Q & A
ACCOUNTABLE REIMBURSEMENT POLICIES

The following questions and answers are intended to assist congregations and organizations in establishing and maintaining **accountable reimbursement policies** for their clergy and staff.

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 congregation 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 congregation. 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 congregation 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 appropriate documentation. The congregation either pays the expense directly or reimburses the pastor.

2. Are accountable reimbursement policies only for clergy?

No. The congregation 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 congregation 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 congregation an accurate account or 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 congregation members and some privacy may be lost. Also, the funds in the accountable reimbursement budget belong to the congregation 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 congregation’s own needs and structure. The policy should require documentation in accordance with IRS regulations. This tax packet includes easy to implement sample policies (short and long). Most congregations 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, and the appropriate 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 congregation is doing the budget for the upcoming year. Once a written policy is in place, the congregation only needs to examine the budget funding for the accountable reimbursement policy each year.

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

Out of the congregation’s budget, just like other expenses of running the congregation. The congregation needs to look at its budget and determine what amounts are necessary to pay for reasonable business expenses that fulfill the mission of the congregation, together with what it can reasonably afford. It is important for the congregation to realize that business expenses are properly congregation 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 congregation reduce the pastor’s salary to fund the accountable reimbursement policy?**

Probably not. The IRS had prohibited salary reductions to cover accountable reimbursement policies, issued a contrary ruling and now says the matter is under consideration.

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

Yes. For example, when the congregation 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 congregation does not have to report the new travel reimbursement as part of the W-2 income.

10. **Can the congregation and the pastor negotiate compensation at the beginning of a new appointment and structure compensation 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 congregation 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?

Included in this tax packet is a worksheet designed to help congregations 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 congregation. 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 treasurer, or finance committee chair, or other appropriate approvals, may shift expenses during the year from one category to another. *See also "Examples" at the end of this Q&A for suggestions about proper and improper reimbursements.*

12. Should the congregation 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 congregation pay it. Alternately, s/he can substantiate the expense and ask that the congregation reimburse him/her. We have attached a sample voucher form that can be used to submit requests for payment or reimbursement. Some congregations 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 sufficient substantiation (*See question 13 below*).

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 congregation may use this figure or set a lower limit. (*e.g.*, ELCA churchwide organization requests receipts for all expenses) 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 could not require a receipt, and at the very least should state, "Purchased Notebook for $10.25 on 1/5/09 for keeping accountable reimbursement records for congregation." A meal expense might state, "$5.90 lunch on 1/5/09, in Centerville while meeting with synod assembly planning team. Another example is $150 expenditure for a continuing education seminar where the staff can submit the invoice for payment by the congregation 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 congregation?

The IRS requires that all substantiation of expenses be submitted within 60 days of the expense being paid or incurred. Using the above example of a notebook purchased on 1/5/09, the expense substantiation must be submitted no later than 3/4/09, 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 congregation make advance payments? When must the staff substantiate the expenses?

Yes, it is appropriate to allow advances, if the congregation 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 120 days of the date incurred or paid.

16 Who gets original receipts and documentation?

The congregation 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 more than the copies unless s/he needed to substantiate expenses in excess of the amounts reimbursed.

17. Can the congregation 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 congregation 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 congregation increase the funding of the accountable reimbursement policy during the year?

Yes. If the congregation 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 congregation 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 congregation president, or a member of the executive 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 congregation 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 congregation president or designated executive committee member.

21. What does the IRS consider to be a properly reimbursable business expense and is it different for a congregation 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 congregation to the mega congregations, even though the goals of a congregation are different from the goals of a business. It is necessary that expenses relate to the congregation's unique mission and **that they not be 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 congregation and 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 congregations 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 congregation 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 congregation locations. If the personal nature of the expense is the primary consideration, it is not a business expense. See also the sample list of proper and improper reimbursement items at the end of this Q & A.

22. May a congregation 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 congregation's view of necessary or authorized expenses as they relate to the mission of the congregation. The best way to resolve most conflicts is to try to understand them, discuss them, and come to some agreement. A problem may arise when the congregation and the pastor view their mission differently. If the congregation does not approve of the clergy's involvement in an international mission project and finds it to be outside of the congregation's mission, the pastor should not submit travel or related expenses for such an activity. These issues should be explored ahead of time to avoid misunderstandings.

23. What happens if a new pastor is called 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 type of situation should not arise in the first place, because the departing pastor, congregation leadership including the 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.

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

The congregation. If a congregation has paid for items through an accountable reimbursement policy, the equipment or other property belongs to the congregation, unless there is some other agreement. This issue of ownership usually does not come up until a pastor receives a new call 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, or periodicals. These items are used up or are so personal that there is limited or no value to the congregation.

A computer is the most common item that raises this question. In this day and age it is important for the congregation to supply staff with a computer. However, if the pastor needs a computer, and the congregation has not budgeted for this purchase, the pastor may want to use accountable funds to make this purchase. While the pastor is at the congregation, 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 call. She approaches the chair of the congregation leadership offers to personally purchase the computer for current fair market value (a purchase, at fair market value, would not be a taxable event). The congregation 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.

25. Do accountable reimbursement polices 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 congregation 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.

26. 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 congregation 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.* Congregations need to make sure any cafeteria plans are correctly set up by consulting with their own advisors and experts. Congregations participating in the ELCA Board of Pension and Health Benefits Plan are provided with a flexible spending plan option. See story in early Adminstration Matters ADD LINK HERE .

27. What are the implications of an accountable policy for congregation/reporting information?

If a congregation is completing the "Definition of Compensation, Benefits and Responsibilities of the Pastor form, the amounts set aside for the pastor in an accountable plan can be reported under C. 2 , C.3, C. 4. and/or C.5.

28. Are there other resources to help me understand accountable reimbursement plans?

Yes.

See generally www.irs.gov and search under Accountable Reimbursement Plans.

IRS Publication 463 http://www.irs.gov/pub/irs-pdf/p463.pdf

http://www.irs.gov/govt/fslg/article/0,,id=164471,00.html

This Q & A is 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 congregation setting, ministry, budget and pastor are unique. The ELCA churchwide office is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.

Examples of Proper Reimbursement Items*

Reasonable travel and related expenses for attending meetings (*e.g.*, synod assembly)

Congregation-approved trips to preach at another congregation

Trips to meet with the bishop or ELCA conference pastors

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

Lunch meetings with officers of the congregation to discuss congregation business

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

Congregation-related continuing education

A computer required for congregation work

Vestments worn for worship

Congregation-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 congregation to be present for a business purpose** (*e.g.*, the spouse is specifically requested by congregation to accompany pastor/staffperson to a meeting)

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

Long distance telephone calls to congregation when on vacation

Congregation-related telephone calls from the parsonage (most telephone expenses are covered under the housing allowance so this may not apply)

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 congregation has specifically prohibited purchases. Each individual congregation 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 <u>Improper</u> Reimbursement Items*

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

Meals with friends at which congregation matters are discussed

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

Vacations (including trip to Holy Land) - Books to plan vacation to Holy Land

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, depending on the congregation's policy, 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)

Child care/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-congregation source

Housing related expenses (*e.g.*, utilities, furniture, upkeep (part of housing allowance) except the extent they may 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 congregation has directed the staff person to make the expenditure for congregation mission, when these items may be proper. Each individual congregation must, in consultation with staff, make its own decision about what expenses are “professional and business” expenses and whether it will cover those items.