

CLERGY COMPENSATION GUIDELINES

Clergy Compensation Committee: Have this work completed prior to the Vestry Retreat.

These guidelines are the minimum expectations for each congregation. There is nothing to prevent congregations from providing higher compensation and benefits than those listed. Each congregation is urged to review the guidelines in light of their individual circumstances without going below these requirements.

Clerics and lay leaders of congregations who are negotiating a compensation package for a newly-called priest, or making changes to an existing package, are urged to consult with the diocesan office to ensure that the package is calculated in accordance with these guidelines and with all relevant laws and regulations.

Clergy income should be reported by W-2, not 1099.

Clergy are considered employees for Federal income tax purposes, and compensation should be reported on a W-2.

Clergy are subjected to self-employment tax (SECA, not FICA).

Clergy are considered self-employed for Social Security purposes and do not pay FICA on earnings from ministerial services. Instead, clergy pay self-employment tax (SECA).

Vestry should designate portion of compensation as housing allowance prior to the beginning of the year.

Every cleric should receive a housing allowance. Clergy are uniquely privileged to exclude from income (for income tax purposes, but not for self-employment tax) money spent to provide, furnish, and maintain a principal residence. The total amount excludable is the lowest of:

1. Actual cash spent; OR
2. Fair rental value of the house and furnishings, plus the fair market value of maintenance, insurance, and utilities; OR
3. Estimate high; if too low, too late to change at the end of the year; OR
4. The amount specified in a resolution passed by the vestry and in the minutes.

Section A: Compensation, Benefits and Associated Expenses

Each congregation within the Diocese shall provide the following compensation with benefits to each clergy person who work 20 hours or more per week and meet the Internal Revenue Service (IRS) criteria for employees (see Treasury Reg. Sec. 31.3401(6)(b)), provided no congregation shall employ any person not eligible to work in the United States. The following requirements apply to all full time clergy and clergy working 20 hours or more.

1. **Annual Stipend** All clergy receiving compensation are to be issued a W2 form for tax purposes.

2. **Cash Stipend.** The amount of money paid the priest, including bonuses and any part of the Social Security tax which is reimbursed, but excluding occasional fees and allowances for travel.
3. **Housing** Congregations shall either (a) provide housing or (b) pay a housing allowance which shall not be less than 50% of the cleric's annual stipend. No congregation shall be excused from providing this benefit (i.e., either (a) housing or (b) a housing allowance of not less than 50% of the cleric's annual stipend) because housing is provided to the cleric from another source.

The definition of "provide, furnish, and maintain" includes expenses for rent, mortgage payments, property taxes, furniture, utilities, cable TV (basic service), pictures, cleaning supplies, light bulbs, plants, flowers, and the cost of cleaning drapes, furniture, spreads, etc. A vestry resolution must be passed before the money is paid; therefore, at the December Vestry Meeting (or earlier), ask your vestry to adopt a resolution designating a portion of your next year's cash compensation as housing allowance. You may want to use one of the following models:

a. **Clergy living in church-owned housing:**

Whereas the Rev. Jane Smith is employed as a minister of the Gospel by St. Swithin's Church in Anytown, FL, which although providing a residence for her, does not provide the full cost of maintaining and furnishing such a residence; the vestry resolves that of the total compensation of \$30,000 to be paid to The Reverend Smith during 1999, that \$3,000 will be designated a parsonage allowance within the meaning of that term as used in Section 107 of the I.R. S. Code of 1986.

b. **Clergy living in own home:**

Whereas The Rev. Bill Jones is employed as a minister of the Gospel by St. Swithin's Church in Anytown, FL, which does not provide a residence for him, the vestry resolves that of the total compensation of \$36,000 to be paid to Father Jones during 1999, that \$15,000 be designated a parsonage allowance within the meaning of that term as used in Section 107 of the I.R.S. Code of 1986.

c. **If rent-free living quarters are provided:**

Housing is assumed to be equal to 30% of the combined total of cash stipend, plus utilities, plus Social Security, if provided. If, however, a housing or rental allowance is provided, housing would be the greater of the actual allowance or the assumed 30% figure. If both room and board are provided, housing is assumed to be equal to 40% cash stipend, plus utilities. If a priest is receiving Compensation from more than one Church unit and one source provides housing, each source is assessed for a share of the housing.

d. **Utilities:**

The allowances paid to the priest to cover the cost of utility bills (such as electricity, fuel, etc.) or an approximation of the annual amount of utility bills, if paid by the congregation.

4. **Car allowance should be paid through Accountable Plan.** (See Lines E and F below). Car allowance and other business expense reimbursements paid through an accountable plan are not considered taxable income. Expenses for business use of one's own car and other business or professional expenses incurred on behalf of the church should be documented monthly to the treasurer who should issue a reimbursement payment matching the documented amounts. These payments are not included anywhere on the W-2 and are not taxable. If you receive an allowance and do not regularly document the expenses equal to or exceeding the allowance, the full allowance is taxable income.
5. **Contributions made to 403(b) plan are excludable from taxable income.**

Clergy may contribute to a tax-sheltered annuity (more properly called a Section 403(b) plan) as a supplemental retirement plan. Contributions are made through a Salary Reduction Agreement (cleric voluntarily requests salary reduced by \$X per pay period), and payments are made by the church to the plan. This salary reduction is an exclusion from income, thereby reducing current taxes. The IRS determines the maximum annual allowable exclusion. Excludable housing allowances do not count as compensation for this calculation.

Tax advisors should be familiar with clergy tax rules.

Clergy should consult tax accountant who understands special tax rules for clergy.

6. **Health Benefits** Congregations shall pay 100% of the premium costs for adequate medical and dental coverage for their clergy and their dependents. Contact Diocesan Office Manager for currently available plans.
7. **Maternity and Paternity Leave of Absence** Congregations shall provide their clergy, both female and male, with a paid leave of no less than seven weeks upon the birth or adoption of a child.
8. **Pension** Every cleric receiving compensation must be enrolled in the Church Pension Fund and the congregation must accurately report the compensation and pay the pension assessment.
9. **Vacation** Congregations shall give their clergy one month, including five Sundays, of paid vacation each year. Vacation time does not accrue, and must be used in the year it is earned.
10. **Travel** The congregation shall provide the cleric with a mileage (plus tolls, etc.) reimbursement, after receiving from the cleric adequate documentation, based on the current IRS figure. **AND** The congregation shall provide the reasonable and necessary costs of transportation for travel for required church business, including trips to the seat of the Diocese, after receiving from the cleric adequate documentation of such costs.
11. **Continuing Education.** (See Line G). The Bishop expects that all licensed clergy will engage in some form of Continuing Education. Rectors are expected to devote two weeks per year in some form of Continuing Education. The Diocese of Southwest Florida regularly offers about 50 contact hours of CE per year and suggests a \$1,000 annual minimum. CE time is not taken during a Sabbatical year. Annual time allotted by

each congregation to its clergy for continuing education shall not be less than ten days, and expenses shall be a distinct budget line, set at a minimum of \$1,000. The benefit is to be used only for continuing education (and is not to be used in pursuit of any other purpose or as additional cash stipend). Time not used in one year is not to be carried over; however, money not used in a given year is to be set aside in a special account, and may be used in future years as needed (up to three years), either for continuing education or to help fund the cleric's sabbatical. Any such funds carried forward do not reduce the congregation's obligation to budget \$600 in continuing education funds in each and every year.

12. Moving Expenses All congregations shall pay a specific dollar amount for the moving expenses of newly-called clergy. The exact amount must be negotiated between the congregation and the cleric, and included in the Letter of Call. The Deployment Office of the Diocese is available for advice on this issue.

13. Letter of Call Every congregation that calls a cleric must issue a Letter of Call. This letter should articulate the congregation's goals and provide for an annual Mutual Ministry Review. An outline of a Letter of Call and procedures for conducting a Mutual Ministry Review can be obtained from the Deployment Office.

14. Disability Insurance and Compensation Continuation in the Event of Disability. Congregations shall either continue full compensation for up to six months of medically certified disability or they shall indemnify themselves against this exposure by purchasing short-term disability insurance that replaces at least 70% of pension base compensation for a minimum of six months. The Income Replacement Plan offered through the Church Life Insurance Corporation, which replaces 70% of pension base compensation for up to 12 months of disability, is strongly recommended. It is further recommended that payment of the premium be handled so that any benefit collected is non-taxable. Congregations shall continue medical, dental and pension benefits for up to six months of medically certified disability. As soon as it appears that a disability will be continuous and total, the cleric should apply to the Church Pension Fund for a disability retirement. While not obligated to continue compensation and benefits after six months of disability, congregations are urged to make a cleric's transition from active to disability retiree as smooth as possible. Because disability pensions will not fully replace current income, it is strongly recommended that clergy serving congregations consider, as part of their personal financial planning, obtaining long-term disability insurance through an organization such as Church Life.

Section B. Other Items Strongly Urged

- 1. Stipend Increases** An annual review of the cleric's total annual compensation is strongly urged.
- 2. Equity Replacement** When housing is provided, each congregation is strongly urged to offer a plan for equity replacement, which is to be no less than 3% of what the cash housing allowance would be. This amount must be matched by the cleric, and is invested in a 403b tax deferred annuity.

3. **Life Insurance** While the life insurance provided to all active clergy enrolled in the church pension plan meets the minimum requirement, each cleric and congregation should review the adequacy of this coverage.

Group life insurance coverage over \$50,000, generates taxable income. The Value of employer-paid Group Term Life Insurance in excess of \$50,000, even if provided by more than one employer, is considered taxable income. The IRS determines the value, not the premium paid, which varies by age. Premiums paid for other life insurance (whole life, individual term insurance, universal life, etc.) provided by the church to benefit the cleric or the cleric's family are taxable as income.

4. **Surviving Dependent Housing** Every congregation is strongly urged to provide short term housing of the dependents of a deceased cleric.
5. **Sabbatical** A sabbatical is strongly urged for all clergy since it benefits both them and the congregations they serve. A sabbatical is not vacation time and should not be confused with vacation time. The Diocese suggests a Sabbatical Plan after five to seven years of service. Sabbatical should correspond to the length of service and should be from one to three months. The Sabbatical plan is to be approved of by the Bishop and the Ministry Development Officer of the Diocese. It is suggested that the Vestry begin planning for the sabbatical immediately at the rate of \$750 per year, and permit this to accumulate for five to seven years. The Vestry may require a year of additional service after completion of the sabbatical with the Bishop's permission. During the Sabbatical, clergy will receive full compensation and benefits.

Schedule I. Cash Stipends Recommendations, not mandates

Ordained to priesthood less than 3 years

- \$25,700 As of 1/1/2007
- \$26,700 As of 1/1/2009
- \$27,800 As of 1/1/2009

Ordained to priesthood more than 3 years but less than 10 years

- \$29,500 As of 1/1/2007
- \$30,600 As of 1/1/2008
- \$31,800 As of 1/1/2009

Ordained to priesthood more than 10 years

- \$33,300 As of 1/1/2007
- \$34,600 As of 1/1/2008
- \$36,00 As of 1/1/2009

Ordained to priesthood more than 15 years

- \$37,600 As of 1/1/2007
- \$39,100 As of 1/1/2008
- \$40,700 As of 1/1/2009

Schedule II: Travel mileage reimbursement The Diocese uses the guidelines set forth by the Internal Revenue Service (IRS) for reimbursement of travel mileage by Diocesan employees.

Schedule III:

1. Calculation Formula for Total Value of Compensation to be assessed by Church Pension:

Note: The following is an extract from The Church Pension Fund Handbook - A guide to the way the Fund works for you, published and distributed by the Church Pension Fund and available free to all congregations. 800-223-6602

The Canons (National) require every Church engaging the services of a priest to pay an assessment based on the clergyperson's compensation. This applies to full-time, part-time, supply or interim work that continues for at least three consecutive months and where the priest receives \$200 or more per month for other than reimbursement of travel expenses. Assessment rate: The assessment rate is 18% of annual compensation. For pension purposes, Compensation consists of cash stipend, utilities and housing.

Note: Retroactive changes in compensation may not be made for periods dating back more than two calendar years without the Pension Fund's Trustees' approval, and only if unusual circumstances are found to exist.

2. Social Security/Self Employment Tax: The Department of the Treasury, Internal Revenue Service (IRS) publishes Publication 517 Social Security and Other Information for Members of the Clergy and Religious Workers. This publication can be obtained at no charge by calling 1-800-TAX-FORM (1-800-829-3676).

The following is an excerpt from Publication 517 --

“To figure ... net earnings from self employment, include in gross income:

- Salaries and fees for your qualified services,
- Offerings you receive for marriages, baptisms, funerals, masses, etc.
- The value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience, and
- The fair rental value of a parsonage provided to you (including the cost of utilities that are furnished) and the rental allowance (including an amount for payment of utilities) paid to you.

If a church pays any amount toward your income tax or self-employment tax, other than withholding the amount from your stipend, it is income to you. You must include the amount in your gross income and self-employment income.”

Note: for Social Security purposes, clergy are considered self employed. For income tax purposes, clergy are considered employees and should receive a W-2.

Calculation Table for Clergy Compensation, expenses:

- A: \$ _____ Stipend. Include SECA offset, 403 (b) contributions, etc.
- B: \$ _____ Housing
- C: \$ _____ Pension Base (Line A + Line B)
- D: \$ _____ Church Pension Fund (CPF) premium (18% of Line C)
- E: \$ _____ Mileage: 2008 IRS rate is \$0.58 ½ cents per mile. (Effective July 1, 2008)
- F: \$ _____ Reimbursement of other professional expenses
- G: \$ _____ Continuing Education. We suggest \$1,000 per year
- H: \$ _____ Sabbatical plan. We suggest a reserve of \$750 per year.
- J: \$ _____ Total Cost

Table illustrating various levels of compensation and total budget impact:

<table border="1"> <tr><td>Stipend</td><td>\$25,000</td></tr> <tr><td>Housing</td><td>\$20,000</td></tr> <tr><td>Pen Base</td><td>\$45,000</td></tr> <tr><td>CPF</td><td>\$8,100</td></tr> <tr><td>Health ins</td><td>\$13,332</td></tr> <tr><td>Mileage</td><td>\$3,030</td></tr> <tr><td>Reimb</td><td>\$600</td></tr> <tr><td>Cont Ed</td><td>\$600</td></tr> <tr><td>DIO MIN</td><td>\$70,662</td></tr> </table>	Stipend	\$25,000	Housing	\$20,000	Pen Base	\$45,000	CPF	\$8,100	Health ins	\$13,332	Mileage	\$3,030	Reimb	\$600	Cont Ed	\$600	DIO MIN	\$70,662	<table border="1"> <tr><td>Stipend</td><td>\$27,500</td></tr> <tr><td>Housing</td><td>\$22,500</td></tr> <tr><td>Pen Base</td><td>\$50,000</td></tr> <tr><td>CPF</td><td>\$9,000</td></tr> <tr><td>Health ins</td><td>\$13,332</td></tr> <tr><td>Mileage</td><td>\$3,030</td></tr> <tr><td>Reimb</td><td>\$1,000</td></tr> <tr><td>Cont Ed</td><td>\$1,000</td></tr> <tr><td></td><td>\$77,362</td></tr> </table>	Stipend	\$27,500	Housing	\$22,500	Pen Base	\$50,000	CPF	\$9,000	Health ins	\$13,332	Mileage	\$3,030	Reimb	\$1,000	Cont Ed	\$1,000		\$77,362	<table border="1"> <tr><td>Stipend</td><td>\$30,000</td></tr> <tr><td>Housing</td><td>\$25,000</td></tr> <tr><td>Pen Base</td><td>\$55,000</td></tr> <tr><td>CPF</td><td>\$9,900</td></tr> <tr><td>Health ins</td><td>\$13,332</td></tr> <tr><td>Mileage</td><td>\$3,030</td></tr> <tr><td>Reimb</td><td>\$1,000</td></tr> <tr><td>Cont Ed</td><td>\$1,000</td></tr> <tr><td></td><td>\$83,262</td></tr> </table>	Stipend	\$30,000	Housing	\$25,000	Pen Base	\$55,000	CPF	\$9,900	Health ins	\$13,332	Mileage	\$3,030	Reimb	\$1,000	Cont Ed	\$1,000		\$83,262
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NOTE: Insurance rates are never current. Sabbatical expense not included.

