordained participant retires and begins receiving retirement benefits from a denominational plan, those benefits are considered to be eligible for the tax-free housing allowance exclusion. The retired minister must still substantiate the actual amount spent on housing.

PCA Retirement & Benefits, Inc. (RBI) recommends a minimum contribution of 10% of cash salary (plus housing) for Social Security participants to ensure adequate retirement benefits. RBI also recommends a minimum contribution of 20% of cash salary (plus housing) for non-Social Security participants to be paid by both the church and the participant, allocated between the two on agreed-upon term.

Please note, that these are RBI general recommendations. In order to get a more exact savings rate for your minister's situation, the advice of a competent financial advisor should be obtained.

**NOTE:** Since a minister is considered an employee for income tax purposes (considered self-employed for social security tax), he should be issued a W-2 each year. Thus, eligible employee benefits paid on the minister's behalf by the church are not considered taxable income to him.

### **Expense Reimbursements:**

Please note that expense reimbursements should no longer be considered part of the compensation package. Instead the church should agree to a maximum amount of expenses they will reimburse each year. This item should be included in the church budget separate from the minister's compensation. Thus, before the beginning of each year the minister should estimate as close as possible the amount of expenses he will incur during the next year. The session should approve this amount in the church budget as the maximum expense reimbursement for the upcoming year. Please note that if at the end of the year there is still money left in the reimbursement account, that amount will revert to the church and cannot be paid out to the minister as additional compensation (bonus, extra salary, etc.).

Expense reimbursements must be paid using the accounting method whereby, the minister supplies receipts of incurred expenses to the church before receiving reimbursement. If, however, the minister receives a monthly allowance check from the church and supplies no evidence or support of the expenses, the amount must be included in the salary component and will be taxable income.

Instead, if the minister turns in his mileage and actual receipts for books, business lunches, etc. at the end of each month (or within 60 days after the expenditure) and then receives a check for actual expenses, this amount need not be included in his taxable income. Any expense advance payments not used should be returned within 120 days after receipt.

### **Expense Reimbursements:**

\_\_\_\_\_ Auto Expense

\_\_\_\_\_ Travel Expense

\_\_\_\_\_ Professional Expenses (Books, Meetings, etc.)

\_\_\_\_\_ Total Expense Reimbursements

### **For More Information:**

Setting up a compensation package can be a very difficult task. The help of a competent financial advisor can be beneficial. Each church should structure their minister's compensation to legally take advantage of the current tax laws for ministers. Careful planning will often allow the pastor to receive a higher amount of net income.

This salary package worksheet is a general overview of current tax law regarding clergy compensation. For a more complete review, we recommend you purchase a copy of the "Church and Clergy Tax Guide", by Richard Hammar. It is the most complete and authoritative tax guide for ministers and churches. For more information, contact Christian Ministry Resources located on the web at [www.churchlawtoday.com](http://www.churchlawtoday.com).

If you have any questions about how to set up a compensation package, please contact PCA Retirement & Benefits, Inc. RBI exists to help PCA organizations with employee benefits.

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