



Ministers Compensation & Church Tax Update - 2020

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GEORGIA BAPTIST MISSION BOARD

1 Timothy 5:17

- ▶ The elders who direct the affairs of the church well are worthy of double honor, especially those whose work is preaching and teaching.

Most Common Tax Mistakes Made by Churches and Ministers

- ▶ 10 – Reimbursing or paying moving expenses without including as taxable income on minister's W2
- ▶ 9 – SS classes & other ministries to use church EIN for banking
- ▶ 8 – Benefits (Medishare, certain life ins and etc.) handled as tax-free that are not eligible to be a tax-free benefit
- ▶ 7 – Private benefit and private inurement
- ▶ 6 – Not appropriately requesting/approving housing allowance
- ▶ 5 – Incorrectly paying FICA & Medicare for ministers
- ▶ 4 – Not completing W-4, G-4, I-9, and new hire reporting
- ▶ 3 – Christmas bonus , gift cards, love offerings, trip to Israel and other taxable income left off W-2
- ▶ 2 – Providing minister 1099 instead of W-2
- ▶ 1 – Accountable reimbursements not handled properly

Big IRS Target but Didn't Make the List *Churches Beware*

- ▶ Private Benefit
- ▶ Private Inurement
- ▶ Excess Benefit

Importance of Compensation Planning

- ▶ Maximizes church's limited resources
- ▶ Reduces misperception about expenses and benefits in budget
- ▶ Ensures funds are properly spent
- ▶ Minimizes tax liability (Lump sum and unreimbursed business expenses such as car allowances are taxable)

Determine needs of your staff

- ▶ -Categories of Financial Support
 - ▶ Ministry-related expenses
 - ▶ Employee benefits
 - ▶ Personal income
- ▶ -Financial Support Review

Establish Written Financial Support Policies

- ▶ Ministry-related expenses
- ▶ Employee benefits
- ▶ Personal income
- ▶ Other personnel policies



Provide Ministry Expenses

- ▶ Adequately budget for expenses not included in salary line items
- ▶ Establish Accountable Reimbursement Plans
- ▶ Church Ministry-Related Expenses
- ▶ Expenses incurred in the performance of duties for the church

Keys to an Accountable Reimbursement Plan

- ▶ Adequate substantiation of business expenses is required
- ▶ Written record stating amount, date, location, business purpose
- ▶ Receipts required for expenses over \$75
- ▶ Expenses must be substantiated within 60 days
- ▶ Excess advances must be returned within 120 days
- ▶ Church reimburses business expenses from budgeted church funds
- ▶ **CAUTION: Cannot be funded from salary**
- ▶ Sample reimbursement policy

Provide Employee Benefits

- ▶ Insurance
- ▶ Retirement



Determine Personal Income

- ▶ Housing Allowance
- ▶ Salary
- ▶ Social Security Offset

Social Security Offset



- ▶ Assists ministers who pay the self-employment tax.
- ▶ Generally half the total self-employment tax.
- ▶ Reported as taxable income.

Determine Salary Can We Pay?

- ▶ Church's financial situation
- ▶ Location and cost of living
- ▶ Education and experience
- ▶ Inflation
- ▶ Performance

Who does IRS consider a minister?

- ▶ IRS Wingo or Knight test to determine if minister:
 - 1) Person must be ordained, licensed, or commissioned
 - 2) Administration of sacraments
 - 3) Conduct religious worship
 - 4) Management responsibilities in local church or denomination
 - 5) Considered to be a religious leader by church or parent denomination

#1 must be yes – and at least 2 others yes

Housing allowance

- ▶ For eligible ministers (IRS Code 107).
- ▶ Minister must request from church.
- ▶ Designated/approved in advance by the church.
- ▶ Non-taxable for federal and state income taxes only, subject to limits.
- ▶ Social Security taxes (SECA) taxable
- ▶ Also, the fair rental value of a parsonage is included in the housing allowance.

Housing Allowance Can Include

- ▶ Mortgage or rent
- ▶ Utilities
- ▶ Taxes
- ▶ Insurance
- ▶ Furnishings
- ▶ Repairs and improvements
- ▶ Other

If Minister Owns or Rents

The maximum amount eligible for exclusion is the least of:

- ▶ The designated amount
- ▶ The actual eligible expenses
- ▶ The fair rental value of the home including furnishings plus utilities

If Minister Lives in a Parsonage

The maximum amount you can exclude from salary is the lesser of:

- ▶ The designated amount
- ▶ The actual eligible expenses

PLUS the FMV of rent for parsonage provided is added to the amount pastor requests and is designated by church for things the minister pays for himself. If church pays utilities that also is added as housing to the others. The only thing excluded from salary for minister is amount he requests for things for which he pays for from his income.

Step #6: Complete a Compensation Planning Summary

Note: It is suggested the three categories of financial support be placed in separate areas of the church budget.

MINISTRY RELATED EXPENSES	(NOT INCOME)
Automobile	\$
Conventions/Conferences	\$
Books, software, and etc	\$
Continuing Education	\$
Hospitality	\$
EMPLOYEE BENEFITS	(NOT INCOME)
Medical	\$
Disability	\$
Term Life	\$
Personal Accident	\$
Dental	\$
403b retirement contribution	\$
PERSONAL INCOME	(INCOME)
Personal Salary*	\$
Housing Allowance(SECA only)	\$
Social Security Offset *	\$
* -Taxable both SECA and Inc Tax	

TAX UPDATE 2020 – MOST OF CHANGES PRIOR YEARS

- Standard Deduction increased & Personal Exemptions Eliminated - Tax Brackets Adjusted

Improvements to Child Tax Credit

State and Local Tax Deduction Reduced

If church doesn't have accountable reimbursement plan, staff will not be eligible for unreimbursed miscellaneous deduction on personal tax return.

Moving Expense Deduction and Miscellaneous Deductions Eliminated

Home Equity Interest ineligible (some grandfathered)

Medical Deductions Adjusted 2020 (only expenses that exceed 10% AGI) & ACA penalty removed

TAX UPDATE 2020 - Continued

- ▶ UBIT lower because of lower corporate rate and cannot combine multiple unrelated business to offset gains and losses
- ▶ 529 expanded to primary and secondary schools
- ▶ Onsite workout/childcare exclusion removed
- ▶ ~~Parking or commuting expenses (peachpass for example) will be taxable --- Repealed ***~~
- ▶ Elimination of deduction for contribution priority seating and parking collegiate athletics
- ▶ IRA required minimum distribution age to start raised to 72 prior years 70 ½ ***
- ▶ Computer Equipment removed from listed property
- ▶ 2020 Business Mileage Rate .575/mile ***

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