

**LOCAL
CHURCH
TREASURER
HANDBOOK**

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SECTION 3

CLERGY COMPENSATION

Prepared for the
Upper New York Conference
Of the United Methodist Church

Updated: October 5, 2018

Updated: November 3, 2021

STATEMENT FROM YOUR CONFERENCE COMMITTEE ON FINANCE &
ADMINISTRATION (CF&A)

The information provided in this Clergy Compensation – Section 3 of the Local Church Treasurer Handbook is meant to guide treasurers and financial stewards of local churches with information regarding the unusual guidelines that deal with clergy compensation.

Many documents within this section of the guide have been utilized from the General Church on Finance and Administration for the United Methodist Church (GCFA) website (www.gcfa.org). Please check that website frequently for the latest information.

If you have any questions about any of the documents or issues discussed within this document, please contact a member of the Upper New York Conference CF&A directly.

The Upper New York Conference is not engaged in providing legal or accounting advice or services. The service of a competent professional should be sought for legal and tax advice.

Thank you.

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SECTION 3 – CLERGY COMPENSATION

Introduction

The Conference sets Clergy Support Policies each year at Annual Conference. This section includes the 2021-22 Clergy Support Policies of the Upper New York Annual Conference.

Churches and clergy should continue to consult the annual journal for each year's Annual Conference, to verify computations and work are being done properly.

Attached is the Year-End Checklist for Church Treasurers created by Church Law and Tax Report. This information is basic but can guide church Treasurers, Clergy and Finance staff in making proper decisions prior to year-end.

Also attached is a chart to assist treasurers and churches to determine how compensation for those persons appointed or assigned to their church should be paid and how/if taxes should be withheld.

**2021-22 Clergy Support Policies of the
Upper New York Annual Conference**

This policy document is composed of policies approved by multiple agencies of the Upper New York Conference. The agency responsible for each section or sub-section is noted in parentheses.

I. Minimum Base Compensation (Comm. On Equitable Compensation)

A standardized minimum base compensation is established for The Upper New York Annual Conference that requires the following:

- A. A minimum base salary, set according to credential level, for all full time clergy persons as follows:

	<u>Base</u>
Full connection (elder & deacon):	\$39,984
Provisional:	\$38,556
Associate:	\$37,842
FTLP completed Course of Study or MDiv	\$37,128
FT Local Pastor:	\$35,700

(Less than full time appointments shall receive a base salary pro-rated according to the appointment.)

- B. An additional amount is added to the base for each full-time equivalent year of service based on credentials as follows:

<u>Full</u>	<u>Provisional</u>	<u>Associate</u>	<u>FTLP w/MDiv</u>	<u>FTLP</u>	<u>per year of FTE service up to</u>
\$400	\$386	\$378	\$371	\$357	25 years

- C. Plus, an additional \$500 for each additional church on the pastoral charge (over one), not adjusted for part time appointments.
- D. No pastor's salary can be decreased as a result of this policy, as long as they retain their current appointment.
- E. All churches are encouraged to offer a salary increase of no less than the 10-year average increase in the Consumer Price Index in order to account for increases in the costs of living. Churches are encouraged to consider further raises based on exceptional service.

II. Clergy Housing Policy (Comm. On Equitable Compensation)

In the United Methodist Church, housing is provided to clergy. While the parsonage remains the normative provision of housing, some parishes prefer to offer, and some clergy prefer to receive, a housing allowance instead. The complexities of contemporary economics, local church resources and pastoral households make it less likely that a "one size fits all" housing provision best meets the needs of every situation. Local churches and clergy both need to carefully weigh the advantages and disadvantages, especially if considering a change from one to the other.

A. Values and Considerations

The Upper New York Annual Conference of The United Methodist Church believes that congregations and clergy benefit when clergy and their families live in buildings which are safe, clean, comfortable, and as commodious as the average home in their community. It is required that clergy housing will meet all applicable local and state residential codes. As faithful stewards of the earth and other limited resources, congregations and clergy are encouraged to make clergy housing as energy efficient as possible. In order to be as welcoming as possible, consideration should be given to making clergy housing accessible to residents or guests with mobility challenges.

Local churches may prefer to provide a housing allowance for a variety of reasons: less property to maintain and repair, more predictable budget implications, and no “landlord” issues with their pastor. Likewise, clergy households may prefer a housing allowance for other reasons, such as: accumulation of equity, allowance for differing clergy household needs, ability to locate in a desired location, freedom to renovate and refurbish as desired, and no “tenant” relationship with parishioners.

However, it is also to be acknowledged that tension may exist between the appointive/itinerant system of clergy deployment and the housing allowance system. Pastoral appointments are made on an annual basis at the will of the bishop. The financial advantage to long-term clergy home ownership may be at odds with a short-term need or desire for a pastoral transition. It must be understood by all that the provision of a housing allowance or parsonage shall not be a primary consideration by the bishop and cabinet for future appointments for the pastor. Further, a local church that has a parsonage available to the pastor is under no obligation to provide a housing allowance if that pastor prefers to live in a different location.

B. Parsonages

1. Relationships and Responsibility

The parsonage is to be mutually respected by the pastor’s family as the property of the church and by the church as a place of privacy for the pastor’s family. (*Book of Discipline of the UMC*, ¶ 258.2.g.16)

The chairperson of the Staff-Parish Relations Committee, the chairperson of the Board of Trustees or the chairperson of the Parsonage Committee, if one exists, and the pastor shall make an annual inspection and review of the church-owned parsonage to assure proper maintenance. (*Book of Discipline of the UMC*, ¶ 258.2.g.16, and ¶ 2532.4)

The church shall provide a parsonage which addresses the values noted above and the standards listed below. Standard maintenance and repairs, and renovation of the parsonage are the responsibility of the church. The Trustees or Parsonage Committee shall arrange, supervise, and arrange payment for such tasks. Necessary work shall be scheduled in consultation with the pastor. The church and the pastor shall work together to develop a process to assure timely, good quality repairs and maintenance.

- Parsonages with a wood burning heat source must have a professional chimney inspection (and cleaning if necessary) at least every 2 years.
- The pastor shall furnish the house to suit his or her needs.
- The pastor is responsible for notifying the church about necessary repairs as the need arises.
- The pastor is responsible for the repair of damages exceeding normal wear and tear.
- The church, in consultation with the pastor, is responsible for lawn care and snow removal.
- The church shall pay for insurance, heat, electricity, garbage and trash removal, water and sewer, basic telephone service (landline or cell), and installation fees for cable or satellite television service if broadcast reception is inadequate.
- Churches that expect pastors to have access to the internet away from the church should pay for internet access at the parsonage.
- The pastor shall pay for personal toll calls and communication services beyond those provided by the church.

If a pastor is appointed to serve more than one local congregation, all congregations shall share equitably the costs and other responsibilities of providing a parsonage. If more than one

congregation has a parsonage, the parsonage of residence shall be determined by the District Superintendent in consultation with the appointed pastor and the congregations.

If a parsonage is occupied by a clergy couple serving different appointments, all congregations served shall share equitably and reasonably the costs and responsibilities of providing a parsonage. The parsonage of residence and shared cost responsibilities shall be determined by the District Superintendent in consultation with the appointed pastors and affected congregations.

Adherence to this policy by both clergy and congregation is essential to the appointment covenant. Failure to adhere to this policy by either clergy or congregation may jeopardize current and future appointments.

2. Parsonage Standards

Parsonages shall have at least 3 bedrooms, 1.5 bathrooms, a kitchen, dining room, living room, laundry facilities, appropriate storage capacity, and provision for 2 parking spaces. All shall be in good repair and meet all applicable local and state health and safety codes. The parsonage shall be at least the size of the average home in its community.

The church is responsible for providing a furnished office or study for the pastor. While it is preferable to locate this office in the church or another church building, if necessary it may be a separate, additional room in the parsonage. If the Pastor's primary office is located in the parsonage, it must have its own, separate, outside entrance and unencumbered windows, in accordance with Safe Sanctuary policies.

3. Rooms and Spaces

- a. Bedrooms should be large enough to contain a bed, adequate storage for clothing (dresser and closet, or dresser and wardrobe), and a desk and chair or a reading area. It is preferable to have at least one fully accessible bedroom on the ground floor of the house.
- b. Bathroom facilities shall include: a toilet and sink on each floor, a tub, a shower, a medicine cabinet, and storage space for linens and supplies in or near the main bathroom. It is preferable to have at least 2 complete bathrooms including a fully accessible, complete bathroom on the ground floor.
- c. The kitchen shall contain at least: a standard size stove and oven, a refrigerator with freezer, a dishwasher, built-in cabinets or pantry, a full-size sink, adequate counter space, and wall and floor finishes which can be kept clean.
- d. Living and dining rooms should be large enough to accommodate 4-6 residents plus guests. A combined living and dining room is acceptable if large enough to fully accommodate both functions.
- e. Laundry facilities shall be accessible from the interior of the house and include: an automatic washer and dryer, and storage for supplies. It is preferable to be able to conceal the laundry area and even better to have a separate laundry room with a sink and space to sort and fold. It is preferable to have these facilities fully accessible and on the ground floor.
- f. Parking shall be off-street, preferably in a garage located on the parsonage property.

4. Systems

- a. *Heating, Ventilation, and Cooling* - The parsonage shall be equipped with central heating capable of maintaining a temperature of 68 degrees in all rooms. Windows shall be in good repair and operable to provide adequate ventilation. Full bathrooms should have adequate ventilation to prevent excessive moisture build-up. Adequate passive or mechanical air cooling should be provided.
- b. *Electrical System* - Wiring, outlets, and fixtures should be safe and adequate to meet the lighting and technology needs of a modern household.
- c. *Water* - Hot and cold, potable, running water shall be available in the kitchen, bathrooms, and laundry area in amounts suitable to the needs of a family. In areas with hard water, water softeners shall be installed and maintained. Leaks of any kind are not acceptable.
- d. *Safety, Security, and Environment* - Parsonages shall be equipped with properly maintained CO detectors and smoke alarms, and have fire extinguishers in kitchen, furnace room, near fireplaces, pellet stoves or wood stoves, and near bedrooms. Radon testing shall be done periodically and remedial measures taken if necessary. Visible mold and moldy odors shall not be present.

Where necessary for the safety of children and/or vulnerable adults, yards and outside spaces shall be adequately enclosed. Entrance lights shall have switches by the door, be motion activated, and/or be operable remotely. All parsonages shall be equipped with secure locks/deadbolts. If there are further safety concerns, the pastor and the church may wish to explore installing an alarm system.

- e. *Communications* - The parsonage shall have a reliable telephone system, adequate TV connection and internet access.
- f. *Interior finishes* - Floors, walls, and fixtures shall be in good condition with coverings which are suitable for the function of the room and in good repair.
- g. *Exterior* - The roof, exterior walls, exterior doors, windows, and foundation of the parsonage shall be carefully maintained to keep out the elements pests, and to conserve energy. The house shall be adequately insulated. It is preferable to have energy efficient doors and windows that suit the architecture of the house as much as possible.
 - i. Porches and decks shall be maintained to insure their safety. Exterior faces and spaces of the building(s) and yard shall be designed and maintained to be functional for the family, and to be a pleasant addition to the community.

5. Waivers and Exceptions

If the minimum standards described above cannot be met because of the age or historic character of the house, the charge must propose alternatives which afford an equivalent quality of life to that set by these standards. Any such changes must be approved by the District Superintendent. It is understood that such changes will not compromise the safety provisions of these standards, the overall functionality of the parsonage, or the mandate that it be kept in good repair. It should be noted that the accessibility preferences described above are mandated when purchasing or building a new parsonage. (*Book of Discipline of the UMC*, ¶ 2543.3b)

6. Transition Protocols

Prior to a pastor's move, but no more often than every 5 years, a certified building inspector shall inspect the parsonage so that the congregation can plan necessary maintenance and repairs. If a pastor is moving and the parsonage has had a professional inspection within the past 5 years, this pre-move inspection may be performed by the outgoing pastor, the chairperson of the SPRC, and the chairperson of the Board of Trustees and/or the chairperson of the Parsonage Committee or their designates.

The outgoing pastor shall leave the parsonage clean and in good order. As soon as possible after a change in appointment is announced, the Trustees or Parsonage Committee shall inspect the parsonage for maintenance needs and damage caused by the outgoing residents, including damage caused by pets. If excessive damage is discovered it will be the responsibility of the outgoing pastor to repair, pay for repairs of, or replace the damaged item(s). When the pastor or family has allowed smoking within the parsonage, the cost of professional cleaning, and purchase of an air purifier if necessary, to remove smoke odor will be the responsibility of the outgoing pastor.

The charge shall refurbish, repair and thoroughly clean the parsonage prior to a new pastor moving in. Damaged walls, ceilings, floors, windows, fixtures and appliances shall be repaired or replaced. Painted surfaces shall be cleaned or repainted. Carpets shall be thoroughly steam cleaned or replaced; replacement is required if the carpet is torn, excessively worn, or permanently stained. Windows shall be cleaned inside and out. In the event that such work requires that the incoming pastor must make temporary living arrangements, related expenses will be paid by the receiving church.

It is recommended that a photographic record of house and yard, including each room's condition and contents, be created and filed for reference and planning purposes.

7. Treatment of Parsonage Value in Compensation Packages

The General Board of Pension & Health Benefits provides the following guidance: When a parsonage is provided, it will be valued at 25% of salary for benefit computation purposes. In a multi-church appointment, this factor is added to salary for all churches served by the pastor, regardless of which church owns the parsonage in which the clergy person lives.

- a. If a clergy couple is serving separate churches and each church/charge has a parsonage available, each clergyperson's entire compensation will include a parsonage value equal of 25% of salary regardless of where the clergy couple lives. [Note: only the fair rental value of the occupied parsonage is reported by the clergy couple as part of self-employment income]
- b. However, if a clergy couple is serving separate churches, and is living in a parsonage provided by one of the churches with no parsonage offered or available from the other church, only the clergyperson serving the church which provides the parsonage will have the parsonage value added to salary.

C. Housing Allowance

All full-time clergy appointed to a full-time charge or a Conference-responsible extension ministry shall be provided either a parsonage or a housing allowance. In the event that an appointment has already moved to providing a housing allowance for their pastor and a parsonage is no longer available the charge will negotiate an appropriate housing allowance with the incoming pastor. A housing allowance enjoyed by a pastor appointed to charge "A" will not necessarily translate into a housing allowance for that same pastor when s/he is appointed to charge "B."

Housing allowances shall exist in accordance with the following policy or successive policies as determined by future sessions of the Annual Conference:

1. The housing allowance policy will be in effect from the time the charge moves from providing a physical parsonage to a housing allowance for the current pastor or an incoming pastor. Once the charge makes the transition to providing a housing allowance, that charge shall not be *required* to return to providing a physical parsonage. In the event that the charge *wishes* to do so, see item #4 below.
2. Charges that elect to provide a housing allowance shall do so at a charge/church conference chaired by the District Superintendent after and only after following the steps outlined in item #3 below.
3. A housing allowance agreement shall be drawn up by the local charge (the Staff/Parish Relations Committee and the Board of Trustees, in consultation with the District Superintendent, should be involved in this process as a joint effort). The agreement shall include the following:
 - a. For the purchase of a home (house, condo, etc.) by the pastor:
 - i. Costs associated with a typical annual mortgage, based upon a 20% down payment and 30 year mortgage, for a home that meets the size requirements of the Conference Parsonage Standards, to cover at minimum: monthly principle and interest costs and mortgage insurance.
 - ii. Costs associated with utility expenses (heat, light, phone, basic cable, internet service if not provided in a separate church office), property taxes for a home that meets the size requirements of the Conference Parsonage Standards. This information will be provided by a reputable realtor or rental agent so a dollar range for housing may be set for the incoming pastor as s/he considers the appointment and seeks housing.
 - iii. The housing allowance will be at minimum the sum of items i and ii above.

EXAMPLE:

- i. Purchase price of home = \$140,000; 20% down - \$28,000; 30 year mortgage of \$112,000 @ 4.75% is \$585 x 12 = \$7,020 annually
property and school taxes of \$4,000
homeowners insurance of \$600
 - ii. Average monthly utility expenses of gas, electric, and bundled phone/internet/tv = \$345 x 12 = \$4,140
- Minimum housing allowance in this example is \$15,760

- iv. Charges providing a housing allowance may assist the pastor in obtaining a loan or provide a grant for down payment if needed. Any such agreement for down payment shall become a part of the housing allowance agreement.
- v. The housing allowance agreement shall be signed by the pastor, the chair of Trustees, and the chair of S/PPRC.

b. FUNDING

x. Local churches are billed based on eligibility of clergy person, regardless of enrollment.
xi. Blended premiums to local churches with eligible pastors; blended rate being the average of all eligible clergy.
xii. Local church lay employees are billed 100% of actual premium; church contribution negotiated by employee.
xiii. A portion of retiree medical costs are billed to all churches based on a proportional basis as a direct bill item; i.e. Retiree Premium.
xiv. Conference Staff and DS costs paid through shared ministry budget; personal premium on same basis as active clergy.
xv. All active participants - lay and clergy - pay a portion of their health insurance at a rate determined annually by CBOP. Can be on pre-tax basis.
xvi. Short term disability; salary paying unit continues to pay health insurance
xvii. Long term disability; Conference pays full premium for pastor and family for year 1, then on a declining schedule for family members year 2-5. Board can consider special circumstances.
xviii. Persons on leave other than incapacity must pay 100%
xix. Retirees: Conference obligation based on years of service: 3.33% of "fully funded HRA amount" per full time equivalent year of service up to \$2,500 annually and 5 year vesting. \$2,500 is the fully funded HRA amount.
xx. Retirees under age 65: Conference will pay 3% of actual premium per year of service up to 30 years, however an additional amount of 5% of premium for each year under age 65, up to 15%, is added to the participant's obligation.
xxi. Retiree Health Insurance years of service include all full time UMC church appointments or conference staff; adjusted for part time.
xxii. Conference lay employee retirees pay on the same basis as Clergy retirees
xxiii. Surviving Spouses pay at same % as spouse
xxiv. New spouses of retired participants pay 100%
xxv. Premiums for legally dependent adult children determined by CBOP
xxvi. Churches with clergy serving part time should include in their salary support packages a "health insurance allowance" in an amount that relates to the blended rate to enable the clergy person to obtain health insurance or fund a Health Savings Account.

V. Time Off Policy (Comm. On Equitable Compensation)

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- A. All church staff are entitled to two days off per week for personal time, family time and spiritual renewal, one of which would be a Sabbath day.
 - B. Full time Clergy are entitled to 4 weeks of vacation each year with 5 weeks for those with more than 20 years of full time equivalent service. The number of Sundays off will correspond at least one-to-one with the number of weeks of vacation.

E. Pastors returning from Sabbatical Leave, Leave of Absence, Retirement, Extension Ministries, Medical Leave, or Honorable Location: The Cabinet will be empowered to negotiate the amount of reimbursement for the cost of the move.

F. Surviving Spouses: The Conference will pay up to \$4,500 for billed expenses for moving surviving spouses and/or immediate families when requiring them to vacate a parsonage. Each situation must involve consultation with the affected spouse and immediate family, the Cabinet, and the appropriate Moving Coordinator.

G. Displaced Spouses: The Conference will pay up to \$3,000 for billed expenses for moving spouses and immediate families displaced due to divorce or other legal action when requiring them to vacate a parsonage. Each situation must involve consultation with the affected spouse and immediate family, the Cabinet, and the appropriate Moving Coordinator.

H. Moving out of the Conference: The Conference will not be responsible for the cost of moving an active pastor to an appointment or ministry outside the geographic bounds of the Conference.

RETIREMENT MOVES

- A. The Conference Board of Pension & Health Benefits will pay for one retirement move for clergy members – full-time or part-time -- who are retiring from a local church appointment or conference staff appointment, according to the approved schedule (see below). The retirement move shall occur one year prior to retirement or up to two years after retirement. Any variation from the schedule must be recommended by the District Superintendent and approved by the Conference Board.
- B. The retiree is responsible for packing, except for those items the carrier is required to pack under insurance regulations (i.e. mirrors, mattresses, marble tops, etc.).
- C. The Mover engaged by the Conference will submit an invoice directly to the Conference Treasurer. The Conference Treasurer will pay full Mover's fee. Any amount over the grant amount or special charges, are the responsibility of the retiring pastor. The Conference Treasurer will advise the pastor of the amount of reimbursement due to the Conference.
- D. For a self-move, the pastor must pay the bill up-front and then submit receipts to the Conference Treasurer for reimbursement.
- E. For each year of service in The United Methodist Church, the following amounts will be paid toward the retirement move:

At time of retirement:

Full time	\$90 per year of service up to \$3,000
Three-quarter time	\$67.50 per year of service up to \$2,250
Half time	\$45 per year of service up to \$1,500

IX. Pastor's Compensation Arrearage Policy (AC2015 CEC Report)

- A. In the event that the local church treasurer becomes aware that the church will be unable to provide to the pastor full payment of a regularly scheduled payroll, accountable reimbursements or housing allowance installment, or to remit full payment for any items deducted or withheld from a pastor's base compensation, the church treasurer shall immediately notify both verbally (within 24 hours) and in writing

(within 3 days) the pastor, the lay leader, the lay member of annual conference and the chairs of S/PPRC, finance, trustees and the administrative/church council of the impending arrearage. Upon receipt of such notice, the chair of S/PPRC and/or the pastor shall immediately (within three days) notify the district superintendent of the impending arrearage. It is the pastor's responsibility to keep copies of all such written notifications, and to provide additional written confirmation to the district superintendent when an arrearage has taken place. Failure to document salary-related arrearages may result in a loss of compensation.

B. Upon receipt of notice of a pending arrearage, the chair of S/PPRC shall immediately (within 72 hours) schedule and hold a meeting of the pastor, lay leader and chairs of finance, trustees and the administrative/church council to discuss the financial situation and seek remedies to prevent an arrearage from occurring. Such remedies might include:

1. Drawing from invested funds
2. An emergency appeal for special giving from the congregation According to the Book of Discipline ¶1624, such remedies cannot include a reduction in the pastor's compensation until the beginning of the next conference year.

C. If, after consultation among the lay leader, pastor, and chairs of S/PPRC, finance, trustees and the administrative/church council, it becomes apparent that the church may be facing a long-term financial crisis, the chair of S/PPRC shall notify in writing the pastor and district superintendent that:

1. An Equitable Compensation Subsidy Grant may be necessary to maintain compensation for the remainder of the conference year and/or,
2. A change in pastoral compensation or appointment may be necessary.

D. If the local church becomes delinquent in the pastor's compensation (i.e. more than 30 days delinquent), then the district superintendent shall notify the Commission on Equitable Compensation, which on its own initiative may do any or all of the following, but not limited to:

1. Sending a representative from CEC to meet with the local church and pastor to seek resolution of the issue;
2. Developing with the local church a payment plan so that the pastor receives full payment of compensation by the end of the conference year. The district superintendent shall be a participant in this process.

E. If the local church is already receiving a subsidy grant from the CEC, the CEC may also:

1. Determine if all subsidy grant funds allocated to the church were used to pay the pastor's salary.
2. Examine the original subsidy grant application to determine if the amount requested to meet minimum compensation was reduced
3. Require an outside audit of all church funds in compliance with GCFA guidelines (www.gcfa.org).
4. Notify the district superintendent of its findings and recommendations in writing.

F. Paragraph 2542.1 of the Discipline makes clear that no real property on which a church building or parsonage is located shall be mortgaged to pay for the current or budgeted expenses of a local church (including arrearages), nor shall the principal proceeds of a sale of any such property be so used. This provision shall apply alike to unincorporated and incorporated local churches.

G. Regardless of any assistance received from the Annual Conference, it remains the responsibility of the local church to provide minimum compensation for its appointed clergy (Para. 624).

- H. It is the responsibility of the pastor to provide evidence of an arrearage by providing documentation to the District Superintendent, Commission on Equitable Compensation and any other conference agency. This evidence should include treasurer's reports, charge conference reports of adopted salary and compensation, check stubs, W-2 forms, and any other pertinent documents.
- I. The limitations for filing a claim for funds from the annual conference (i.e. notification to the district superintendent of the arrearage) for any salary arrearage is one year from the date of the initial arrearage. Once an appointment ends, the pastor no longer has claim on the local church for compensation funds (§ 342.4).
- J. The district superintendent shall provide a report of the matter and actions taken which will be placed in the permanent files of the church and the pastor.

Year-End Checklist for Church Treasurers

The holiday season is upon us, and it can distract our attention from some important “end of the year” tax and administrative responsibilities. Here is a simple checklist that will quickly assist church treasurers in handling the more important of these responsibilities.

Task	Completed
1. Housing allowance. The board or congregation should designate a housing allowance for the upcoming year for ministers who own or rent their home (and for ministers who live in a parsonage and who pay some of their housing expenses).	
2. W-4 forms. All employees should review their W-4 form, and submit a new form if circumstances have changed. This will ensure accurate tax withholding.	
3. Notice to donors. Donors should be advised in the church bulletin or newsletter, or in a letter from the church, not to file their federal income tax return before they receive their contribution summary from the church. Donors may not be able to deduct individual contributions of \$250 or more if they file a tax return before receiving a contribution summary from their church.	
4. Christmas gifts. Be sure to handle correctly any Christmas gifts made by the church or congregation to a minister or lay staff members. In most cases these transfers represent taxable income and not a tax-free gift and must be reported as income on the recipient’s W-2 form.	

A gift of property having a value so small “as to make accounting for it unreasonable or administratively impracticable” is a nontaxable “de minimis fringe benefit.” This exception does not apply to cash or “cash equivalents” (such as gift certificates).

Gifts made to volunteers are subject to these same rules, except that a church is not required to report these gifts as taxable income to volunteers unless they receive compensation from the church of \$600 or more during the year (in which case the church issues them a Form 1099).

5. **Handling end-of-year contributions.** The general rule is that a contribution is effective when delivered. This means that a check deposited in the church offering in January cannot be deducted in the prior year, even if it is backdated to the prior year. One exception—checks that are mailed and *postmarked* in the prior year are deductible in that prior year, even if they are not received until the new year.
6. **Business expenses.** If your church reimburses some or all of your employees' business expenses, reimburse year-end business expenses now. *Caution:* if you have an accountable reimbursement arrangement, distributing any balance in the reimbursement account to your employees at year-end may make all reimbursements for the year nonaccountable.
7. **Reclassification of workers.** Now is the time to decide if you want to reclassify any of your workers for tax reporting purposes. If you have a minister or lay worker who is treated as self-employed for federal income tax reporting purposes, and you would like to reclassify the person as an employee, the ideal time to make the change is on January 1 of the new year.

Many churches incorrectly report ministers as employees for Social Security, and withhold Social Security and Medicare taxes from their wages. This is incorrect, since the tax code classifies ministers as self-employed for Social Security with respect to services they perform in the exercise of ministry. As a result, they pay the self-employment tax, not Social Security and Medicare taxes. The ideal time to reclassify these ministers as self-employed for Social Security is January 1 of the new year.

Consult with a tax professional about correcting any previous *misclassifications of ministers and lay employees for federal tax reporting purposes.*

8. **Voluntary withholding.** Minister's wages are exempt from Social Security, Medicare, and federal income tax withholding with respect to services performed in the exercise of their ministry. This means they use the quarterly estimated tax procedure to prepay their federal taxes. Ministers who report their income taxes as employees can enter into a *voluntary withholding arrangement* with their employing church by submitting a W-4 form to the church treasurer. Under such an arrangement, the employing church withholds income taxes as it would for any other employee, and also can withhold an additional amount of income taxes to cover the minister's self-employment tax liability. The ideal time to start voluntary withholding is January 1.

Some churches have filed a Form 8274 with the IRS exempting themselves from the employer's share of Social Security and Medicare taxes. Lay employees of such churches are treated as self-employed for Social Security, meaning that they must pay self-employment taxes by making quarterly estimated tax payments to the IRS, unless they request voluntary withholding. Under such an arrangement, the church withholds an additional amount of federal income taxes to cover their estimated self-employment tax liability.

9. **Order IRS tax forms and publications.** December is a good time to order your new copy of IRS Publication 15 (withholding tables) and copies of Forms W-2, W-3, 1099 and 1096 that you will issue for compensation paid. Other forms to reorder include W-4, W-9 and 8283. To order forms, simply call IRS toll-free (1-800-TAX-FORM). You can also download most forms directly from the IRS website (irs.gov).
10. **Order tax publications and renew subscriptions.**

