

COMPENSATION PLANNING GUIDE



GuideStone®

OVERVIEW

OF COMPENSATION PLANNING

- Why it's Important
- Who is responsible?
- Before You Begin
- Six Essential Steps
- Next Steps



WHY IT'S IMPORTANT



WHY IT'S IMPORTANT

Honors God's Word

- For the Scripture says, *"You shall not muzzle an ox while it treads out the grain,"* and, *"The laborer is worthy of his wages."*

1 Timothy 5:18 (NKJV)

- *"Even so the Lord has commanded that those who preach the gospel should live from the gospel."*

1 Corinthians 9:14 (NKJV)



WHY IT'S IMPORTANT

Provides structure and protection:

- Ensures appropriate spending
- Clarifies personal income
- Extends employee tenure
- Protects minister and church
- Enhances clarity and stability
- Helps church comply with tax regulations



WHO IS RESPONSIBLE?



WHO IS RESPONSIBLE?

- Church treasurer
- Personnel committee
- Ministers
- Church employees



THREE THINGS YOU NEED TO KNOW
BEFORE YOU BEGIN



THREE THINGS YOU NEED TO KNOW

BEFORE YOU BEGIN

(Page 2)

- 1 Benefits of a compensation plan**
- 2 Dangers of “lump sum” or “package” approach**
- 3 Eligibility requirements of a Minister for Tax Purposes**



THREE THINGS YOU NEED TO KNOW

BEFORE YOU BEGIN

(Page 2)

1 **Benefits of a compensation plan**

- It reduces confusion
- It ensures funds are spent appropriately
- It lets ministers and staff know you value them



THREE THINGS YOU NEED TO KNOW

BEFORE YOU BEGIN

(Page 2)

1 **Benefits of a compensation plan:**

2 **Dangers of “lump sum” or “package” approach**

- Often causes ministers to pay higher taxes
- May lead to a financial hardship for the church
- Distorts minister’s amount of actual income



THREE THINGS YOU NEED TO KNOW

BEFORE YOU BEGIN

(Page 2)

1 **Benefits of a compensation plan:**

2 **Dangers of “lump sum” or “package” approach:**

3 Eligibility requirements of a Minister for Tax Purposes:

- Ordained, licensed or commissioned
- Administers ordinances
- Conducts worship
- Management responsibilities
- Religious leader



THREE THINGS YOU NEED TO KNOW

BEFORE YOU BEGIN

(Page 2)

3 **Ministers for Tax Purposes**

- Exempt from mandatory federal income tax withholding
- Eligible for church-designated housing allowance
- Must pay SECA taxes for Social Security coverage



CREATING A COMPENSATION PLAN

SIX ESSENTIAL STEPS:

Step 1 **Determine the needs**



STEP 1: DETERMINE THE NEEDS

(Pages 4–5)

Compensation Plan Review

- Ministry-related expenses
- Employee Benefits
- Personal income

SECTION 1: MINISTRY-RELATED EXPENSES (see page 7 for examples)

Personal Vehicle Expenses		
Description	Minister/employee estimate	Amount budgeted to reimburse expense
Estimated business mileage	(miles)	N/A
Multiply mileage by the IRS standard rate to determine cost for vehicle's business use; visit IRS.gov/tax-professionals/standard-mileage-rates	\$	\$

Travel Expenses		
Description	Minister/employee estimate	Amount budgeted to reimburse expense
Estimated travel expenses for work-related events (food, lodging, etc.)	\$	\$

Ministry Expenses		
Description	Minister/employee estimate	Amount budgeted to reimburse expense
Estimated expense on materials for sermon preparation, studies or church functions	\$	\$

Hospitality Expenses		
Description	Minister/employee estimate	Amount budgeted to reimburse expense
Estimated expense for hosting church groups, speakers, etc., in a home or at a restaurant	\$	\$

Professional Development Expenses		
Description	Minister/employee estimate	Amount budgeted to reimburse expense
Estimated amount for continuing education, workshops or learning conferences	\$	\$

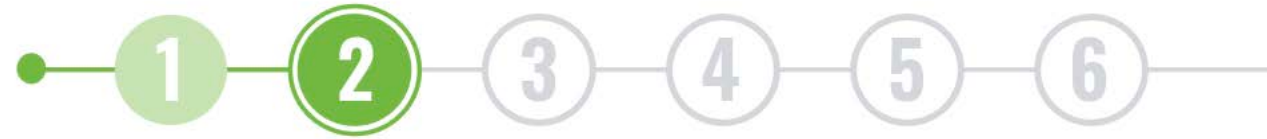


CREATING A COMPENSATION PLAN

SIX ESSENTIAL STEPS:

Step 1 Determine the needs

Step 2 **Establish written policies**



STEP 2: ESTABLISH WRITTEN POLICIES

(Page 6)

Policies should cover four major areas:

- Ministry-related expenses
- Employee benefits
- Personal income
- Personnel policies



CREATING A COMPENSATION PLAN

3

SIX ESSENTIAL STEPS:



Step 1 Determine the needs

Step 2 Establish written policies

Step 3 **Provide for ministry-related expenses**



STEP 3: PROVIDE FOR MINISTRY-RELATED EXPENSES

(Page 7)

Address these expenses with an Accountable Reimbursement Plan (ARP)

- Vehicle use for business purposes
- Meetings, workshops and conferences
- Books, periodicals, software, etc.
- Continuing-education opportunities
- Provisions for ministry-related hospitality



STEP 3: PROVIDE FOR MINISTRY-RELATED EXPENSES

(Page 7)

Requirements for an ARP

- Expenses must have a business purpose
- Document amount, date, place and purpose
- Expenses substantiated within 60 days
- Excess reimbursements returned within 120 days



STEP 3: PROVIDE FOR MINISTRY-RELATED EXPENSES

(Page 7)

Requirements for an ARP

- IRS-approved standard rate for transportation (mileage rate), meals and lodging
- Unused ARP money should not be given as a bonus or additional income
- (See page 9 of workbook for sample ARP)



STEP 3: PROVIDE FOR MINISTRY-RELATED EXPENSES

(Page 8)

Create an ARP in three easy steps:

1. Determine covered expenses and create a plan
2. Require expense reports to be submitted within 60 days of incurring expenses
3. Reimburse approved expenses at least once a month

SAMPLE: EXPENSE REPORT

Employee name: Rev. John Smith			
For the month of: January			
Date	Description of Expense	Business Purpose	Amount
January 17-18	Mileage to conference	Mileage (457 x .58)*	\$255.92
January 17	Meals at conference	Meals	\$ 53.25
January 17-18	Hotel	Lodging	\$ 120.00
January 17	Sunday school teacher's guide	Ministry expense/books	\$ 53.00
		Subtotal	\$482.17
		Minus advance	\$200.00
		Total reimbursement due	\$282.17

*This figure is subject to change on an annual basis. For the latest update, visit [IRS.gov/tax-professionals/standard-mileage-rates](https://www.irs.gov/tax-professionals/standard-mileage-rates).



CREATING A COMPENSATION PLAN

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SIX ESSENTIAL STEPS:



Step 1 Determine the needs

Step 2 Establish written policies

Step 3 Provide for ministry-related expenses

Step 4 **Provide employee benefits**



STEP 4: PROVIDE EMPLOYEE BENEFITS

(Pages 10-11)

A strong benefit plan:

- Has tax advantages
- Offers insurance coverage benefits
 - Protects church
 - Provides appropriate coverage for staff
- Includes retirement contributions



STEP 4: PROVIDE EMPLOYEE BENEFITS

(Page 10)

Insurance coverage can include:

- Term life
- Employee accident
- Medical
- Disability
- Dental



STEP 4: PROVIDE EMPLOYEE BENEFITS

(Page 11)

A retirement plan:

- Paid service ends, income needs do not
- Employer contributions
- Employee contributions



STEP 4: PROVIDE EMPLOYEE BENEFITS

(Pages 11-12)

A GuideStone retirement plan features:

- Tax-sheltered contributions
- Designed exclusively for ministries
- No SECA taxes for eligible ministers
- Housing allowance benefit
- Roth contributions (not available in all plans)



STEP 4: PROVIDE EMPLOYEE BENEFITS

(Page 12)

The Church Retirement Plan for SBC churches

- Potential benefits
 - Disability income
 - Survivor protection
 - Discretionary retirement contribution



CREATING A COMPENSATION PLAN

SIX ESSENTIAL STEPS:



Step 1 Determine the needs

Step 2 Establish written policies

Step 3 Provide for ministry-related expenses

Step 4 Provide employee benefits

Step 5 **Determine personal income**



STEP 5: DETERMINE PERSONAL INCOME

Factors for determining personal income:

- Responsibilities and experience
- Inflation
- Social Security
- Minister's housing allowance



STEP 5: DETERMINE PERSONAL INCOME

(Page 13)

How to designate a housing allowance:

- Minister's responsibility
 - Present an estimate of housing expenses
- Church's responsibility
 - Designate amount prior to paying minister
 - Review annually
 - Record it as set until changed by official decision
 - Remember housing allowance limits

SAMPLE: MINISTER'S ESTIMATE OF HOUSING EXPENSES FORM

To (church): _____

From (minister): _____

Housing allowance for (year): _____

Item	
1. Down payment on a home	\$
2. Mortgage payments on a loan to purchase or improve your home (include both principal and interest)	\$
3. Real estate taxes	\$
4. Property insurance	\$
5. Utilities (electricity, gas, water, trash pickup, local telephone charges)	\$
6. Furnishings and appliances (purchase and repair)	\$
7. Structural repairs and remodeling	\$
8. Yard maintenance and improvements	\$
9. Maintenance items (pest control, etc.)	\$
10. Homeowners association dues	\$
11. Miscellaneous:	\$
	\$
	\$
TOTAL EXPENSES	\$

Minister's signature: _____

Date: ____ / ____ / ____



STEP 5: DETERMINE PERSONAL INCOME

(Page 13)

Use the SBC Compensation Study

- See compensation trends for ministers and staff at like-sized SBC churches in your region
- Help determine adequate compensation packages for your church



CREATING A COMPENSATION PLAN

SIX ESSENTIAL STEPS:



Step 1 Determine the needs

Step 2 Establish written policies

Step 3 Provide for ministry-related expenses

Step 4 Provide employee benefits

Step 5 Determine personal income

Step 6 **Complete a compensation planning summary**



STEP 6: COMPLETE A COMPENSATION PLANNING SUMMARY

(Page 16)

About the summary

- Develops plan for new budget year
- Categories are not to be added together
- Be mindful of federal reporting requirements for churches (see our *Ministers' Tax Guide*)

Ministry-related Expenses (not income)		
1. Automobile		\$
2. Conventions/conferences		\$
3. Books, periodicals, software		\$
4. Continuing education		\$
5. Hospitality		\$
Employee Benefits (not income)		
1. Life and health coverage		\$
a. Medical		\$
b. Disability		\$
c. Term life		\$
d. Personal accident		\$
e. Dental		\$
2. 403(b)(9) retirement plan contribution		\$
Personal Income		
1. Personal salary		\$
2. Housing allowance		\$
3. Social Security offset	(taxable)	\$



NEXT STEPS



NEXT STEPS

Church reviews and implements the six steps:

1. Determine the needs
2. Establish written compensation policies
3. Provide for ministry-related expenses
4. Provide employee benefits
5. Determine personal income
6. Complete a compensation planning summary



VISIT [GuideStone.org/CompensationPlanning](https://www.GuideStone.org/CompensationPlanning)
to get your digital copy and access other helpful resources.





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GuideStone is ready to help.

View our **Compensation Planning Guide** workbook and access other valuable resources at [GuideStone.org/CompensationPlanning](https://www.guidestone.org/CompensationPlanning).



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