



ANNUITY BOARD

OF THE SOUTHERN  
BAPTIST CONVENTION



# Planning Financial Support

of ministers and church employees



## **This workbook is designed for use by the committee in your church that is responsible for determining pay arrangements for your minister and other employees.**

Every year, your personnel, finance or budget committee meets to discuss and recommend a salary and benefits package for your minister and other employees. However, planning financial support for those who serve your church should involve more than simply deciding upon a dollar amount to place in the church budget.

You are a church, but your congregation is also an “employer.” In this role you have responsibility to make sure you do all you can to take care of the needs of those who serve you, while also seeking to be good stewards of your church’s limited financial resources.

This workbook can help. You can receive additional copies at no charge by calling **1-800-262-0511**. The text of this publication and the annual *Ministers Tax Guide* are available on our Web site, [www.absbc.org](http://www.absbc.org). In addition you can receive a free copy of the brochure, *Ministerial Tax Issues*, by calling **1-800-262-0511**.

Several Baptist state conventions conduct regular financial support surveys and can provide your committee with customized reports about church staff compensation based on the size and budget of your church. Some conventions have a staff member who can work with your committee to understand and put in place the suggestions and recommendations presented in this workbook.

### **Six steps to financial support planning**

- Determine the needs.
- Establish written financial support policies.
- Provide for ministry-related expenses.
- Provide employee benefits.
- Determine personal income.
- Complete a financial support worksheet.

# Why is planning financial support important?

## That God's Word may be honored

The New Testament provides direct, clear instruction to the church concerning its financial support of those it calls into its service. The appropriate committee should consider the following passages as it does its work of financially providing for all church employees.

- *The Lord commands that those who preach the gospel should be supported by those who receive the gospel.*

I Corinthians 9:14

- *Those who are taught the Word must share in all good things with their teacher.*

Galatians 6:6

- *The laborer of Christ deserves to be paid.* Luke 10:7

## To reduce confusion and instability

Clearly written policies about ministry-related expenses, employee benefits and personal income reduces confusion. For example, as committee members come and go, policies and procedures of previously convened committees may be lost, confused or misunderstood. Written policies adopted by the church concerning financial support issues reduces the instability and inefficiency of "recreating the wheel" with each new group of committee members.

## **To reduce employee tax liability**

How a church pays its employees is as important as the amount of money the church pays them. Many churches use a “package” approach. They pay their ministers a lump sum and say “divide it anyway you want.” These arrangements usually cause a minister to pay more taxes than may be legally owed.

## **To insure church funds are spent appropriately**

Churches may find it easier to use the package approach, but this may cause problems for the minister and the church. The minister has to pay more taxes and may have less money to provide for his family. He may not have enough money for medical or disability insurance leaving the church with potential financial consequences if unfortunate circumstances occur.

## **To clarify true personal income**

What sounds like a good income can be deceiving. A lump sum figure may sound substantial, but if the minister is paying for medical coverage and ministry-related expenses out of that lump sum, he’s not taking home as much salary as someone employed by a business.

## **To extend the tenure of church employees**

The church may extend the tenure and effectiveness of its employees with clearly defined policies of financial support. Turnover of ministers and staff can weaken a church's ministry. A strong financial support plan shows your church really cares for the people it calls to serve and can be an advantage when you are seeking God's person for a ministry role you need to fill.

# Before you begin

Before you plan financial support, you need to understand two important special rules for ministers. First, you need to know who is a minister for tax purposes. Second, you need to know whether a minister is an employee or self-employed.

## Who is a minister for tax purposes?

**When this workbook refers to a “minister”, it means a minister for tax purposes.**

In deciding if a person is a Southern Baptist minister for federal tax purposes, the following five factors must be considered:

1. Is the person ordained, licensed, or commissioned?
2. Does the person administer ordinances (i.e., baptism and observance of the Lord Supper)?
3. Does the person conduct religious worship?
4. Does the person have management responsibilities in the church?
5. Is the person considered to be a religious leader by the church?

It is important to determine the status of ministers because special tax rules apply to ministers, but they don't apply to everyone who has “minister” in their title. Ministers for tax purposes are: (1) eligible for a housing allowance; (2) always self-employed for purposes of Social Security taxes (SECA); and (3) exempt from income tax withholding, although they and their church can always agree on voluntary withholding.

## Is a minister employed or self-employed?

Though employed by the church, ministers are always self-employed for Social Security tax purposes. However, most Southern Baptist ministers are employees for income tax purposes. That means they have “dual tax status.”

For more information about who is a minister for tax purposes, see our annual *Ministers Tax Guide* available on our Web site, [www.absbc.org](http://www.absbc.org) or by calling **1-800-262-0511**. You'll find more information in our brochure, *Ministerial Tax Issues*. Call the same number for a free copy.

# Step #1: Determine the needs

Ask each minister and paid employee to complete a copy of the following **Financial support review** and return it to your committee. This will help you determine if last year's plan for support adequately met the needs of your minister and employees. It will also help you identify issues that may require additional attention as you work on the budget for the coming year. You will use this review to complete a **Financial support worksheet** in step #6.

## Financial support review

Minister/Employee: \_\_\_\_\_

Please complete and return to the committee by: \_\_\_\_\_

### Section 1 — Ministry-related expenses

#### Vehicle expenses

How many miles do you estimate you drove your personal vehicle last year to do church business?

(Visiting prospects; trips to hospital; denominational meetings, etc.) \_\_\_\_\_ miles

Multiply these business miles by the Internal Revenue Service standard mileage rate

to determine cost for business use of your vehicle.

\$ \_\_\_\_\_

How much money was provided by the church last year to offset this expense?

\$ \_\_\_\_\_

How many miles do you estimate you will drive in the coming year? \_\_\_\_\_

#### Travel expenses

How much money did you spend in travel expenses to participate in church and denominational

conventions and conferences? (lodging, food, commercial transportation, etc.)

\$ \_\_\_\_\_

How much money was provided by the church last year to offset this expense?

\$ \_\_\_\_\_

#### Ministry expenses

How much money did you spend last year on materials such as books, periodicals, tapes, etc. in

preparation of sermons, studies and other presentations related to your church ministry?

\$ \_\_\_\_\_

How much money was provided by the church last year to offset this expense?

\$ \_\_\_\_\_

### Professional development

How much money did you spend last year in the form of continuing education, workshops or conferences to enhance your ability to minister in your church? \$ \_\_\_\_\_

How much money was provided by the church last year to offset this expense? \$ \_\_\_\_\_

### Hospitality expenses

How much money did you spend last year to “entertain” church groups, prospects, visiting evangelists, and other guests of the church in your home or at a restaurant? \$ \_\_\_\_\_

How much money was provided by the church last year to offset this expense? \$ \_\_\_\_\_

### Section 2 — Protection benefits

Do you and your family have medical coverage?  Yes  No

What was the cost for your medical coverage last year? \$ \_\_\_\_\_

How much money was provided by the church last year to offset this expense? \$ \_\_\_\_\_

What do you anticipate the cost will be next year? \$ \_\_\_\_\_

Do you have life insurance?  Yes  No

What was the cost for your life coverage last year? \$ \_\_\_\_\_

How much money was provided by the church last year to offset this expense? \$ \_\_\_\_\_

Do you have disability coverage?  Yes  No

What was the cost for your disability coverage last year? \$ \_\_\_\_\_

How much money was provided by the church last year to offset this expense? \$ \_\_\_\_\_

Does your employer make retirement plan contributions for you to the Annuity Board’s Church Annuity Plan or another retirement program?  Yes  No

If **Yes**, what was the contribution that was made by your church last year? \$ \_\_\_\_\_

### Section 3 — Personal income

How much was the salary paid to you by the church last year? \$ \_\_\_\_\_

Did you receive a cost of living or merit increase last year?  Yes  No

If you are an ordained or licensed minister, what was your housing allowance or the value of the parsonage provided by your church last year? \$ \_\_\_\_\_

If you are a minister subject to Social Security Self Employment (SECA) taxes, how much SECA tax did you pay on your church income last year? \$ \_\_\_\_\_

How much money was provided by the church last year to offset this expense? \$ \_\_\_\_\_

# Step #2: Establish written financial support policies

Whatever can be done to reduce conflict in the church should be done. Misinformation, confusion and personal interpretation are some of the elements that feed misunderstanding and division. Church committees often experience this kind of conflict when new members rotate in and others leave for other service opportunities in the church. The newly-formed committee may or may not do its work in the same way the previous committee did. It is this inconsistency that often fuels conflict. Written policies reduce the conflict caused by the personal interpretation of previous committee actions. These policies form an objective standard for the committee's current and future actions, regardless of who may come or go from the committee.

Your church should have written policies that cover at least the following four areas:

## 1. Ministry-related expenses

The policy should clearly explain:

- What the church considers allowable business expenses. These

should be consistent with IRS rules.

- What is expected of an employee in terms of record keeping, and submission of expense account forms.
- The cents per mile reimbursement the church will use.
- Expenses related to conferences and conventions.
- The purchase of books, periodicals, software, etc. Will the ministerial employee own these items if the church reimburses for the purchase?
- The tax implications of an accountable reimbursement arrangement.
- Business use of personal cell phones and computers.

(If you have questions about these issues that are not addressed in our annual *Ministers Tax Guide*, please consult a tax advisor.)

## 2. Employee benefits

The policy should clearly define the following:

- What levels of coverage the church will provide for medical, life and disability coverage for church employees and their families.

- What retirement contribution the church will provide for its employees.
- The church's involvement in the payment of Social Security taxes for its employees and ministers. Non-ministerial employees pay part of their Social Security taxes, and the employer pays the other part. These are called FICA taxes. Since ministers are considered self-employed for Social Security tax purposes, they must pay all of their tax (SECA). It is permissible for the church to provide additional taxable income to ministers to lighten this tax burden. The additional income should be designated "Social Security Offset".
- Educational expenses, making a distinction between continuing education and degree-track expenses.



### 3. Personal income

The church must not think of money designated by the church for ministry-related expenses and employee benefits as personal income. The church must be keenly aware that personal income is the amount of money the employee will have to financially provide for himself and his family.

The policy should clearly explain:

- Gross amount of personal income that may be divided between cash salary and housing allowance. Let the minister help you with this division.
- Whether the church will withhold taxes at a minister's request.
- How the church will designate housing allowance for eligible ministers living in a church-owned home or their own homes.
- Considerations for future personnel reviews and pay increases.

### 4. Other personnel policies

There are other policies the church should consider for its employees, including the following:

- Vacation
- Sick leave
- Sabbatical leave
- Hiring issues
- Employee classifications
- Work hours
- Pay periods

## Step #3: Provide for ministry-related expenses

If your church has a building, then your annual budget also includes a line item for utility expenses. You can't have one without the other. In the same way, it takes more than just providing a salary to have a minister. Ministry-related expenses of your pastor should be thought of as the "utility" costs of having a minister. These expenses include, but are not limited to:

- The expense of operating a vehicle for church business.
- Money to participate in denominational meetings, workshops and other appropriate conferences.
- Books, periodicals, software and tapes to enhance ministry.
- Continuing education opportunities.
- Provisions for hospitality in the course of ministry.

Just as a business pays for paper clips, computer software and work-related mileage of its employees, it is the church's responsibility to provide

money for ministry-related expenses and supplies. **These expenses should not come out of an employee's pocket or be included in a "package" amount given to your minister. They should be provided by the church, and in a separate budget line from salary.**

Some churches give their minister and employees a set amount of money each month to cover automobile expenses. They ask for no accounting of how it is spent and call it an auto-



mobile “allowance.” This approach is common, but it is not the best way to handle vehicle expenses and can result in the employee being forced to pay taxes on this “allowance.”

Most businesses use an **accountable reimbursement plan** to provide for employee expenses (see page 13). This method is also available for use by churches. With this, the church budgets money to fund reimbursements. The minister or employee turns in a record each month to the church recording all business miles driven and receipts for other ministry related expenses (see sample pictured at right). The church then reimburses the employee from the budgeted expenses. Employees pay no taxes on amounts reimbursed under an accountable reimbursement plan.

For example, assume a pastor traveled to the state convention and will be reimbursed for the expenses incurred. The minister would submit an expense account form like the one below to be reimbursed. Receipts for all purchases would be attached.

## Sample expense report

Employee name: Rev. John Smith

For the month of January Year 2002

<b>Date</b>	<b>Description of expense</b>	<b>Business purpose</b>	<b>Amount</b>
January 17-18	Mileage to state convention	Mileage (457 x .365)	\$166.80
January 17	Meals at convention	meals	\$ 53.25
January 17-18	Hotel	lodging	\$120.00
January 17	Sunday School teachers guide	ministry expense/books	\$ 53.00
			Subtotal \$393.05
			Minus advance \$200.00
			Total reimbursement due \$193.05

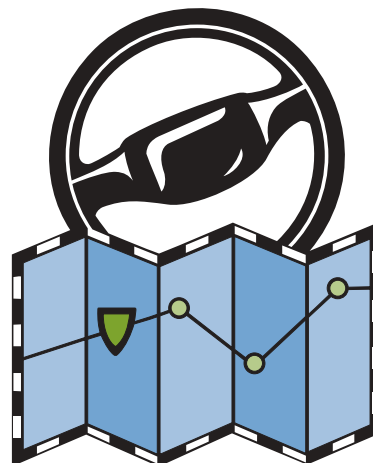
## How to set up an accountable reimbursement plan

### An accountable reimbursement plan must meet the following requirements:

- The expense must have a business purpose related to the minister's or employee's duties. Commuting expenses are not business expenses.
- Ministers and employees must identify the expense with a receipt and documentation that verifies the amount, date, place and business purpose (see sample). Ministers and employees should provide documentation within 60 days of incurring the expense. The church can avoid requiring documentation of exact amounts for travel expenses by using the standard mileage rate for transportation and the IRS-approved per-diem rate for meals and lodging.
- Ministers and employees must return advances that exceed documented expenses within 120 days.
- Unused money left in an accountable reimbursement plan **should not** be given to an employee as additional income or a "bonus" at the end of a budget year.

### Accountable reimbursement arrangements can be set up in three easy steps.

1. Review last year's figures in each ministry-related expense category of the **Financial support review** on pages 7-8. Decide what types of expenses will be covered and adopt a written reimbursement policy that identifies these expenses (see sample policy on page 13). Determine the amount of money to be placed in the church budget to cover these expected expenses. The written policy and money to fund it should be approved through the church budget adoption process.
2. When ministers and employees incur an expense, they need to submit a written statement (expense account form) within 60 days to the church treasurer or other appropriate financial officer detailing each expense, including the purpose and amount. The minister or employee should attach a bill or receipt for items other than automobile expenses. The minister or employee should report the actual ministry-related mileage.
3. At least once a month, your church treasurer or chosen financial officer reimburses the minister or employee for all approved expenses. Reimbursed amounts are not reported as taxable income and are not included on a Form W-2. Advances can be given to provide for anticipated expenses, but any unused funds from the advance must be returned to the church within 120 days.



# Accountable reimbursement plan

In accordance with IRS regulations 1.162-17 and 1.274-5T(f), the

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Baptist Church hereby establishes an accountable reimbursement plan for all ministers and employees with the following terms and conditions:

1. The church will reimburse only reasonable ministry-related business expenses incurred by a minister or employee. Subject to budget limitations, such expenses will include:
  - Business use of automobile, up to the current IRS standard mileage rate;
  - Business travel away from home: transportation, lodging and meals on overnight trips;
  - Convention conference and workshop expenses;
  - Continuing education expenses;
  - Subscriptions, books and tapes, if related to ministry or employment;
  - Entertainment/hospitality expenses, if business connection requirement is met.
2. The minister or employee will account for each allowable expense in writing at least every 60 days. Documentation will include the amount, date, place, business purpose and business relationship of person entertained for each expense. A receipt will accompany the documentation.
3. The minister or employee will return advances that exceed actual business expenses within 120 days.
4. Under this accountable arrangement the church will not report reimbursed amounts as taxable income on the minister's or employee's Form W-2. The minister or employee should not report reimbursed amounts as income on Form 1040.

## Caution

If a church “reimburses” the ministry-related expenses by simply reducing the minister’s or employee’s salary by the amount of the expense, these salary-reduction reimbursement arrangements are non-accountable. According to the IRS, the church must include the full amount of the non-accountable reimbursements on the minister’s or employee’s Form W-2. The minister or employee must report the amount as income on Form 1040 and pay the appropriate income tax on the amount.

Ministers and employees will pay more taxes if the church uses a non-accountable arrangement because non-accountable reimbursements are subject to both Social Security and income taxes. The minister or employee can deduct business expenses only if they itemize their deductions. Further, the deduction is limited only to expenses that exceed two percent of adjusted gross income.

# Step #4: Provide employee benefits

In addition to paying a salary and business-related expenses, most businesses provide their employees with benefits. Although your church is a ministry and not a business, sound business principles should still apply. This is a sign of good stewardship and concern for your church staff.

## Employee benefits should include:

- Medical, life and disability coverage;
- Retirement plan contributions; and
- Social Security assistance for ministers.

## Providing a benefits plan for ministers and church employees:

### Demonstrates obedience to biblical teaching

I Timothy 5:8 tells us, “...if any provide not for his own, and especially for those of his own house, he hath denied the faith, and is worse than an infidel.” The Greek word translated **provide** in this verse implies taking forethought, looking ahead to tomorrow’s needs and providing for them today.

### Saves taxes

The law allows your church to pay for medical coverage (for an employee and dependents) and disability and group term life insurance for your employee. When a church pays for this coverage as a benefit, the money is not reported as taxable income, although group term life insurance above \$50,000 for employees is taxable. A church can also make tax-sheltered contributions to a minister’s or employee’s 403(b) retirement account like the Church Annuity Plan provided by the Annuity Board.

These tax-saving ideas are not “loop-holes”. They represent wise use of tax laws to help your minister and employees pay the least amount of tax that is legally owed. Again, it is a matter of good stewardship.

### Provides protection for the church

By protecting each staff member with medical, life and disability coverage, the church also protects itself. Emergencies happen. Don’t wait to find out one of your employees is uninsured after they come to you and need help to take care of an unpaid medical bill

or lost wages. You don’t want one of your employees to die leaving no source of financial support for family members. As the employer, you can guarantee that your employees’ families have the coverage they need.

### Extends employee service

Turnover of ministers and staff can weaken a church’s ministry. A strong benefit plan shows your church really cares for the people it calls to serve and can be an advantage when you are seeking God’s person for a ministry role you need to fill.

## Life, medical and disability coverage

The Annuity Board offers two programs that are designed exclusively for ministers and employees who work at least 20 hours a week for a Southern Baptist church or organization. Annuity Board plans offer portability when a person is called to a new church, even in another state, so coverage can be maintained throughout one’s ministry although plan options and costs may vary.

The **Personal Security Program** provides coverage for churches with nine or fewer employees.

This program is adaptable to a person’s special needs. Different types of coverage are available and some may be purchased separately. These plans include:

- Medical coverage for employees and dependents;
- Life insurance for employees, spouses and dependents;
- Disability coverage for employees,
- Dental coverage for employees and dependents; and
- Personal accident coverage for employees and spouses.

### The **Employer Security**

**Program** offers similar plans for churches with 10 or more employees.

The **Personal Security Program for Seminarians** is available to students at participating seminaries and Baptist colleges and universities.

**To receive additional information about life and health coverage from the Annuity Board, complete the enclosed form, call 1-800-262-0511 or visit our Web site at [www.absbc.org](http://www.absbc.org).**

## Retirement

Social Security was never designed to provide enough income to live on in retirement and should be thought of as a supplement. Everyone needs to be investing for retirement, and ministers and church employees are no exception! Most financial planners suggest a contribution to a retirement account from employer and employee that equals 10-15% of the employee's annual income.

The **Church Annuity Plan** is an Internal Revenue code Section 403(b) tax- sheltered annuity plan designed exclusively for employees of Southern

Baptist churches and organizations. Ministers (full-time, part-time and bivocational) who receive taxable income from a Southern Baptist church can be in this plan. Non-ministerial employees like secretaries, custodians and church-school employees can also participate if they receive taxable income from their church.

### Church Annuity Plan features:

- Retirement contributions can be made by the employer and/or the employee.
- Contributions and investment earnings are sheltered from income taxes.
- Eligible ministers don't pay Social Security (SECA) taxes on their tax-sheltered contributions.
- Eligible ministers can save taxes in retirement by asking the Annuity Board to designate up to 100% of their retirement benefit as housing allowance. This is not true with IRAs or non-denominational retirement plans. Ministers who receive retirement benefits but continue their service in the ministry will have to pay SECA taxes on the part of their retirement benefits designated as housing.
- A disability benefit and a survivor benefit are provided by Baptist state conventions to eligible participants. These two benefits function much like disability and life insurance but there is no premium or extra charge to receive this added protection!

- A matching retirement contribution of up to \$210 per year is also available from Baptist state conventions for eligible participants who contribute at least \$105 per month to the Church Annuity Plan. Contact your convention or the Annuity Board for eligibility requirements in your state.
- Plan participants select from 13 different investment funds that are managed by professional investment managers. All funds adhere to moral and ethical investment guidelines approved by Annuity Board trustees.

**To receive information about the Church Annuity Plan, complete the enclosed form, call 1-800-262-0511 or visit our Web site at [www.absbc.org](http://www.absbc.org).**

### Financial assistance for churches with a limited budget

Does your church have an annual budget under \$40,000? If so, your minister may be eligible to receive additional retirement contributions from the Annuity Board's **Mission/Church Assistance Fund**.

Up to \$500 is available in the first year of participation if your church contributes a least 1% of your minister's pay to the Church Annuity Plan. A total of up to \$1,500 in additional contributions over five years are possible. Call the Annuity Board for details and to see if your church is eligible!

## Social Security assistance

Churches who have non-ministerial employees are required by law to pay the employer portion of Social Security taxes. The employee portion of FICA taxes are then withheld by the church from the non-ministerial employee's salary.

Ministers pay SECA taxes, but they must pay all of this tax themselves. The law does not allow a church to pay a portion of the minister's SECA taxes as a non-taxable benefit. However, a church can legally provide the minister with additional income for use in paying

this tax. This additional income is sometimes called a "Social Security Offset." It usually equals one-half of the SECA tax rate, and when it is given to the minister by the church, it must be designated as taxable income on the Minister's Form W-2.

# Step #5: Determine personal income

**T**he next step is to consider how much money your minister and employees will need to adequately provide for their family. Remember, ministry-related expenses and the cost of benefits should not be considered part of personal income.

A number of factors should be considered when determining personal income. Obviously, the financial strength of the church is a key factor. Other important considerations include:

## Responsibilities and experience

Consider income levels of other professionals living in your community who have comparable responsibilities and experience as the people who serve your church. Those who are in ministry did not follow God's call into

vocational service to become wealthy, but they also should not be expected to live on woefully inadequate wages.

## Inflation

The cost of goods and services increased during the past year. They do every year. Did your minister or employees receive a salary increase that kept pace with inflation? If not, it means even though they may be paid the exact same income as last year, the buying power of their income has actually decreased. Inflation significantly reduces long-term buying power and can greatly affect those who have faithfully served your church for longer periods of time with minimal or no raises. It is imperative for churches to consider inflation when reviewing pay each year.

## Performance

Merit increases in recognition of exceptional service are appropriate. Paul instructed Timothy, "Let the elders who rule well be considered worthy of double honor, especially those who labor in preaching and teaching." (I Timothy 5:17)

## Housing allowance

The most important tax benefit available to ministers who own or rent their homes is the minister's housing allowance exclusion available under Section 107 of the Internal Revenue Code. Unfortunately, many churches fail to designate a portion of a minister's compensation as a housing allowance, and thereby deprive ministers of an important tax benefit. Remember that a

housing allowance is available only to ministers for tax purposes. For more information, see page 19.

Ministers who own or rent a home may save taxes if a church designates part of their income as a housing allowance. Churches never can designate a housing allowance retroactively. The maximum dollar amount eligible for exclusion is the lowest of (1) the designated amount, (2) the actual eligible housing expenses, or (3) the annual fair rental value of the home (furnished, including utilities). Ministers are responsible for substantiating their housing expenses and reporting their income correctly.

Although the costs of a mortgage qualify as part of the housing allowance, costs for refinancing a principal residence or for a home equity loan qualify only if the proceeds are used for acquiring or maintaining a principal residence.

Ministers who live in a church-owned parsonage are permitted to exclude from their gross income the fair rental value of the parsonage (furnished, including utilities). A church can designate a housing allowance for a minister who lives in a church-owned home as long as the minister has any out-of-pocket expenses while living in the parsonage (utilities, furnishings, repairs, etc.). These expenses may be excluded from gross income to the extent that they do not exceed that por-

tion of their compensation designated in advance as a minister's housing allowance by their employing church.

The housing allowance is nontaxable for federal income taxes only. Ministers must pay Social Security taxes (SECA) on the fair rental value of a parsonage or a housing allowance.

The church budget or finance committee should determine a total amount for personal income and then allow the minister to estimate how much of this amount should be designated as housing allowance.

## How to designate a housing allowance

1. The minister should present the church an estimate of housing expenses for the coming year. (See form on page 18.)
2. The church must officially designate and document the amount of the minister's housing allowance in advance of payment. This should be done every year. (To be sure the church doesn't forget to designate a housing allowance next year, the church should make the designation for all future years until it is changed by official church action. This is called a "safety net" design-

ation.) The church should record this action in the church minutes and notify the minister. (See sample notification on page 19.)

If circumstances change, the amount designated as housing allowance may be revised during the year; however, no changes can be made retroactively. Remember, there are limits on how much a minister can exclude from income as a housing allowance. As taxpayers, ministers are responsible for reporting their income properly.

## Home equity

Ministers who live in a church-owned parsonage are not able to build equity in a home. Many are concerned about how they will pay for housing when they retire.

Churches can make added contributions (within legal limits) to a minister's Church Annuity Plan account that can be used to meet this need.

# Minister's estimate of housing expenses

To: \_\_\_\_\_ From: \_\_\_\_\_  
 (Church) (Minister)

Subject: Housing allowance for \_\_\_\_\_.  
 (Year)

ITEM	AMOUNT
1. Down payment on a home.....	_____
2. Mortgage payments on a loan to purchase or improve you 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	\$ _____

Date: \_\_\_\_\_ (Minister's Signature)

# Notification of housing allowance from the church to the minister

To: \_\_\_\_\_  
(Minister's name)

Date: \_\_\_\_\_

This is to advise you that at the business meeting of \_\_\_\_\_

Baptist Church held on \_\_\_\_\_, \_\_\_\_\_, your housing  
(Year)

allowance for the year \_\_\_\_\_ was officially designated and fixed in the amount of  
(Year)

\$ \_\_\_\_\_. Accordingly, \$ \_\_\_\_\_ of the total  
(Year)

payments to you during the year \_\_\_\_\_ (and all future years until changed by official church action) will constitute your housing allowance.

[If a parsonage is provided, add: *You will also have rent-free use of the home located at \_\_\_\_\_ for the year \_\_\_\_\_. Utilities will be paid by \_\_\_\_\_ the church \_\_\_\_\_ the minister.*]

This action is recorded in the church minutes.

Under Section 107 of the Internal Revenue Code an ordained minister of the gospel is allowed to exclude from gross income the housing allowance paid as a part of compensation to the extent used to provide a home. (The minister may also exclude the value of a church-owned home.)

You should keep an accurate record of your housing expenses to provide proof of any amounts excluded from gross income in filing your federal income tax return. It is your responsibility as a taxpayer to accurately report your income.

Sincerely,

\_\_\_\_\_  
(Clerk's signature)

# Step #6: Complete a financial support worksheet

Now you know what makes up a financial support plan. Look over the **Financial support review** (pages 7-8) you received from your ministers and church employees. Identify areas of inadequate support that should be addressed in this year's budget.

Use this worksheet to develop a comprehensive plan of financial support for your new budget year. May God direct and bless your efforts.

**Note:** The worksheet is designed so that the three categories of financial support **are not**

**added together.** This is intentional. Adding these together is an attempt to reconstitute the lump sum or package approach to compensation and all its inefficiencies and distortions. Putting these three categories of financial support on separate pages of the budget may further reduce the tendency to lump these together.

## Financial support worksheet

### A. Ministry related expenses (not compensation)

- |                              |          |
|------------------------------|----------|
| 1. Automobile                | \$ _____ |
| 2. Conventions/conferences   | \$ _____ |
| 3. Books, periodicals, tapes | \$ _____ |
| 4. Continuing education      | \$ _____ |
| 5. Hospitality               | \$ _____ |

**Total reimbursement funds** \$ \_\_\_\_\_

### B. Employee benefits (not compensation)

- |                                     |                    |
|-------------------------------------|--------------------|
| 1. Personal Security Program        | \$ _____           |
| a. Medical                          | \$ _____           |
| b. Disability                       | \$ _____           |
| c. Term Life                        | \$ _____           |
| d. Personal Accident                | \$ _____           |
| 2. Church Annuity Plan contribution | \$ _____           |
| 3. Social Security offset           | \$ _____ (taxable) |

**Total benefits** \$ \_\_\_\_\_

### C. Personal income

- |                      |          |
|----------------------|----------|
| 1. Cash pay          | \$ _____ |
| 2. Housing allowance | \$ _____ |

**Total personal income** \$ \_\_\_\_\_

## Pulling it all together

1. Determine the needs of church employees by completing a **Financial support review** annually. The information provided from the review will be essential to completing the committee's work of financial support planning and completion of the **Financial support worksheet**.
2. Put financial support policies in writing. Be sure to include the basics of financial support that include ministry-related expenses, employee benefits and personal income.
3. Budget for ministry-related expenses separately from employee benefits and personal income. Do not make your employees take this money out of their cash salary.
4. Establish an accountable reimbursement plan for the purpose of fully reimbursing all church employees for expenses incurred while doing the church's work.
5. Designate money in the church budget to pay for medical, life and disability coverage for all full-time church employees. Do all you can financially to protect your employees and your church. Contact the Annuity Board at **1-800-262-0511** for more information about protecting your employees.
6. For each eligible employee, contribute a minimum of 10% of personal income (within legal limits) to the Church Annuity Plan as an employer contribution.
7. If your church has an annual budget under \$40,000, apply for the Mission/Church Assistance Fund. Up to \$1,500 in retirement contributions may be available to ministers participating in the Church Annuity Plan.
8. Provide additional income to all ministers equal to one-half of their Social Security taxes. Remember that ministers are self-employed for Social Security tax purposes and must pay both halves of that tax, which is in excess of 15%. Designate this additional income as a Social Security Offset.
9. Budget for the employer's portion of FICA tax for non-ministerial church employees. Additionally, understand your federal payroll and employer reporting obligations and plan and budget for them.
10. Review the personal income of all church employees in comparison to the income of employees of other businesses or institutions in your town.
11. Consider providing a cost-of-living increase to assure church employees' salaries are keeping pace with inflation.
12. Review each church employee's job performance annually and provide merit increases when appropriate.
13. Designate the minister's housing allowance for eligible ministers. Remember that the housing allowance is one of two parts of the minister's personal income. Let the minister decide how this division should be made.
14. Complete the **Financial support worksheet** for each church employee. This pulls the whole financial support planning process together.

## Information for the church treasurer

### Tax-reporting requirements

- Ordained ministers should generally be treated as "employees" for income tax purposes in regard to their regular pay from the church. The IRS requires your church to provide ministers and paid employees with a Form W-2 for filing with their income tax return. Internal Revenue Code section 107

allows a minister to exclude the housing allowance from gross income. Don't include the amount of a housing allowance with pay on the W-2.

- Ordained ministers are considered self-employed for Social Security purposes and must pay self-employment tax (SECA) on cash salary, housing allowance and any Social Security Offset paid to them.
- A minister reports money received for weddings, funerals and other

individual services along with related expenses on Schedule C. For these sources of income and related expenses, the minister is considered self-employed.

- The Annuity Board provides a *Minister's Tax Guide* each year that includes specific information for church treasurers. This helpful guide is free upon request.

call **1-800-262-0511**  
or visit [www.absbc.org](http://www.absbc.org)

## Federal reporting requirements for Southern Baptist churches

Some church treasurers make a false assumption that churches are exempt from any federal reporting requirements. Churches that do not comply with the following 11 reporting obligations can face substantial penalties.

1. **Obtain an employer identification number (EIN) from the federal government.**
2. **Determine whether each church worker is an employee or self-employed.**
3. **Obtain the Social Security number for each worker.**
4. **Have each employee complete a Form W-4.**
5. **Compute each employee's taxable wages.**
6. **Determine the amount of income tax to withhold from each employee's wages.**
7. **Withhold Social Security (FICA) taxes from non-minister employee's wages.**
8. **The church must deposit all taxes it withholds.**
9. **All employers who are subject to income tax withholding and/or Social Security taxes must file Form 941 quarterly.**
10. **Prepare a Form W-2 for every employee, including ordained ministers on the church's staff.**
11. **Prepare a Form 1099-MISC for every self-employed person receiving non-employee compensation of \$600 or more during the year from the church.**

The *Minister's Tax Guide* includes a detailed description of federal reporting requirements for Southern Baptist churches in a special pull-out section. It is available on the Annuity Board Web site at [www.absbc.org](http://www.absbc.org) or by calling **1-800-262-0511**.

Additional information is also available on the Annuity Board Web site:  
[www.absbc.org](http://www.absbc.org)

Return this form to: Church Accounts  
Annuity Board, SBC  
P.O. Box 2190  
Dallas, TX 75221-2190

Or FAX it to our 24-hour FAX line  
at (214) 720-2105

## Free Resources

The Annuity Board offers the following financial planning resources **at no cost**. We want to help you in every way possible. Indicate the materials you want to receive and return this page to the Annuity Board or request these materials by calling **1-800-262-0511**.

- Additional copies of this *Planning Financial Support* booklet (How many? \_\_\_\_\_ )
- Church Annuity Plan information (retirement plan for ministers and church employees)
- Mission Church Assistance Fund information for churches with annual budgets less than \$40,000
- Personal Security Program information (medical, dental life and disability coverage for ministers and church employees)
- Ministers Tax Guide* – prepared for ministers, this annual guide includes a pull-out section about federal reporting requirements for Southern Baptist churches. The guide is also available on our Web site at [www.absbc.org](http://www.absbc.org).
- Ministerial Tax Issues* – a brochure that answers common tax questions. (How many? \_\_\_\_\_)
- Property, casualty and liability coverage information
- Long-term care information

Name: \_\_\_\_\_

Your Church Position: \_\_\_\_\_

Church Name: \_\_\_\_\_ Association: \_\_\_\_\_

Church Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ ZIP Code: \_\_\_\_\_

Daytime Telephone: (\_\_\_\_\_) \_\_\_\_\_ Church Telephone: (\_\_\_\_\_) \_\_\_\_\_



**ANNUITY BOARD**  
OF THE SOUTHERN  
BAPTIST CONVENTION

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*Serving Those Who Serve the Lord "...with the integrity of our hearts  
and the skillfulness of our hands." Psalm 78:72*