

**PRESBYTERY
of
EASTERN VIRGINIA**



**GUIDELINES for FAIR
COMPENSATION for
MINISTERS, CLPs and CERTIFIED
CHRISTIAN EDUCATORS**

2008

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This document was approved by COM on October 2, 2007

MINISTERIAL and CHRISTIAN EDUCATORS COMPENSATION

A Plan and Guide for the Presbytery of Eastern Virginia

INTRODUCTION AND GUIDING PRINCIPLES

In July 1978, Norfolk Presbytery adopted a plan for Ministerial Compensation which it felt was sound and fair. Presbytery approved a slight modification of the plan in July 1986. According to the Articles of Agreement bringing about the new presbyteries, this plan remains in effect for the Presbytery of Eastern Virginia until changed or amended. The plan is formulated on the premise that the TOTAL ANNUAL SALARY paid and/or furnished to a minister should appear reasonable, just, and fair to the leaders of a congregation, to a majority of the members of a congregation, to the minister, and to the minister's spouse. For the peace, unity and effectiveness of the church, general acceptance by all of these is essential as the minister and members work together to carry out the mission of the church.

Several principles underline the development of the plan:

- 1) Scripture indicates in Luke 10:4-7 that one who labors for the gospel "deserves his wages." I Corinthians 9:14 states that those who proclaim the gospel "should get their living by the gospel."
- 2) As the life of the early church developed, it was suggested that those who served with distinction should receive material rewards. "Let elders who rule well be considered worthy of double honor, especially those who labor in preaching and teaching." (Timothy 5:17) In the Moffatt version "double honor" is translated "ample remuneration," and in Phillips "adequate salary." Thus some rewards for certain types of work as well as years of service are included.
- 3) Remuneration for services rendered by the pastor should be in line with the income levels of the area in which that service takes place.
- 4) The pastor is a skilled worker with high responsibility for which the Church has required long years of preparation and training.
- 5) Principles of Justice and Fairness are to be honored and emphasized.

It is hoped that each congregation in the Presbytery, through its Session, will enter into dialogue with their minister(s) so that the concerns of each can be aired and that fair compensation can be worked out. The Guidelines for Fair Compensation adopted by Presbytery are recommended to congregations and agencies of Presbytery in the hope that they will be able to compensate their ministers at the level recommended by the guidelines.

NOTE: The Guidelines for Fair Compensation are recommendations and ARE NOT TO BE CONFUSED with minimum compensations that are expected to be met by each congregation.

Minimum expectations for salary, housing, etc., for 2008 and minimum requirements are listed on Page 4 and these minimums are expected to be met.

If they cannot be met, the Committee on Ministry is to meet with the Session to arrive at the best solution possible, emphasizing justice and fairness.

USE OF THIS BOOKLET

This publication is designed to provide background information and general information you should know in calculating ministerial compensation. You'll find Minimum Compensation expectations and requirements, the Guidelines for Fair Compensation, and accompanying Worksheets for developing your ministerial compensation for 2008, along with a listing of adjusted Median Family Income for the various areas of Presbytery.

GENERAL INFORMATION

(Applicable to either meeting or exceeding the Minimum Compensation or the Guidelines for Fair Compensation)

Designation for Housing, Utilities, Furnishings and Appurtenances

These designations are expected in each call depending on its category. The recommended amount is a percentage of the cash salary and is not in addition to the cash, but designates a part of the salary for these purposes. Designations of this sort are of real help to ordained ministers in relationship to Income Taxes and are provided by the current regulations of the

Internal Revenue Service. The amount is designated annually by the session or employing organization in advance of payment. The designated amount is as agreed upon by the Session and the minister and stated in dollars. This means that a minister may spend his or her cash salary up to that amount designated for rent or house payments, utilities costs, furnishings for the house, and appurtenance costs (such as fences, planting of trees and shrubs and lawns, etc.) and not report the actual amount spent, up to the amount of the designation, as income for income tax purposes although it does count for Social Security Self-employment Tax purposes. While proof does not need to be filed with the income tax return, receipts must be retained and made available if audited. If the call includes the use of a free manse but no utilities, then the minister may spend up to that amount on utilities, furnishings and appurtenances at the manse and not report it as income. If the call is for the use of a manse and the church pays for the utilities, then the minister may spend up to that amount for furnishings and appurtenances at the manse and not report it as income.

Please note that in accordance with IRS guidelines that any housing allowance for the coming year must be approved in advance and for a specified amount. A suggested procedure is that prior to the end of the current year the session approve, and include in the minutes, a designated housing allowance in the amount of \$XX,XXX for 2008. At the Congregational Meeting when the changes in the Terms of Call are approved, there should be a statement to the effect that the pastor's compensation includes the housing allowance of \$XX,XXX for 2008 as approved by the Session at their November/December 2007 meeting. Under no circumstances can a housing allowance be designated retroactively. Should the congregation change the amount, the new housing allowance is effective from the date of that meeting. The *Tax Guide for Ministers and Churches*, prepared by The Board of Pensions of the PC (U.S.A.), states in part that "ministers should be sure that the designation of a housing or parsonage allowance for the next year is on the agenda of the church (or church board) for one of its final meetings during the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS also recognizes designations included in employment contracts and budget line items-assuming in each case that the designation was appropriately adopted in advance by the church and supported by underlying documentation as to each minister's anticipated housing expenses. A housing allowance must be designated in advance. Retroactive designations of housing allowances are not effective. A housing allowance can be amended during the year if a minister's housing expenses are more or less than expected. However, an amendment is only effective prospectively." Additional information can be found in Publication 17, *Your Federal Income Tax*, Publication 517, *Social Security and Other Information for the Members of the Clergy and Religious Workers*, or Tax Topic 417, *Earnings for Clergy*.

NOTE: Amounts so designated may be excluded from income subject to income tax, but only to the extent actually used. Any designated amount not used is to be reported as income.

Self Employment Contributions Act (SECA) Reimbursements

The entire amount of any allowance for the Self Employment Contributions Act is considered earned income and is taxable income. If the employing organization reimburses the member more than 50% of the minister's SECA tax obligation, the amount of the allowance estimated to be in excess of 50% must be included in the effective salary and that amount in excess of 50% is subject to Board of Pensions dues. This item is a salary supplement to cover the cost of Social Security Self-employment Tax. There will be a maximum tax and, therefore, a maximum ceiling on the Social Security Supplement. However, this is not normally published by the federal government until November. The maximum salary base for 2007 was \$97,500. A multiplier of 15.3% is used when the call is for 100% of the Social Security Self Employment Tax or 7.65% when the call states 50% Social Security.

Benefits Plan of the Board of Pensions

All ministers of the Word and Sacrament who serve in installed positions are required by the *Book of Order* to be enrolled in the Benefits Plan. Terms of Call provide for full participation status and require the church to pay full dues (medical, pension, death and disability) for each installed minister.

Ministers of the Word and Sacrament who serve in temporary pastoral positions or who serve in specialized ministry are not mandated by the *Book of Order* to be enrolled. To be eligible for enrollment, ministers in these positions must work at least 20 hours per week or 1,000 hours per year. If an eligible minister serving in such a position is enrolled in the plan, the church or employing organization must pay full dues (medical, pension, death and disability). Specialized ministries must be validated by the presbytery.

Churches that have installed pastors in post-retirement situations pay Board of Pensions dues of 12% if employed for 20 hours or more per week.

For 2008, the dues will total 31.5% of the Effective Salary and no part of this 31.5% can be waived due to no dependents or fewer dependents to be covered. Dental coverage and retirement savings options are not available within the required dues structure. HOWEVER, the minister and church may agree on making optional coverage available as a salary supplement subject to the dues structure.

Minimum Medical Dues will continue to be required if the Effective Salary is below **65%** of the Church wide Median Salary and **Minimum Pension Dues** are required if the Effective Salary is below **25%** of the Church wide Median. For 2008, the Church-wide Pastors' Median Salary is **\$49,000 (65% is \$31,850 and 25% is \$12,250)**.

MINIMUM COMPENSATION

All Calls to full time ministerial services are expected to meet **or exceed** these minimums. The increase in the minimum salary for 2008 is \$991.00 over the 2007 minimum salary based on a May 2007 Consumer Price Index of 2.7%. This is not intended to limit any increases in pastor's salaries to the minimum or to an increase of only 2.7%.

- A. With No Manse or Utilities Furnished - the minimum Total Annual Cash Salary is \$37,701 including allowance for housing, utilities, furnishings, and appurtenances.
- B. With Manse, No Utilities Furnished – the Total Annual Salary is a minimum Cash Salary including allowance for utilities, furnishings, and appurtenances of \$30,161 plus a minimum manse value of \$7,540 = \$37,701.
- C. With Manse and Utilities Furnished – the Total Annual Salary is a minimum Cash Salary including allowance for furnishings, and appurtenances of \$28,961 plus minimum manse value of \$7,540 plus utilities (minimum \$1,200 or budgeted amount) = \$37,701.

MINIMUM EXPECTATIONS FOR SALARY, HOUSING, ETC., FOR 2007

- I. Ministers without Manse and Utilities provided.
 - SALARY – not less than \$37,701
Includes Cash Salary and Housing Allowance
- II. Ministers with Manse and no utilities
 - SALARY – not less than\$30,161
Includes Cash Salary and Appurtenances allowance
In determining cash salary manse is valued at 20% of \$37,701 or \$7,540
- III. Ministers with Manse and Utilities
 - SALARY – not less than.....\$28,961
Includes Cash Salary and Appurtenances allowance
In determining cash salary manse is valued at 20% of \$37,701 or \$7,540
Minimum of \$1,200 for Utilities
- IV. PROFESSIONAL REIMBURSEMENTS – not less than \$ 2,700
Professional reimbursements include full costs for substantiated professional expenses:
For use of automobile in performance of ministry (at the IRS business rate)
Continuing education, professional literature, and other usual costs of ministry (may be accumulated for up to 3 years)
- V. BENEFITS: Full participation in the Benefits Plan of the Presbyterian Church (U.S.A.) as determined by the Board of Pensions to include Pension, medical, death and disability
OPTIONAL BENEFITS may include:
 - 1) Dental Insurance
 - 2) Term Life Insurance
 - 3) Retirement Savings Plan

These minimum expectations are normally based on the adjusted median family income for the least affluent city or county within the bounds Presbytery. The figure includes salary, housing and utilities or the value of housing and utilities that are provided by the church, and such portions of the Social Security Supplement that is not otherwise paid by the congregation.

MINIMUM REQUIREMENTS FOR OTHER TERMS OF CALL FOR 2008

- In addition to salary, housing, and utilities items, the following are minimum **required** terms:
- a. Full dues to the Benefits Plan of the Board of Pensions (31.5% of Effective Salary as defined by the Board of Pensions);
 - b. Salary supplement equal to 50% of the Social Security Self-employment Tax;

- c. Four weeks or one month paid vacation;
- d. Professional Expense Reimbursement Plan - Presbytery has approved a minimum of \$2,700 for reimbursement of automobile expenses, books, continuing education and other professional expenses when substantiated to the Church Treasurer or other person designated by the session. It is recommended that the professional expense reimbursement plan items be subdivided and listed as professional expenses and continuing education in the church budget so that the continuing education portion, if justified, may be carried over to the next year (accumulated for three years) and not be deleted as at the end of the budget year. The two lines are to meet the \$2,700.00 minimum established by presbytery. (See Appendix B);
- e. Annual Study Leave of two weeks (accumulation of up to three years {6 weeks} authorized);
- f. Sabbatical leave of three months recommended to be taken during the seventh year of continuous service in accordance with Presbytery of Eastern Virginia policy.
- g. Annual review of the terms of call and covenant with an evaluation of the mutual achievement of mission goals by minister and session with serious consideration given to the current adjusted median family income.

NOTE: When optional benefits, reimbursed expenses, and other terms exceed the minimum requirements, the excess may be used to determine if the TOTAL ANNUAL SALARY meets the Minimum Expectations.

COST TO THE CHURCH

A. Effective Salary

- 1. Cash Salary (includes employee contributions to 403(b) plans, tax-sheltered annuity plans) (does not include A.2 amount) \$ _____
- 2. Housing, utilities, and/or furnishing allowances, as appropriate \$ _____
- 3. **TOTAL SALARY** (Lines 1 + 2) \$ _____
- 4. Employing organization contributions to 403(b) plans, tax-sheltered annuity plans, equity allowances \$ _____
- 5. Bonuses, overtime pay, unvouchered professional expense allowances, gifts from employing Organization \$ _____
- 6. Other allowances: (Optional Medical/dental benefits _____)
(SECA in excess of 50%) _____
(Other _____) \$ _____
- 7. Manse amount (must be 30% of Lines 1-5 for members residing in employer-provided housing) \$ _____
- 8. **TOTAL EFFECTIVE SALARY** (Lines 3 – 7) \$ _____

B. Pension Dues

Dues are calculated by multiplying Total Effective Salary (Line 8) by 31.5% for 2008 \$ _____

C. SECA (Social Security)

Multiply total salary by 7.65% for 50% SECA supplement \$ _____

D. Professional Expenses

- Professional expenses (Mileage, meals, books, etc.) \$ (_____)
- Continuing Education Allowance \$ (_____)

TOTAL COST TO THE CHURCH

NOTE: Any changes in the terms of call between 2007 and 2008 must be approved by Presbytery. (See the *Book of Order*, G-14.0511) The Session reviews the adequacy of compensation (G-10.0102n) and reports it at a congregational meeting (G-7.0304a(3)) (the Annual Meeting (G-7.0302a)). Changes in terms of call are approved by the congregation and forwarded to Presbytery for approval on the form supplied by Presbytery's office in November of each year. G-14.0511 indicates that the changes must be approved by Presbytery and are considered by Presbytery at the request of the minister or church by action of the congregation. In addition, *Book of Order* G-11.0103n provides that Presbytery is to approve and record in the minutes the full terms of all calls.

ALL CHANGES MUST BE REPORTED TO THE BOARD OF PENSIONS ON FORM ENR-100, SERVICE/SALARY CHANGE TO ENSURE THAT A MINISTER RECEIVES PENSION CREDITS BASED ON CURRENT SALARY.

GUIDELINES FOR FAIR COMPENSATION OF MINISTERS

Median Family Income As A Basis

In July 1978, Presbytery adopted a plan using the Median Family Income of our area as a basic guideline. This was reaffirmed in July 1986. Median Family Income means that one-half of the families of the area have an income above this figure and one-half below this figure. After studying various options, it appears to be the fairest guideline in existence. The source for the Median Family Income figures is Claritas, Inc., 5375 Mira Sorrento Place, San Diego, CA. These figures are published by Presbytery's office to each church, in this booklet for their guidance and have not been adjusted from that provided by Claritas, Inc. The Presbytery has urged its congregations to work toward raising their minister's compensation to that suggested in the Guidelines for Fair Compensation. Although a congregation is free to use the Median Family Income for its particular city or county, the Committee on Ministry suggests that the metropolitan MFI for Hampton Roads (for 2008 it is \$51,424) be the figure used. This figure for TOTAL ANNUAL SALARY includes salary, housing, utilities or value of housing and utilities provided by the church, and such portions of the Social Security Supplement as is not otherwise paid by the congregation.

NOTE: If the TOTAL ANNUAL SALARY is above the minimum compensation, it does NOT mean that it meets the Guidelines for Fair Compensation. To meet these guidelines, the TOTAL ANNUAL SALARY is to be calculated according the following guidelines.

I. TOTAL ANNUAL SALARY

This item is the salary to be paid to a minister and includes all housing and utilities whether furnished by the church or a part of the cash payment. In order to work out the amount of this TOTAL ANNUAL SALARY, refer to the following set of information and then fill in figures using the Worksheet No. 1 which follows.

A. Start with the BASE FIGURE, which should be the Median Family Income for the area. (see Appendix A)

B. VARIABLES - These are the additions or subtractions to be used with the base figure. Some suggestions follow:

<u>Experience Factor</u>	<u>Add to the Base Figure</u>
Since Ordination serving in a Church Related Vocation	
0 - 2 years.	0%
3 years.	+ 2%
4 years.	+ 4%
5 years.	+ 6%
6 years.	+ 8%
7 years.	+ 10%
8 years.	+ 12%
9 years.	+ 14%
10 years.	+ 16%
11 years to 20 years (maximum), 1% per year additional up to a maximum of 26%.	

Size of Congregation (for pastors only)

(These are suggested ranges. They are intentionally overlapped to provide choice and to de-emphasize that the addition of one more member would automatically qualify for increased compensation.)

<u>Number of Members Served</u>	<u>Add to the Base Figure</u>
150-200.....	\$ 75.00
200-300.....	150.00
250-400.....	250.00
350-500.....	375.00
400-650.....	500.00
550-800.....	750.00
700-1,200.....	1,000.00
1,000-1,500.....	1,500.00

Special Requirements For Position

This includes a wide number of possibilities which should be considered at the time the position is developed. Below are two examples:

- (1) For a pastor serving a two or more church field, add 3% to the Base Figure for each additional church served.
- (2) For a pastor serving in a position of new congregational development as designated by the New Church Development Committee, add 3% to the Base Figure.

Special Qualifications

This includes special talents expected of the minister and the possibility that a degree beyond the basic theological degree should be considered for additional compensation.

Associate Pastors

For ministers serving as associate pastors, use 90% of the Base Figure with no adjustment for church size; plus experience factors, special requirement factors, and special qualifications factors based on the Base Figure.

GUIDELINES FOR FAIR COMPENSATION FOR COMMISSIONED LAY PASTORS

The commissioned lay pastor (CLP) is an elder in the Presbyterian Church (U.S.A.) who is granted a local commission by the presbytery to lead worship, preach the gospel, watch over the people, and provide for their nurture and service. The elder shall be instructed in Bible, Reformed Theology and Sacraments, Presbyterian Polity, preaching, leading worship, pastoral care and teaching and shall be examined by the appropriate committee of presbytery as to personal faith, motives for seeking the commission, and the areas of instruction previously mentioned. The commission shall be valid for a period of up to three years and may be renewed or terminated at any time at the discretion of the presbytery. Compensation should be negotiated between the CLP and the Session and approved by the Committee on Ministry.

TIME EXPECTATIONS (per week) _____

SPECIFIC DAYS IN MINISTRY if applicable _____

COMPENSATION (as applicable):

Cash salary _____/hour, week, month (circle)

Medical Coverage _____

Social Security withheld _____

Travel reimbursement @ _____ cents/mile (IRS rate)

Other ministry cost reimbursement (telephone calls, etc.) _____

Continuing education or book allowance _____

Other: _____

Housing arrangements in the community _____

Vacation Time _____ Continuing Education Time _____

Presbytery COM/Date

Moderator or Clerk of Session/Date

GUIDELINES FOR FAIR COMPENSATION FOR CERTIFIED CHRISTIAN EDUCATORS, CERTIFIED ASSOCIATE CHRISTIAN EDUCATORS, AND OTHER CHURCH EDUCATORS

The *Book of Order*, G-11.0103n, requires that minimum compensation and benefits for all calls to Certified Christian Educators and guidelines for compensation and benefits for Certified Associate Christian Educators employed by churches of the presbytery be established.

A. **Certified Christian Educator** - Minimum compensation figures and benefits for full-time employment are established as indicated (part-time employment should be prorated):

- a. Salary \$37,701.
- b. FICA (50%) 2,884.
- c. Professional expenses 2,500.
- d. Experience (Add 1% per year of full-time experience as a church educator up to 15%)
- e. Board of Pension Benefit Plan dues
or negotiated comparable benefits package
- f. Four weeks vacation
- g. Two weeks annual study leave
- h. It is recommended that the base salary be increased by 1% for each of the following complexities that apply to the position.
 - Staff responsibility for more than one session committee.
 - Supervise day care or weekday program in addition to education program.
 - Congregation is bi-lingual, multi-racial.
 - Church is under Administrative Commission or other conflict situation.

Count the number above that apply and multiply for 1% of base salary
(.01 x number of factors above x minimum Add \$_____)

B. **Certified Associate Christian Educator or Church Educator** - suggested compensation guidelines for establishing an educator's salary when employed on a full-time basis are outlined below using a starting point as 80% of the minimum salary of a certified Christian educator.

The following worksheet will assist in determining an appropriate salary range for a church educator. This salary should be determined on the basis of the duties performed and the skills of the person called to accomplish them. The committee may find it helpful to work through this form before the search using the minimum requirements for the minimum of the range and the maximum the church can pay for the maximum of the range. When the committee has decided whom it wishes to call, this may be helpful in determining the salary offered. It may also be used during the annual salary reviews to take into account any new factors, years of experience, or progress toward certification.

In keeping with the *Church-wide Compensation Guidelines*, it is also appropriate to study the salary in relation to other staff and clergy compensation packages. For that reason this format is based on the figure determined locally by the presbytery to be a minimum compensation for clergy. The committee's presbytery office can supply the most recent minimum salary figures.

Presbytery minimum salary \$_____ (suggested start point) (\$37,701 for 2008)

Determine 80% of minimum salary \$_____ (\$ 30,161)

Add 5% for a Certified Associate Christian Educator

Add 10% for Masters Degree in Christian Education.

Add 1% per year of full-time experience as a church educator up to 10 years (.01 x number of years x minimum)

It is recommended that the base salary be increased by 1% for each of the following complexities that apply to the position.

- Staff responsibility for more than one session committee.
- Supervise day care or weekday program in addition to education program.
- Congregation is bi-lingual, multi-racial.
- Church is under Administrative Commission or other conflict situation.

Count the number above that apply and multiply for 1% of base salary
(.01 x number of factors above x minimum Add \$_____)

Calculate Salary for Certified Associate Christian Educator and other church educators

Presbytery minimum salary	\$ _____	
Determine 80% of Presbytery minimum	\$ _____	
Add 5% for Certified Associate Christian Educator	\$ _____	
Add 10% for Masters Degree	\$ _____	
Add for factor of complexity	\$ _____	
Add for years of experience	\$ _____	
Total Salary		\$ _____
Add 50% FICA	\$ _____	
Add Benefits Package (negotiated)	\$ _____	
Add Professional Expenses (negotiated)	\$ _____	
Total Cost to Church		\$ _____

Note – Final salary will be as negotiated between the employing church and the educator to include vacation and study leave.

FAIR COMPENSATION SALARY CALCULATIONS (MINISTERS)

To Calculate TOTAL ANNUAL SALARY In Compliance With Guidelines for Fair Compensation

Line

1. BASE FIGURE (Area Median Family Income)..... \$ _____
(see Appendix A)
2. Experience Factor
 - a. Number of years since ordination _____
 - b. Per cent according to table _____%
 - c. Multiply % in Line 2.b times Base Figure in Line 1..... _____
3. Add Lines 1 and 2.c.....\$ _____
4. Size of Congregation (pastors only)
 - a. Number of Members _____
 - b. Amount from Chart..... _____

Annex A

MEDIAN FAMILY INCOME LESS TAXES FOR CITIES AND COUNTIES

Presbytery Minimum Expectation.....	\$ 37,701
Presbytery of Eastern Virginia Median	\$51,424
Metropolitan Areas of North and South Hampton Roads.....	51,770
North Hampton Roads Metro Area (Newport News, Hampton, Gloucester Co., York Co., Williamsburg, James City Co., Poquoson).....	55,741
South Hampton Roads Metro Area (Norfolk, Portsmouth, Chesapeake, Suffolk, and Virginia Beach).....	46,762
Accomack County.....	35,384
Chesapeake.....	58,756
Franklin.....	34,850
Gloucester County.....	53,037
Hampton.....	45,558
Isle of Wight County.....	53,584
James City County.....	66,198
Mathews County.....	53,652
Newport News.....	42,231
Norfolk.....	36,963
Northampton County.....	34,118
Poquoson.....	71,906
Portsmouth.....	39,203
Southampton County.....	38,558
Suffolk.....	48,153
Virginia Beach.....	55,875
Williamsburg.....	43,230
York County.....	68,026

Source – Calritas, Inc., 5375 Mira Sorrento Place, San Diego, CA, 2005 Data plus annual CPI increases

Annex B

PROFESSIONAL REIMBURSEMENT PLAN

At its Stated Meeting on June 26, 1990, the Presbytery of Eastern Virginia established a Professional Expense Reimbursement Plan for Automobile Expenses, Books, Continuing Education and other Professional Expenses with a minimum amount of \$2,700 annually.

Beginning with the 1989 Tax year, significant changes were made by the IRS in regards to Employee Business Expenses. It affects both ministers called by churches and the church itself because Ministers receiving salaries from the church are considered as Employees for Income Tax purposes. Because of these changes, the use of "allowances" for automobile, continuing education, books and any other professional expense are subject to being taxed as income with limited, if any, ability to deduct these expenses. Prior to 1989, the IRS permitted the allowance for automobile to be listed on Form 2106, and if the auto expenses were less than the allowance, only the difference was reported as income. If the allowance was less than the auto expenses, then the unreimbursed expenses could receive a limited deduction on Schedule A. However, beginning with the tax year 1989 that was no longer the case. If the minister now receives an automobile allowance and does not "substantiate" it to the church and pay back to the church any allowance received above the amount substantiated, then the entire allowance is taxable income, not considered a reimbursement for expenses, and should be reported as such by the church on the W-2 form and declared as income by the minister. All of the above also applies to Professional Expenses such as Books, Magazines, Subscriptions, Continuing Education, Dues to Professional Organizations, purchase and maintenance of Clerical garments, etc.

The Church therefore should adopt a Professional Expense Reimbursement Plan. Reimbursement plans are not considered taxable income, and are a "wash" as far as the tax system is concerned. To develop a Plan:

1. Separate the professional expense items and the continuing education account.
2. Determine in the plan what professional expenses are to be reimbursed by the church. At a minimum these should include automobile expenses, (was 48.5 cents per mile for 2007), books, tolls and parking fees for ministerial duties and should also include subscriptions, purchase and maintenance of clerical garments, gifts and cards to persons for professional reasons, and may include other professional expenses such as entertainment of church members, prospective church members, out-of-town speakers etc.
3. Include the requirement for minister(s) to substantiate expenses to the church and provide receipts for other than auto mileage. (NOTE: This does not relieve minister from keeping an ongoing record of business mileage.)
4. Determine the annual amount to be used for continuing education. This amount and the annual study leave may be accumulated for up to three years and does not have to be deleted at the end of the budget year.
5. Determine the maximum total dollar figure for this reimbursement plan. (NOTE: One fair way to determine this figure is for the minister to total these types of expenses for the previous year and adjust for any exceptional expenses for the current or past years such as a large continuing education cost.

As outlined above, **it is recommended that the professional expense reimbursement plan items be subdivided and listed as professional expenses and continuing education in the church budget.** The two lines are to meet the \$2,700.00 minimum established by presbytery. In this manner the continuing education portion, if justified, may be carried over to the next year (accumulated for three years) and not be deleted as at the end of the budget year.

NOTE: IT IS IMPORTANT THAT AN ACTUAL PLAN BE ADOPTED BY THE SESSION.

Appendix 1 to Annex B

Accountable Reimbursement Plan for Professional Expenses

Guidelines for Ministers, Sessions, and Church Treasurers

Advantages of an Accountable Reimbursement Plan

- Individuals can report their business expenses to the church rather than to the IRS
- Persons who report their taxes as employees avoid the limitations on the deductibility of employee business expenses
- The *Deason* allocation rule is avoided (a rule that requires clergy to reduce their total business expenses by the percentage of their total compensation that relates to tax exempt housing)
- The “50% limitation” that applies to the deductibility of business meals and entertainment expenses is avoided.
- Avoid the limitations on the deductibility of business expenses in instances where the minister is not able to itemize deductions
- Avoid the limitation of being able to deduct business expenses on itemized tax returns only to the extent that these expenses exceed 2% of the minister’s adjusted gross income

How to Implement an Accountable Reimbursement Plan

Draft a written policy that includes the following:

- The maximum dollar amount that will be reimbursed on an annual basis
- A list of professional expenses which will be reimbursed by the church

The pastor should mutually agree upon all expenditure that are to be charged through this plan and the search committee/Session at the time that the call/changes in terms of call is negotiated

- Guidelines to be used by the employee for presenting an accounting of professional expenses to the church treasurer for reimbursement
- Guidelines to be used by the church treasurer in implementing the Accountable Reimbursement Plan

(A sample plan is included at the end of the document.)

The expenses listed below constitute the more commonly incurred expenses.

1. Automobile expenses for business mileage

Note: The IRS Standard Mileage Rate for 2007 was 48.5 cents per mile.

Reimbursements exceeding the approved IRS mileage rate must be reported as taxable income.

2. Parking fees and tolls incurred in the course of ministerial duties
3. Continuing Education (tuition, room, board, and travel)
4. Professional books, journals, magazines, and newspapers
5. Dues to professional organizations
6. Meals and entertainment of out-of-town speakers who address groups at church
7. Meals and entertainment of prospective church members or church members when church business is discussed
8. Purchase and maintenance of clerical garments

Suggested Guidelines for the Reimbursement of Expenses for Church Employee

- The employee should furnish requests for reimbursements to the church treasurer within one hundred twenty days (or as agreed to in the plan) of having incurred the expense

Requests for reimbursement should be made as follows:

Automobile, tolls, and parking

Date

Place

Business purpose/relationship

Number of Miles and the dollar amount requested for reimbursement

Other professional expenses:

Date

Type of expense

Place

Business purpose/relationship

Cost

Receipts

Excess reimbursements received by the employee must be returned to the employer **within 120 days** of payment.

Guidelines for the Reimbursement of Expenses for Church Treasurers

- Church treasurers should implement the reimbursement system based upon the mutually approved reimbursement plan
- The treasurer should ensure that requests for reimbursement of covered items are accompanied by sufficient documentation and are received within 120 days (or as agreed to in the plan) of the date that the expenses are incurred.

Minimum requirements as specified by the IRS include the following:

- a. Date
- b. Time of day (in the case of business travel)
- c. Place
- d. Business purpose/relationship
- e. Receipts

- The treasurer must charge the expenses against the Accountable Reimbursement Account, which has been set up by the church

Note- Reimbursement of professional expenses through the periodic reduction of the employee's salary is not permitted and will result in the plan being reclassified by the IRS as a non-accountable reimbursement plan.

- All overpayments of professional expenses must be returned to the church within 120 days. Overpayments, which are not returned to the church, should be included as taxable pay on the employee's W-2.

Enclosure 1 to Appendix 1 to Annex B

**Accountable Reimbursement Plan for Professional Expenses
(Suggested)**

Note: These are guidelines only and may be changed to reflect the needs of an individual church.

The _____ Presbyterian Church establishes an **Accountable Reimbursement for Professional Expenses Plan** between The Reverend _____ and the _____ Presbyterian Church effective January 1, 2008 and is limited to the maximum of \$ _____ annually.

Professional expenses to be reimbursed under this plan shall include the following categories and or items:

The employee shall substantiate to the church treasurer all of the above listed expenses within one hundred twenty days of incurring the expense. Expenses shall be documented as follows:

1. Automobile, tolls, and parking
 - a. Date
 - b. General time of day
 - c. Place
 - d. Business purpose/relationship
 - e. Number of Miles and the dollar amount requested for reimbursement

2. Other professional expenses:
 - a. Date
 - b. Type of expense
 - c. Place
 - d. Business purpose/relationship
 - e. Cost
 - f. Receipts

The church treasurer will, upon receipt of professional expenses with the appropriate documentation, reimburse the employee on a timely basis out of the church reimbursement account.

It is not permissible for the employer to reimburse the employee for professional expenses by means of periodic salary deductions.

All overpayments made to the employee shall be returned to the church within 120 days. Any amount remaining in the reimbursement account at the end of the year shall remain the property of the church.

It is understood that all amounts reimbursed to the employee under this plan are not considered to be income and will not be included on the employee's W-2 form.

(Clerk of Session's signature)

(employer's signature)

(date)