

LOCAL  
CHURCH  
TREASURER  
HANDBOOK

-

SECTION 6  
RESOURCES

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

Updated: October 5, 2018

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

The information provided in this Resources – Section 6 of the Local Church Treasurer Handbook is meant to give treasurers, clergy and financial stewards of the local church various resources that have been compiled from Conference resources, GCFA, Internal Revenue Service and others.

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.

Rev. Susan M. Ranous, CPA  
Chair, CF&A

## CONTACT INFORMATION

### Upper New York Conference Office

7481 Henry Clay Boulevard

Liverpool, New York 13088

Phone (315) 898-2000

FAX (315) 898-2198

- Robert Flask

Treasurer

(315) 898-2000 X2008

[bobflask@unyumc.org](mailto:bobflask@unyumc.org)

- Rev. Susan M. Ranous

Chair, CCF&A

(315) 427-3668

[sranousacctg@twcny.rr.com](mailto:sranousacctg@twcny.rr.com)

## SECTION 6 – RESOURCES

### Introduction

We have compiled multiple resources in this section which include the following:

- Group Ruling for United Methodist Churches – the request for group ruling is now located online on [gcfa.org](http://gcfa.org)
- Housing Allowance Q&As for United Methodist Clergy
- IRS Rulings and Information on Deacons
- Gift Acceptance Policy
- Local Church Statistics and Why They Matter
- Upper New York Annual Conference Record Retention Guidelines
- Guidelines for Managing Records of the Annual Conference & Local Church
- Ministers Audit Techniques Guide (Internal Revenue Service)



## **HOUSING ALLOWANCE Q&As (FOR UNITED METHODIST CLERGY)**

1. **What is the housing allowance?** When reporting gross income for federal income tax purposes, clergy can exclude a portion of their income designated by their church or salary paying unit as a "housing allowance" under Section 107 of the Internal Revenue Code (IRC). To be excludible, amounts designated as a housing allowance must be used to provide housing. In addition, there are limits on the amount that can be excluded. Note that a portion of the income of virtually all wage earners is used to pay for housing. What makes the housing allowance unique is that some of the income used to provide housing can be excluded from gross income for federal income tax purposes.

Also, clergy who live in a parsonage provided by the church do not have to report the fair rental value of the parsonage as income. (Note this "free" housing provided to clergy generally would be taxable compensation for lay employees.)

The housing allowance is sometimes called a "parsonage allowance" for clergy who are provided with a parsonage and a "rental allowance" for clergy who rent their home.

**Example:** A church pays its pastor an annual salary of \$35,000. In addition, she is provided the rent-free use of a furnished home owned by the church. The parsonage's annual fair rental value is \$10,000. The church and pastor do not have to report the \$10,000 fair rental value as income for federal income tax purposes.

2. **Is the housing allowance a deduction or exclusion from income?** The housing allowance is an exclusion from income, not a deduction. This means it is not reported as part of gross income for federal income tax purposes. (It is never deducted because it is not reported as income in the first place.)

**Example:** In the example above, the pastor reports \$35,000 as income (on IRS Form W-2, box 1). She takes no deduction for the \$10,000 fair rental value of the home that is provided to her because that \$10,000 is never reported as income for federal income tax purposes.

3. **What is the impact of the "Clergy Housing Allowance Clarification Act of 2002"?** The Clergy Housing Allowance Clarification Act of 2002 ("Act") prospectively codifies the fair rental value limitation on the amount of a designated housing allowance that can be excluded from gross income for federal income tax purposes. That law amended Section 107 of the IRC to now read:

Sec. 107. Rental value of parsonages

In the case of a minister of the gospel, gross income does not include –

(1) the rental value of a home furnished to him as part of his compensation; or

(2) the rental allowance paid to him as part of his compensation, to the extent used by him to rent or provide a home *and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities.*

(The new language added by the Act is shown in italics.)

This change is a statutory codification of the IRS's previous position on this issue and therefore, for most clergy, this is nothing new or different from the way the housing allowance has worked in the past. (The full text of the Clergy Housing Allowance Clarification Act of 2002 is included in the tax packet.)

The following question explains in more detail the three limitations on the housing allowance exclusion.

4. **Can clergy exclude from gross income for federal income tax purposes the entire cost of owning, renting, and/or furnishing a home?** It depends. The amount that can be excluded is the *lesser* of:
- (a) the amount designated as the housing allowance
  - (b) the amount of actual housing expenses, or
  - (c) the fair rental value of the property (furnished, plus utilities).

**Example:** A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$10,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and pastor do not have to report the \$10,000 housing allowance as income for federal income tax purposes. (The church reports \$35,000 as salary on the pastor's Form W-2, box 1.)

**Example:** A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns her own home and the fair rental value of her home is \$10,000 per year. The actual expenses of operating her home are \$8,000 per year. The church and pastor do not have to report \$8,000 (out of the \$10,000 housing allowance) as income for federal income tax purposes. However, the "unused" \$2,000 of the housing allowance must be included in the pastor's gross income. This is because the pastor cannot exclude more than her actual housing expenses, regardless of the amount her church designates as a housing allowance or the fair rental value of the home.

**Example:** A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$12,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and pastor do not have to report the \$10,000 housing allowance for federal income tax purposes. The pastor cannot claim a housing allowance exclusion for the entire fair rental value

of the home because his designated housing allowance and actual housing expenses are less than the fair rental value. He can only exclude from income the lesser of the fair rental value, designated housing allowance, or actual housing expenses, in this case, \$10,000.

**Example:** A church pays its pastor annual compensation of \$45,000, of which \$11,000 is designated as a housing allowance. The pastor purchased her own home and the fair rental value of her home is \$10,000 per year. The actual expenses of operating her home in this first year of purchase are \$30,000 which includes a \$20,000 down payment. The pastor can exclude a total of \$10,000 from income for federal income tax purposes. She cannot claim a housing allowance exclusion for all her actual housing expenses because the exclusion cannot exceed the fair rental value of the home, in this case, \$10,000.

**Example:** A church pays its pastor annual compensation of \$45,000, of which \$8,000 is designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$10,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and pastor do not have to report the \$8,000 housing allowance as income for federal income tax purposes. The pastor cannot claim a housing allowance exclusion for the entire amount of his expenses or for the entire fair rental value of the home, because the exclusion cannot exceed the designated housing allowance, in this case, \$8,000.

5. **How do you determine the fair rental value of the parsonage or pastor's home?** In general, the fair rental value of the property is a question of facts and circumstances based on the local real estate market. If the pastor rents his home, the amount of the rent would be presumptive evidence of the fair rental value (assuming the rental agreement was an "arm's-length" transaction). Other methods of substantiating the fair rental value might include calculations and written documentation drawn from listings with local realtors of similar properties, verification of rent paid for comparable housing in the neighborhood, or a review of newspaper advertisements for rents of similar housing in the community. Perhaps the best substantiation would be a letter estimating the fair rental value of the property written by a realtor who is familiar with your property and other rental property in your community.
6. **What is the status of the litigation, *Warren v. Commissioner of Internal Revenue*, which challenged the fair rental value test and raised issues regarding the constitutionality of Section 107?** After passage of the Clergy Housing Allowance Clarification Act of 2002, the IRS agreed to dismiss its appeal of the case and the federal appeals court subsequently dismissed the case without ruling on any of the substantive issues raised.
7. **How should a pastor and church determine the amount of the housing allowance?** Past experience is the best test. If this is a "first time" situation, the Housing Allowance Estimate Worksheet, Attachment C to this document, could be helpful. In addition, this worksheet can assist clergy in planning for out-of-the-ordinary housing expenditures in the upcoming year.

8. **Does the housing allowance cost the church more money?** To the extent the church designates as a housing allowance a portion of the annual compensation it would otherwise pay to its pastor, designating the housing allowance results in no additional cost to the church. Regardless, it is important to remember it is the *Disciplinary* obligation of every United Methodist church to provide housing for its pastor(s). This obligation can be fulfilled either by providing a parsonage or a housing allowance for the pastor(s).
9. **How is the housing allowance set up?** A pastor may not claim a housing allowance exclusion for federal income tax purposes unless his local church (or other salary paying unit) has first established or designated a housing allowance for him. The preferred way to do this is for the church council or charge conference to adopt a housing allowance resolution prior to each calendar year (or prior to the arrival of a new pastor) and record the resolution in the minutes of the meeting. However, to ensure that a housing allowance will always be in place for each calendar year, it is a good idea to have language in each resolution providing that the housing allowance will remain in effect in future years unless otherwise modified.

In determining the amount of the designated housing allowance, it can be very helpful if the pastor completes a form estimating his anticipated housing expenses for the coming year. (See Attachment C for a sample form.) This is important because, as seen in some of the examples above, any "mismatch" between actual housing expenses and the designated housing allowance could have tax consequences (specifically, either the pastor may not be able to exclude from his income as much as he otherwise could or he has to report additional income on his personal tax return).

In general, churches should avoid designating a set percentage of compensation as a housing allowance. The better approach is to estimate the anticipated expenses for the coming year and set the housing allowance accordingly. This approach minimizes the unfavorable tax consequences discussed above.

If the church provides the pastor with a parsonage, the church should annually (or prior to the arrival of a new pastor) adopt a resolution stating that it provides its pastor rent-free use of a church-owned parsonage and also designate the amount of the parsonage allowance (if any).

*See Attachments A and B  
For a Sample Housing Allowance Resolution  
and Notification*

10. **What types of housing related expenses can be included in the housing allowance?** Most reasonable household expenses can be included in the housing allowance, for example: down payment on a home, mortgage payments (including both interest and principal), home equity loan payments (assuming the loan proceeds are used for housing-related expenses), real estate taxes, property insurance, utilities, furnishings and appliances (including repairs), structural repairs, remodeling, yard maintenance and improvements, pest control,

snow removal, maintenance items, and trash pickup. (Also see Attachment C.) Note that the cost of food and servants may not be included in the housing allowance. Also, housing-related expenses can only be included in the housing allowance for the year in which they are incurred. (See the following example.)

**Example:** In anticipation of needing to put a new roof on his house, a pastor requests, and the charge conference approves, an additional \$3,500 as part of the pastor's designated housing allowance for the upcoming year. The pastor, however, waits until it is too late for the work to begin during that year. In that case, it is possible the pastor will not be able to exclude this additional \$3,500 from his income even though it was included as part of his housing allowance for the year. In short, the pastor can only exclude expenses in the same year they are incurred. The best the pastor can do in this situation is to ask the church to again designate an additional \$3,500 as part of his housing allowance for the following year and try to get the work done in that year.

11. **What type of housing expense records should clergy be keeping?** Clergy need to keep careful housing expense records to determine whether any part of the designated housing allowance is unexcludible and hence, must be reported as gross income. Records are also important for estimating a reasonable housing allowance for the next year. Original receipts, invoices, canceled checks, charge card records, etc. are all essential. Clergy may find it helpful to have one charge card dedicated solely to household expenses, to use the "shoe box" method of collecting all receipts in one handy place, and/or to have a dedicated bank account for this purpose. Clergy may also wish to create a contemporaneous log of expenses in the event some of the receipts or back up data are misplaced or difficult to interpret later.
12. **What happens if the pastor doesn't spend all of the designated housing allowance on housing expenses?** As noted above, the exclusion from gross income cannot exceed the lesser of the designated housing allowance, the actual housing expenses, or the fair rental value of the property. In particular, the exclusion from gross income can never exceed the actual housing expenses. Therefore, any "unused" portion of the designated housing allowance must be included in the pastor's gross income.

In general, any portion of the designated housing allowance that is not excludible because it is in excess of either the actual housing expenses or the fair rental value of the property, must included in the pastor's gross income.

**Example:** A church pays its pastor annual compensation of \$40,000, of which \$12,000 is designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$12,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and the pastor do not have to report \$10,000 (out of the \$12,000 housing allowance) as income for federal income tax purposes. However, the \$2,000 "unused" portion of the housing allowance must be included in the pastor's gross income.

13. **If the designated housing allowance is greater than the amount that can be excluded under Section 107 of the IRC, how does the church (and pastor) report the difference as gross income for federal income tax purposes?**  
There are two methods for reporting this income:

**(A) The Church Determination Method:** Under this method, it is customary for the pastor, in mid-January, to provide the local church treasurer with documentation of all housing related expenses and the fair rental value of the property for the prior year. The treasurer uses this information to calculate the portion of the housing allowance that can be excluded by applying the three-part test discussed above. The church treasurer then reports the unexcludible portion of the housing allowance on the pastor's Form W-2 (box 1) together with the pastor's other salary or compensation.

**Example:** A church pays its pastor annual compensation of \$45,000, of which \$12,000 is designated as a housing allowance. She owns her own home and the fair rental value of the home is \$12,000 per year. Under the church determination method, the pastor informs the church treasurer in mid-January that she had only \$11,500 in housing expenses in the prior year. The treasurer will then include the "excess" \$500 in the pastor's gross income for the prior year by reporting \$33,500 on the pastor's Form W-2 (box 1). The pastor does not separately report this \$500 on her Form 1040.

**(B) Estimated Exclusion Method:** Under this method, the local church treasurer reports on the pastor's Form W-2 (box 1) the total amount of compensation paid to the pastor during the year less the entire amount designated as a housing allowance. If the amount designated as a housing allowance is greater than the actual housing expenses or the fair rental value of the home, then it is the pastor's responsibility to report the difference as "other income" on the pastor's IRS Form 1040, line 21.

**Example:** A church pays its pastor annual compensation of \$45,000, of which \$12,000 is designated as a housing allowance. He owns his own home and the fair rental value of the home is \$12,000 per year. The pastor had only \$11,500 of housing-related expenses in the prior year. Under the estimated exclusion method, the church treasurer reports \$33,000 on the pastor's Form W-2, box 1 and the pastor reports the "excess" \$500 as income on his Form 1040.

Although both methods are appropriate, it is interesting to note that the second method is the one illustrated in IRS Publication 517. The second method has the advantage that it imposes less of an administrative burden on the local church treasurer, who is often a volunteer. However, if the second method is used by the church, it should probably incorporate in its housing allowance notification to the pastor a statement to the effect that the pastor (not the church) is responsible for properly computing and reporting any unexcludible portion of the housing allowance. (See Attachment B). Conversely, the advantage of the first method is that it helps insure that the pastor doesn't unknowingly forget to report taxable income. If the first method is chosen by the church, it should probably incorporate in its annual housing allowance resolution a statement that it is adopting this method.

Also note that the church may, but is not required to, report in box 14 of Form W-2 the amount of the designated housing allowance it did not include in the pastor's gross income. If the church does not fill in box 14 of Form W-2, it should independently inform the pastor of this amount. As discussed above, it is essential for the pastor to know this amount when computing his federal income taxes under the estimated exclusion method and also when computing his self-employment taxes (see below).

14. **What type of records should the church be keeping regarding the pastor's housing allowance?** The church (or other salary-paying unit) should maintain copies of the documents pertaining to the designation of the housing allowance, for example, the minutes of the meeting during which the housing allowance resolution was adopted. It is advisable for the church to maintain a separate housing allowance file with copies of these minutes, the annual housing expense estimate that some pastors provide to their churches, and any other related documentation. If the church determination method (see above) is used, the church should keep copies of the pastor's housing expense information. If the estimated exclusion method (see above) is used, the church does not need to request or maintain the actual housing expense records because it is not responsible for determining or verifying whether the pastor is correctly reporting the housing allowance exclusion on his or her own individual tax return.

15. **Can the housing allowance resolution be adopted or amended mid-year?** Yes. The housing allowance resolution can be adopted or amended at any time. However, it can only be applied prospectively. That is why it is important for the housing allowance resolution to be adopted by the church council or annual charge conference prior to each new calendar year (or prior to the arrival of a new pastor) and for pastors to accurately estimate their housing expenses in advance.

**Example:** A local church waits until June 30 to establish its calendar year housing allowance of \$10,000. In that case, at most \$5,000 of the \$10,000 housing allowance can be excluded from the pastor's gross income in that calendar year.

**Example:** A pastor realizes in March that she has significantly underestimated her housing expenses for the year. There is still "room" under the fair rental value test to exclude her anticipated housing expenses but she is limited by the amount of her designated housing allowance. Therefore, at her request, the church council adopts a resolution, effective April 1, increasing the pastor's housing allowance from \$10,000 to \$12,400. However, the pastor may only exclude from gross income 3/4, or \$1,800, of the extra \$2,400 added to her housing allowance (that is, her maximum excludible housing allowance for the year is \$11,800). She cannot exclude 1/4, or \$600, of the extra amount because 1/4 of the year (January, February and March) has already passed before the amended housing allowance resolution was adopted by the church council.

16. **Is the housing allowance also excluded from earnings subject to social security taxes?** No. The housing allowance exclusion only applies for federal income tax purposes. Like most everyone else, clergy must pay both federal income taxes and social security taxes. Employees pay social security taxes through the Federal Insurance Contributions Act ("FICA") system and self-employed individuals pay social security taxes through the Self-Employment Contributions Act ("SECA") system. By law, clergy are considered self-employed for the purposes of paying social security taxes (more commonly referred to as self-employment taxes) and the housing allowance is subject to self-employment taxes. Also, the fair rental value of a parsonage provided to a pastor (including the cost of any utilities and furnishings provided) must be included as self-employment earnings subject to the self-employment tax. (See IRS Publication 517).

**Example:** A church pays its pastor an annual salary of \$35,000 and provides her with the use of a church-owned parsonage. The church pays for all expenses of maintaining the home. The fair rental value of the parsonage (furnished, plus utilities) is \$10,000 per year. The pastor's gross income for federal income tax purposes is \$35,000, but for self-employment tax purposes her gross earnings are \$45,000 (\$35,000 salary + \$10,000 fair rental value of the parsonage).

**Example:** A church pays its pastor an annual salary of \$35,000 and provides him with the use of a church-owned parsonage. The church pays for all expenses of maintaining the home. The church serves an affluent community where the average price of a home is \$500,000. Hence, the fair rental value of the parsonage (furnished, plus utilities) is quite high, in this case, \$30,000 per year. While the pastor will not have to report the fair rental value of the parsonage as income for federal income tax purposes, he will have to include the \$30,000 fair rental value of the parsonage as gross earnings for self-employment (social security) tax purposes, inflating his reportable earnings to \$65,000.

This often seems unfair to pastors, who in this type of situation are required to come up with a sizeable amount of money to pay the self-employment tax. However, it is important to keep in mind that the pastor is still receiving a significant income tax "break," because he received a \$30,000 benefit (i.e., free housing) that is not reported as income for federal income tax purposes. But some churches do establish a (taxable) "social security allowance," increasing the cash compensation of the pastor to help defray the extra cost of the self-employment tax in this type of situation.

**Example:** A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns her own home and the fair rental value of her home is \$10,000 per year. The actual expenses of operating her home are \$10,000 per year. The church and the pastor report \$35,000 as income for federal income tax purposes (the \$10,000 housing allowance is not reported). However, the pastor must report the entire amount of her compensation, \$45,000, as gross earnings for self-employment (social security) tax purposes.



17. **How is the housing allowance reported for social security purposes?** It is reported by the pastor on Schedule SE of Form 1040, line 2, together with salary. It is important to note that when the local church completes the annual W-2 Form for clergy, Box 3 should be left blank (for clergy only). Box 3 on the W-2 Form is used only to report FICA wages, not SECA wages (clergy wages are considered SECA wages for purposes of social security). See above and the example W-2 for further information. IRS Publications 517 and 525 are also useful on these points.
18. **What is the Deason rule?** It is an interpretation of the Internal Revenue Code followed by the IRS based on a tax case going back to 1964 and reaffirmed by the U.S. Tax Court in a subsequent decision in 1988, and in a tax court decision in 1992 (see Deason v. Commissioner, 41 T.C. 465 (1964); Dalan v. Commissioner, T.C. Memo. 1988-106; and McFarland v. Commissioner, T.C. Memo. 1992-440). The rule applies only to clergy who are able to take a business expense deduction for unreimbursed business expenses, which is becoming more and more uncommon for United Methodist clergy. The rule provides that a clergy person who claims an exclusion from gross income for the housing allowance must reduce their business expense deduction by the percentage of income that is excluded from income tax reporting for the housing allowance.
- Example:* A clergy person receives a salary of \$36,000, plus a housing allowance of \$18,000. He has unreimbursed business expenses of \$6,000, which, for purposes of this example, are assumed to be deductible. His total "ministry" income is \$54,000 (\$36,000 plus \$18,000 housing allowance). The exempt portion of his income (the \$18,000 housing allowance) is 33.33% of the total. Thus, he is only able to deduct 66.66% of the \$6,000 in deductible business expenses (\$4,000).
19. **Our church provides our pastor with a parsonage, fully furnished, all utilities paid. He requests a \$12,000 housing allowance each year. We do not think this is right. What can/should we do?** The church PPR/SPRC chair and/or the treasurer should sit down with the pastor to discuss what items and expenses are part of the \$12,000 housing allowance request. Attachment C, the Housing Cost Estimate Worksheet, may be helpful. The church should also be familiar with the fair rental value of a fully furnished (with all utilities paid) comparable house in the area. With this factual information as background, the church can then evaluate whether the \$12,000 request is truly a problem. If it is, then the church treasurer and chair of the staff pastor/parish relations committee should discuss with the pastor the church's concerns, reviewing the estimated expenses the pastor will be making and the IRS rules regarding the fair rental value and other limitations on what can be excluded from gross income as a housing allowance. The pastor may have misunderstood the IRS rules or may have a logical explanation and reporting position for the housing allowance. If, after this meeting, the church is still concerned and the matter has not been resolved, then the chair of the SPRC and treasurer may want to involve the district superintendent in a follow-up meeting. Ultimately, it is up to the charge conference to approve the housing allowance resolution each year, and the church is certainly not required to approve a resolution in the amount requested

by the pastor, if it believes in good conscience based on accurate factual information that the amount requested by the pastor is significantly too high.

20. **How does the housing allowance work for clergy couples?** Each clergy person can claim a housing allowance exclusion (assuming the appropriate steps have been taken with a housing allowance resolution), but the combined total amount of the exclusion may not exceed the fair rental value of their home or the actual expenses, whichever is less. In some circumstances, because of the nature of the United Methodist polity on itinerancy, each of the two clergy persons may live in separate homes and be provided with separate housing allowances (for example: appointments in two different locations, each with a parsonage, and with each salary paying unit requesting that the clergy person live in the parsonage). In these situations, the clergy couple should have a solid reporting position that the two housing allowances may be excluded from gross income for federal income tax purposes. The reporting position will be more tenable if the clergy couple has good documentation of the reasons for and professional necessity of maintaining two separate homes, and if the amounts claimed on their face for each home are reasonable.
21. **Can clergy take housing expenses on two homes at the same time?** No. The housing allowance exclusion is limited to one home at a time. (Except possibly for the clergy couple exception discussed above)

*Example:* If the clergy person is building or has acquired a retirement home or vacation home, and still lives in the parsonage as his or her main home, then none of the expenses of the second home are includable for housing allowance purposes.

22. **Can retired clergy receive their retirement benefits as a tax-free housing allowance?** Yes, subject to the three limitations set forth above. Each year the annual conference (or general agency or other United Methodist entity) needs to adopt a housing allowance resolution stating that all of the pension payments received by the clergy person from the General Board of Pension and Health Benefits qualify as a housing allowance for retired clergy. Retired clergy can receive up to 100% of their official United Methodist retirement benefits from the General Board of Pension & Health Benefits as a tax-free housing allowance (subject to the limitations set forth above).
23. **Can all church employees have a tax-free housing allowance?** No. Section 107 of the IRC allows only a “minister of the gospel” to have a housing allowance. Thus, only taxpayers who are serving as clergy under IRS rules for tax purposes are eligible for a housing allowance. For example, a church custodian or secretary cannot have a housing allowance. (Of course such staff as lay employees do get the benefit of having the church pay one half their social security) United Methodist elders in full connection appointed to serve at the local church are “ministers of the gospel” and are eligible for a housing allowance, as are appointed local pastors. Many deacons appointed to the local church also will be eligible for a housing allowance (see the separate Q&As on the clergy status of United Methodist deacons elsewhere in this tax packet).

**24. Does my housing allowance impact on the amount of contributions made to my 403(b) pension plan?**

Yes, there could be an impact since the income designated as a housing allowance is **not** part of the “includible compensation” for certain contribution limitations established by IRS rules. Therefore, while the new tax law changes generally increase previous limitations, clergy still need to be mindful of 403(b) contribution rules when part of their salary is designated as housing allowance.

*The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.*

## Attachment A

### (SAMPLE) HOUSING ALLOWANCE RESOLUTION

(To be inserted in the minutes of the meeting)

The chairperson informed the meeting that under the tax law, a minister of the gospel is allowed to exclude from gross income: (1) the rental value of a home furnished to him or her as part of his or her compensation; or (2) a housing allowance paid to him or her as part of his or her compensation, to the extent used by him or her to rent or provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities.

The (charge conference or church council) on the \_\_\_\_ day of \_\_\_\_\_, after discussing the amount to be paid to Rev. \_\_\_\_\_ as a housing allowance, on motion duly made and seconded, adopted the following resolution:

Rev. \_\_\_\_\_ shall receive salary of \$ \_\_\_\_\_ for the year. Rev. \_\_\_\_\_ shall also receive a housing allowance of \$ \_\_\_\_\_ for the year \_\_\_\_\_ and all future years unless otherwise provided.

(If the clergy person is to have rent-free use of a home, also state:

"Rev. \_\_\_\_\_ shall also have rent-free use of the home located at \_\_\_\_\_ for the year \_\_\_\_ and for every year thereafter so long as he/she is minister of the \_\_\_\_\_ United Methodist Church unless otherwise provided.")

The housing allowance (and/or rent-free use of a home) shall be so designated in the official church records.

**Attachment B**

**(SAMPLE)  
HOUSING ALLOWANCE NOTIFICATION BY THE CHURCH**

Date \_\_\_\_\_

Dear \_\_\_\_\_:

This is to notify you of the action taken establishing your housing allowance at a meeting held on \_\_\_\_\_. A copy of the Resolution is attached.

Under Section 107 of the Internal Revenue Code, a minister of the gospel is allowed to exclude from gross income (1) the rental value of a home furnished to him or her as part of his or her compensation; or (2) a housing allowance paid to him or her as part of his or her compensation, to the extent used by him or her to rent or provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities.

You should keep an accurate record of your expenditures to rent or provide a home in order to be able to substantiate any amounts excluded from gross income when filing your federal income tax return. In the event of an audit, clergy receiving a housing allowance will have the responsibility of substantiating the use of such funds. Also, remember that the housing allowance (including the fair rental value of a provided parsonage) must be included as part of your earnings for self-employment tax purposes.

Sincerely yours,

Title

Attachment

## Attachment C

### HOUSING ALLOWANCE ESTIMATE WORKSHEET

<u>EXPENSE ITEM</u>	<u>ESTIMATE</u>
• utilities (electricity, heat, water, trash pickup, and local telephone)	\$ _____
• furniture and appliances (purchases and repair)	_____
• building repairs and remodeling	_____
• property insurance	_____
• yard maintenance, landscaping and improvements	_____
• maintenance items (cleaning and maintenance supplies, electrical supplies)	_____
• miscellaneous	_____
<b>FOR OWNERS</b>	
• real estate taxes	_____
• mortgage payments/down payment	_____
• improvements	_____
•	
<b>FOR RENTERS</b>	
• rent payments	_____
<b>TOTAL</b>	\$ _____

## MEMORANDUM

To: Bishops, District Superintendents, Treasurers, Chancellors, Legal Advisors,  
GCFA Members

From: Jack Harnish, Associate General Secretary, GBHEM  
Jimmy Carr, Associate General Secretary, GBHEM  
Mary Logan, General Counsel, GCFA  
David A. Ullrich, Associate General Counsel, GCFA

Date: January 7, 1999

Re: Deacon IRS Private Letter Ruling

---

We are pleased to inform you that the Internal Revenue Service, in a Private Letter Ruling dated December 10, 1998, has found that three United Methodist deacons who are appointed at a local church are to be considered clergy (Ministers of the Gospel) for federal tax purposes. Attached to this memorandum is that Private Letter Ruling along with a Q & A on the deacon issues. The Q & A is to assist deacons and churches with deacons on staff, in addressing the issues that arise relating to federal tax treatment for deacons. We are not providing individual legal or tax advice; for any and all specific questions, you need to consult with your own individual accountants, attorneys or tax professional.

By way of brief explanation, the request for a Private Letter Ruling is a procedure whereby individual taxpayers petition the Internal Revenue Service regarding questions about tax treatment in specific fact situations. The General Council on Finance and Administration (GCFA) along with the General Board of Higher Education and Ministry (GBHEM) brought this request on behalf of three deacons on the staff at Moody Memorial United Methodist Church in Galveston, Texas. We very much appreciate the participation of all involved at Moody Memorial United Methodist Church. Our purpose in bringing this private letter-ruling request was to provide some direction and a degree of certainty for deacons as to their tax status as clergy or non-clergy.

Private letter rulings from the Internal Revenue Service are just that - private letters that are issued to specific individuals on specific facts. They are not meant to be, and are not, binding precedent on the Internal Revenue Service when dealing with any one other than the individuals named in the Private Letter Ruling. Having said that, private letter rulings are published and made available to everyone. As such, they are used as an indication of the Internal Revenue Service's position regarding similarly situated tax-payers. Therefore, while this Private Letter Ruling is not binding precedent, it does give guidance to other similarly situated deacons in The United Methodist Church on how to file for federal tax purposes.

We encourage you to closely and carefully read the Private Letter Ruling and determine how applicable the facts are to your individual situation. It is very important to note that each of the deacons involved in this Private Letter Ruling were:

1. Ordained in the Order of Deacons
2. Appointed to serve at the local church by their bishop
3. Paid a salary by the local church for performing religious work functions at the local church
4. Are considered by the local church to be integral members of the pastoral team and work with the Elder to plan the worship services, to assist with the sacraments, and to officiate at weddings and funerals. Each is required to preach at Sunday worship service.

The Private Letter Ruling lists as important factors, in addition to conducting worship and assisting in sacraments, that the deacons perform services under the control, conduct and maintenance of the church and are considered to be religious leaders.

Please feel free to disseminate this packet of information, the memorandum, the attached Q & A and the Private Letter Ruling, as you feel appropriate within the United Methodist denomination.



## **Tax Status of Deacons Q&As**

The following questions and answers are intended to assist deacons and local churches in determining the proper tax treatment of deacons in the United Methodist Church. These Q&As should be read in conjunction with the Memorandum on the tax status of deacons, dated January 7, 1999, and the IRS Private Letter Ruling on deacons, dated December 10, 1998. (Both of these documents are included in the tax packet.) Also, at the end of this document are some examples that may be helpful. Deacons and local churches are urged to review these materials with their professional tax advisors.

### **1. What is a "private letter ruling"?**

A private letter ruling is the IRS response to a request, on behalf of a single taxpayer, for the IRS's position on a particular tax issue. When the IRS issues a private letter ruling, it is always careful to note that no one other than the taxpayer who asked the question may rely on the private letter ruling as precedent. And, the IRS has been known to change its mind on an issue from time to time. With these caveats, it is very common for taxpayers and their tax advisors to rely on private letter rulings because they are a good indicator of how the IRS would respond in an audit or tax proceeding with regard to the particular question asked. As private letter rulings go, this one is relatively clear and easy to understand and will be helpful to the tax advisors of deacons and church organizations who have deacons on their staff.

### **2. After the private letter ruling, are all deacons in The United Methodist Church now considered to be "clergy" or "ministers of the gospel" for federal tax purposes?**

Probably not. The same tests that are used to determine "clergy" or "minister of the gospel" status of elders for tax purposes should be used to determine the clergy status of deacons.<sup>1</sup> A deacon is ordained and then appointed by his/her bishop. The IRS's position, as articulated in the Private Letter Ruling, should apply to deacons appointed to the local church to do ministry with job functions similar to those outlined in the Private Letter Ruling - Minister of Music, Minister of Education, or Minister of Stewardship, if they perform religious and sacerdotal duties similar to those performed by the individuals discussed in the ruling

At the other extreme are the deacons who work in non-United Methodist and non-religious settings - physicians/nurses in for-profit hospitals, attorneys with private law firms, real estate agents or sales staff in a department store. While these deacons will have appointments to local churches (non-paid appointments), their primary appointment

---

<sup>1</sup> Under United Methodist polity, deacons and elders are both clergy. However, these Q&As address the issue of when deacons will be considered "clergy" by the Internal Revenue Service for federal tax purposes. Obviously, this is a different question. Also, the Internal Revenue Code uses the terms "minister" and "minister of the gospel" to reflect this special tax status. In these Q&As, we will sometimes use quotation marks to make it clear we are referring to the tax (not United Methodist) implications of these terms.

will not be in ministry settings. It is highly doubtful the IRS will consider individuals whose compensation is from these completely non-religious positions, outside of the control of The United Methodist Church, as "ministers of the gospel," regardless of the fact that they are ordained as deacons. The same would be true for most elders working in these non-religious settings and positions.

In between these two extremes will be many examples. The deacon appointed to serve at an annual conference or general church agency *should* be treated as clergy for federal tax purposes, although the Private Letter Ruling did not specifically address these employment settings. Previous IRS rulings and court cases have held that elders serving official church organizations are considered clergy for federal tax purposes, so the same analysis should apply to deacons. The deacon appointed to teach religion courses at a United Methodist college or seminary with some chaplain duties would have a strong basis for treatment as clergy for tax purposes, but again, the Private Letter Ruling did not specifically address this type of position outside the local church.

A more difficult example is the deacon appointed to serve in a social service agency in the inner-city, financially supported, although not affiliated with any United Methodist church organization nor considered by the bishop and annual conference/local church to be directly related to the mission of the Church. While it is clear from a "church" perspective that this deacon would be appointed for religious purposes to do the ministry of the Church, it is not at all clear from a "tax" perspective whether the IRS would agree. Again, the Private Letter Ruling did not specifically address (or come close to addressing) this type of ministry position outside of the local church and outside of the denomination. Deacons (and their salary paying unit) in these more unique positions will need to consult closely with their personal tax advisor to determine their reporting status as clergy or lay.

In summary, the same analysis set forth in the case law that has developed over the years in clergy tax cases of this nature, together with this Private Letter Ruling, should be used to analyze each unique deacon position, in consultation with a tax advisor, before forming any conclusion about clergy status for federal tax purposes. The IRS will be intolerant of abuse in this area.

### **3. What does it mean from a tax point of view to be considered "clergy" or a "minister of the gospel?"**

There are several different tax issues involved:

- (A) There is an exclusion (for federal income tax purposes only) of housing allowances or the fair rental value of church-owned parsonages or housing provided to clergy rent-free.
- (B) Clergy are treated as self employed for Social Security taxes for their clergy income. This means deacons must pay all of the Social Security tax on their

income as "self-employment taxes." In other words, there is no "employer-paid" portion of Social Security for clergy.

- (C) Exemption of some clergy from social security, if they "opt out" of Social Security (note: the rules are very stringent for opting out; it is strongly discouraged).
- (D) Exemption of clergy wages from income tax withholding requirements. This also means that clergy must file quarterly estimated tax payments.
- (E) Even though clergy are treated as self-employed for purposes of Social Security taxes, they are typically considered to be employees, not independent contractors, for income tax purposes.

**4. If I am the local church treasurer, does this mean the deacon at our church, who is similarly situated to the individuals in the Private Letter Ruling, is treated the same as our pastor for tax purposes?**

Yes, unless there is some highly unique and unusual circumstance that would make your deacon different. Deacons and elders in full connection who are "Ministers of the Gospel" are treated the same for federal income tax and Social Security purposes. Therefore, all of the same steps you take for your pastor should be taken in relation to your deacon.

**5. As a reminder, what are the responsibilities of the local church, including the local church treasurer, in relation to deacons and elders?**

There are several requirements:

- (A) Deacons as clergy who are "Ministers of the Gospel" may be provided with a housing allowance. The housing allowance form needs to be completed prior to the beginning of each year, or prior to the start of employment.
- (B) The church must not do any Social Security withholding for clergy. Clergy are self employed for Social Security purposes and hence, it is impermissible for the church to withhold Social Security payments for them.
- (C) The church is not required to do any income tax withholding (clergy can request, by using an IRS W-4 form, that the church voluntarily do income tax withholding).
- (D) At year end, all clergy (deacons and elders) should be given a W-2 form and only box 1 should show income (boxes 2, 3, 4, 5, and 6 are blank).

**6. What do we do about the housing allowance for deacons?**

It is very important to have a housing allowance resolution adopted for the deacons at the start of each tax year. If you adopt a resolution on February 1, your deacon will be able to take advantage of the housing allowance only for 11 of the 12 months of the new year.

**7. If the deacon is ordained in June 2001, can the housing allowance be applied retroactively?**

A housing allowance cannot be written to apply retroactively.

**8. Is it advantageous, from a financial perspective, for deacons now to be considered "Ministers of the Gospel?"**

That depends on individual fact situations. Clearly, the tax-free housing allowance is a very significant benefit for most clergy. On the other hand, the requirement that clergy pay their own Social Security is a significant burden. Deacons must remember that they are now solely responsible for their Social Security tax payments to the IRS if they are treated as clergy for tax purposes.

**9. Can a deacon decide to continue to be treated as a lay employee rather than a clergy employee?**

The United Methodist Church made a decision in 1996 that all deacons were clergy under church polity. It would be inconsistent with this polity for deacons to pick and choose whether to be treated as "clergy" for federal tax purposes when they are appointed to serve in clergy positions within the denomination. Therefore, if a deacon is appointed and hired to do ministerial functions, as outlined in the Private Letter Ruling, the deacon should be treated as clergy for tax purposes.

**10. May the salary-paying unit (local churches) give the deacon additional salary to cover the social security tax that the church no longer has to pay (and that the deacon now must pay on his/her own)?**

Yes. This additional salary would be taxable income to the deacon.

**11. What if the deacon files as a clergy person ("Minister of the Gospel") and is challenged by the Internal Revenue Service in an audit?**

If that situation should arise, the deacon can and should refer to the attached Private Letter Ruling and make it available to the Internal Revenue Service, although he or she technically cannot rely on it as a binding precedent. Again, the deacon should consult with his/her own tax advisor before utilizing the Private Letter Ruling and when problems arise. In addition, deacons are encouraged to contact the General Board of Higher Education and Ministry or the General Council on Finance and Administration for discussion if this type of problem arises. While those two church agencies can supply names of possible contacts with the national office of the Internal Revenue Service, they

are neither a guarantor of the right of each individual deacon to be treated as clergy for tax purposes, nor can they provide legal representation.

**12. Does this Private Letter Ruling apply to the tax status of United Methodist diaconal ministers or non-United Methodist staff who are clergy in another denomination and are hired by (not appointed to) the local church to serve as ministers of music, education, stewardship etc.?**

No. This ruling only applies to United Methodist Deacons.

**13. What are the options for deacons who wish to participate in the pension plan or other benefits offered by the General Board of Pension and Health Benefits?**

You need to consult with your local church (or other salary-paying unit) and the General Board of Pension and Health Benefits regarding what options are available to you.

**14. What are some tax strategies deacons can use in light of their new status?**

A deacon may submit an IRS form W-4 requesting the local church do voluntary income tax withholding, much like the withholding that is done for lay employees. This can, if done correctly, avoid the need for the deacon to make quarterly estimated tax payments. You should consult with your own tax advisor.

**15. As a clergy person, can deacons now opt out of Social Security?**

We discourage this practice for all clergy. First, United Methodist polity does not support conscientious objection to receiving public insurance or governmental benefits. Second, there are many advantages to Social Security beyond retirement benefits — there are disability benefits, hospitalization and medical benefits (Medicare), as well as educational benefits for dependents in the event of death. Third, opting out is a technical process, and we have seen clergy make serious mistakes in the opt out process.

**16. Are there any special tax resources for clergy that might be beneficial to deacons?**

Yes. Your conference treasurer has tax resource materials for clergy. Also, the GCFA tax packet has information on housing allowances and other tax issues for clergy. IRS Publication 517 (Social Security and Other Information for Members of the Clergy and Religious Workers) is also helpful. As always, you should consult with your own tax advisor regarding your particular situation.

## Examples of Clergy Tax Status for Deacons

**What are some examples of deacons who are probably “clergy” for federal tax purposes?**

- (A) Deacon appointed to local church to serve as Minister of Education, Music or Stewardship who is responsible for the worship life in the church, performs marriages and funerals, assists in sacerdotal functions of baptism and communion and is considered a clergy person at the church (this is the United Methodist Private Letter Ruling scenario).
- (B) Deacon who is appointed to a general agency of The United Methodist Church probably would be considered clergy for tax purposes (this is similar to an ordained elder who works for an agency or other controlled entity and is considered clergy for IRS tax purposes).
- (C) Deacon who teaches at a United Methodist seminary and only occasionally preaches and occasionally assists in the administering of sacraments (just as with the above example, the deacon probably would be treated the same as an elder in this situation and considered clergy because of the work done for a United Methodist seminary).

**What are some examples of deacons who are probably not “clergy” for federal tax purposes?**

- (A) A deacon goes to work at private counseling center.
- (B) A deacon is employed as a professor at a private school.
- (C) A deacon is a minister of administration. This deacon never conducts worship, preaches sermons, conducts a funeral or assists in communion or baptism. In a letter ruling with similar facts, the IRS found this individual was not clergy (IRS letter ruling 8442130).
- (D) A deacon serves part-time at a United Methodist local church and qualifies as a minister of the gospel under the Private Letter Ruling for the income earned as a part-time deacon. The deacon also works part time as a counselor at a for-profit clinic. None of that income qualifies for the housing allowance or other clergy tax treatment.

*These Q&As are intended provide general information regarding the proper tax treatment of deacons in The United Methodist Church. But each factual situation is unique and it is important to examine the facts closely to determine the correct result. The General Council on Finance and Administration and the General Board of Higher*

*Education and Ministry are not engaged in providing legal, accounting, or other professional services or advice. If you have any questions about your particular situation, you should seek the services of a professional tax adviser.*

## IRS Private Letter Ruling (Deacons)

**Internal Revenue Service**  
Department of the Treasury  
Washington, DC 20224

Index No: 0107.00-00  
Refer Reply to: CC:EBEO:2 PLR 115424-97

Date: Dec. 10, 1998

Key:

Church =  
National Conference =  
Regional Conference =  
State Conference =  
Governing Document =  
Board =  
X =  
C =  
D =  
E =  
City =  
Date G =  
Date H =

---

This is in response to your August 13, 1997, request for a private letter ruling submitted on behalf of X. Additional information was submitted on November 6, 1997, March 31, 1998, and August 3, 1998. A conference was held on February 24, 1998.

### Facts

The Church is a well established worldwide Christian denomination that is organized pursuant to the tenets, social principles, constitutional provisions and legislative enactments contained in its Governing Document. The Governing Document is the fundamental book outlining the law, doctrine, administration and organization, work and procedures of the Church. The Church operates via a connectional structure maintained through a chain of conferences. The highest level of authority is the National Conference, which meets quadrennially to discuss issues of concern to the Church. The National Conference is comprised of one-half lay persons and one-half members of the clergy. Generally, each National Conference amends the Governing Document, and those amendments are reflected in the quadrennial revision of the Governing Document. Although subject to certain restrictions, the National Conference has the full authority,



among other things, to define and fix the powers and duties of the members of the ordained clergy of the Church, and the Governing Document includes the rules applicable to ordained members of the clergy.

The basic organizational bodies of the Church are the Regional Conferences. Each Regional Conference within the United States includes the local churches of the Church within specific geographic boundaries. The membership in each Regional Conference includes clergy, lay persons and diaconal ministers. Clergy members in the Regional Conferences include ordained deacons and ordained elders. Only clergy members in full connection are allowed to vote on matters relating to the ordination, character and conference relations of the members of the clergy.

At its Date G gathering, the National Conference voted to establish the order of ordained deacons and the Governing Document was amended accordingly. Proposals to establish an order of ordained deacons had been made to the National Conference at the three preceding quadrennial gatherings. Thus, the decision to establish an order of deacons was made after the Church spent more than twenty years studying its ministry. Hence, after Date G an individual may be ordained as either a deacon or an elder. As permitted by the Governing Document, both elders and deacons are ordained as clergy members in full connection. Prior to establishment of the order of ordained deacon, elders were the only ordained members of the clergy.

The Church defines ordination as the act of conferring ministerial orders. In accordance with Church traditions, an ordained minister is a baptized person who is called by God, authorized by the Church and ordained by a bishop to a lifetime ministry. To qualify for ordination as either a deacon or an elder, an individual must meet the requirements set by the Church that are specified in the Governing Document. In addition, to be ordained, the individual must be recommended by the Regional Conference and receive the affirmative vote of the ministerial members of the Regional Conference. Through ordination the ordained individual is given the approval of the denomination to serve as an ordained minister and the authority to carry out those acts reserved to members of the clergy. Thus, following ordination, the ordained elder or deacon has the authority to exercise the responsibilities and duties of an ordained minister.

According to the Governing Document, an ordained deacon is permitted to give leadership in teaching and proclaiming the gospel, forming and nurturing disciples, performing marriages and funerals, and assisting the elder in administering the sacraments. An ordained deacon has full right of voice and vote in the Regional Conference where membership is held, may serve or hold office as a member of the clergy on the boards, commissions or committees of the Regional Conference, may be elected as a clergy delegate to the National Conference, must attend all sessions of the Regional Conference, and with the elder is responsible for all matters of ordination, character and conference relations with members of the clergy. An ordained deacon is accountable to his or her Regional Conference and the bishop for the fulfillment of his or her call. An ordained elder is appointed to a position by a bishop. However, unlike an

elder, an ordained deacon does not itinerate, nor does the Church guarantee an ordained deacon a position, salary, or place of employment. Ordained deacons are permitted to participate in the Church retirement plan for members of the clergy.

When it established the order of ordained deacons, the National Conference amended the Governing Document to include transitional rules that would allow certain "diaconal ministers" to become ordained deacons. A diaconal minister is a lay person who was consecrated by a bishop, but who the Church does not treat or consider as a member of the clergy. The Church expects that some, but not all of its diaconal ministers will become ordained deacons. The transitional rules are available for a limited period and provide that a diaconal minister in good standing with his or her Regional Conference who has completed a minimum of three years in an approved service appointment may be ordained as a deacon provided he or she meets the following requirements:

- a. Apply in writing to the Regional Conference for transfer of credentials to ordained deacon in full connection;
- b. Complete the formation and education program sponsored by the Board;
- c. Demonstrate an understanding of the call to the order of deacon and a ministry that fulfills and exemplifies the definition and description of deacon found in the Governing Document;
- d. Satisfy specific educational requirements; and
- e. Receive a two-thirds positive vote of the clergy session of the Regional Conference.

X, a local Church, founded in 1840, is located in City and is in the State Conference. X has more than 1,000 members, and employs more than fifty employees, including three ordained deacons, C, D, and E. C, D, and E were ordained pursuant to the transitional rules. X requested rulings that C, D, and E are ministers of the gospel and that the duties they perform are ordinarily the duties of a minister of the gospel under section 107 of the Internal Revenue Code (the Code). X also requested rulings that C, D, and E are ministers performing services in the exercise of their ministry for purposes of sections 1402(c)(4) and 3121(b)(8)(A).<sup>1</sup>

X has represented the following facts concerning C, D, and E and the duties they perform for X:

As ordained deacons, C, D, and E are expected to comply with the applicable provisions of the Governing Document. C is the Minister of Education; D is the Minister of Music; and E is the Minister of Stewardship. As integral members of X's pastoral team, C, D, and E meet with the elder to plan the worship services, assist with the sacraments, and officiate at weddings and funerals. Each is required to preach at Sunday worship service.

C's primary duties relate to the Christian education program. C plans and supervises youth, adult, and family activities, including Sunday education classes, Bible study, and various educational programs sponsored by X. C selects the curriculum, schedules activities, and when needed, coordinates lay volunteers. C also assists the X school to develop appropriate educational opportunities. D, the Minister of Music, coordinates all choir and music activities. E performs financial and managerial functions. His primary function is to encourage members of the congregation to give their time, talent and money to X and the community. When not leading worship services, C, D, and E participate with the pastor in the weekly worship service. They also perform various other duties at X, including confirmation preparation and membership reception.

X's August 3, 1998, submission specifies how each met the transitional requirements needed to be ordained as a deacon. Each timely applied to the State Conference Board to transfer his or her credentials to ordained deacon. Each was in good standing as a diaconal minister and had completed at least three years in a service appointment approved by the bishop since consecration as a diaconal minister. Each completed the continuing formation and education program sponsored by the Board and satisfied the applicable educational requirements. C and D have bachelors degrees and have completed graduate theological courses as required by the State Conference. E has a masters degree in theology studies. Each demonstrated an understanding of the call to the order of deacon and received the full support of the State Conference Board of Ordained Clergy and was passed on to the State Conference for a final vote of confirmation. Each received the required two-thirds or greater positive vote of the clergy session of State Conference. C, D, and E and were ordained as deacons on Date H.

#### Applicable Law

Section 61(a) of the Code provides that, except as otherwise provided, gross income means all income from whatever source derived, including compensation for services including fees, commissions, fringe benefits, and similar items.

Section 107 of the Code provides that in the case of a minister of the gospel, gross income does not include the rental value of a home furnished to the minister as a part of the minister's compensation or the rental allowance paid to the minister as part of the minister's compensation, to the extent used by the minister to rent or provide a home.

Sections 1402(c)(4) and 3121(b)(8)(A) of the Code, which provide definitions for purposes of the Self-Employment Contributions Act taxes and the Federal Insurance Contributions Act (FICA) tax respectively, refer to services performed by a "duly ordained, commissioned, or licensed minister" of a church in the exercise of his ministry.

Section 1.107-1(a) of the Income Tax Regulations provides that in order to qualify for the exclusion provided by section 107, the home or rental allowance must be provided as remuneration for services which are ordinarily the duties of a minister of the gospel. In general, the rules provided in regulation section 1.1402(c)-5 apply to that determination. Regulation section 1.107-1(a) also provides that the performance of sacerdotal functions,

the conduct of religious worship, the administration and maintenance of religious organizations and their integral agencies, and the performance of teaching and administrative functions at theological seminaries will be considered the duties of a minister for purposes of section 107.

Section 1.1402(c)-5(a)(2) of the regulations provides that a "duly ordained, commissioned, or licensed minister" of a church is engaged in carrying on a trade or business with respect to service performed by him in the exercise of his ministry or in the exercise of duties required by a religious order unless an exemption under section 1402(e) of the Code is effective. Section 1.1402(c)-5(b)(2) provides that service performed by a minister in the exercise of his ministry includes the ministration of sacerdotal functions and the conduct of religious worship, and the control, conduct and maintenance of religious organizations (including the religious boards, societies, and other integral agencies of such organizations) under the authority of a religious body constituting a church or church denomination. Section 1.1402(c)-5(b)(2)(i) provides that whether service performed by a minister constitutes the conduct of religious worship or the ministration of sacerdotal functions depends on the tenets and practices of the particular religious body constituting the minister's church or church denomination. Section 31.3121(b)(8)-1 has a similar provision.

If a church or church denomination ordains some ministers of the gospel and licenses or commissions others, the licensed or commissioned minister must perform substantially all the religious functions within the scope of the tenets and practices of his religious denomination to be treated as a "minister of the gospel" under section 107 of the Code. Rev. Rul. 78-301, 1978-2 C.B. 103. The Service ruled in Rev. Rul. 59-270, 1959-2 C.B. 44, that neither a minister of music nor a minister of education was entitled to an exclusion under section 107 when neither one was an ordained minister of the gospel, although both were performing services relating to the office and functions of a minister of the gospel. The facts of the ruling specify that neither minister was licensed, ordained or commissioned.

In Wingo v. Commissioner, 89 T.C.922 (1989) the Tax Court considered whether the taxpayer, a probationary member of the North Arkansas Annual Conference of The United Methodist Church (the Conference), who was both an ordained deacon and a licensed local pastor, was performing services as a duly ordained, commissioned or licensed minister for purposes of the self-employment tax exemption available under section 1402(e) of the Code. Taxpayer administered the Sacraments, conducted worship and performed services in the control, conduct and maintenance of his local church and Conference. The court held that the taxpayer was a duly ordained, commissioned, or licensed minister within the meaning of section 1402 when he assumed the duties and functions of a minister in 1980. In analyzing whether the taxpayer was a duly ordained, commissioned, or licensed minister, the court examined whether taxpayer performed the duties and functions of a minister within the three types of ministerial services specified in section 1.1402(c)-5(b)(2) of the regulations, whether the taxpayer was ordained, commissioned, or licensed, and whether his church considered him to be a religious leader.

The court held that the taxpayer was a minister because he satisfied all the elements of section 1.1402(c)-5(b)(2) of the regulations. As a local pastor and an ordained deacon he administered the sacraments and conducted religious worship. The court also found that he satisfied the third prong (control, conduct, and maintenance of the church or religious organizations within the church) because he was in charge of all the organizational concerns of his own congregation, including administering the provisions of the church discipline, supervising the working program of the local church, maintaining church records and meeting local financial obligations. The court noted that a church's designation of an individual as a minister standing alone, is insufficient to determine whether the individual is a minister for self-employment tax purposes; however, it is an additional factor to consider. The court concluded that when a person performs all the three types of services set forth in the regulations and is recognized as a minister or religious leader by his denomination that person is a minister for purposes of section 1402(c) of the Code. Thus, taxpayer's status as a probationary member of the Conference did not prevent him from being a minister for purposes of section 1402(c).

In Haimowitz v. Commissioner, T.C.M. 1997-40, the Tax Court concluded that the taxpayer, a synagogue administrator, was not a minister of the gospel for purposes of section 107 of the Code. He had been employed by a temple for 30 years and was recognized as a Fellow in Synagogue Administration. He performed various services for the temple, including assisting students with Bar and Bat Mitzvah preparation, serving as marriage ceremony director, and conducting services for mourners. On his income tax return he specified that he was a religious functionary and asserted that as a religious functionary he was a minister of the gospel within the meaning of section 107. Here the Tax Court concluded that taxpayer did not meet the requirements of regulation section 1.1402(c)- 5(b)(2). Specifically, the court found that the duties he performed, although related to the Jewish religion, were organizational in nature and did not require performance from one with ministerial credentials. The court then noted the religious rites and ceremonies he did not perform. He never fulfilled the role of rabbi or cantor, and the services he did perform were secular in nature. For example, he never officiated at a wedding or a funeral, and he merely assisted the rabbi at religious services. Thus, the court concluded he did not perform regularly those duties that the ministers of the Jewish faith customarily perform. In addition, the court found taxpayer's recognition as a Fellow in Synagogue Administration was irrelevant, as that designation is not a recognized religious official of the Jewish religion. The court also noted that taxpayer did not present any evidence that the temple considered him to be a religious leader. Accordingly, the court concluded that taxpayer failed to demonstrate that he was a minister of the gospel.

### Discussion

Applying the test established in Wingo, we conclude that C, D, and E are ministers of the gospel performing services in the exercise of their ministries within the meaning of section 1.1402(c)-5(b)(2) of the regulations. As ordained members of the clergy in the Church, C, D, and E conduct worship and assist with the sacraments. In addition, as ordained members of the clergy in full connection they perform services in the control, conduct and maintenance of the Church. Further, X and the Church consider C, D, and E

to be religious leaders who can perform substantially all of the religious functions within the scope of the Church's tenets and practices. We find that E is distinguishable from the synagogue administrator in Haimowitz, as E is an ordained member of the Clergy in full connection. E officiates at weddings and funerals and will regularly perform the duties that members of the clergy of the Church customarily perform. Accordingly, C, D, and E are performing services as "ministers of the gospel" within the meaning of section 107 of the Code. Thus, C, D, and E are eligible to have a portion of their salary designated as a parsonage allowance. Any parsonage allowance will be excluded from gross income, provided the allowance is designated and paid in accordance with section 107. We further conclude that the services C, D, and E perform are in the exercise of their ministry within the meaning of section 3121(b)(8) of the Code.

This ruling is not intended to imply or suggest that the mere designation of an individual as a minister is sufficient to conclude that the individual is a minister of the gospel for purposes of sections 107, 1402, 3121, or 3401 of the Code. Nor does this ruling suggest that the Service has departed from its position in Rev. Rul. 59-270. This ruling applies only to C, D, and E with respect to the services they perform for X. No opinion is expressed as to the federal tax consequences of the transaction described above under any other provision of the Code.

This ruling is directed only to the taxpayer who requested it. Section 6110(j)(3) of the Code provides that it may not be used or cited as precedent.

Sincerely,

JERRY E. HOLMES  
Chief, Branch 2  
Office of the Associate  
Chief Counsel  
(Employee Benefits and  
Exempt Organizations)

Enclosure:

Copy for 6110 purposes.

---

<sup>1</sup> In its initial submission X requested that the ruling apply to any ordained deacon it employed. We advised X that we would not issue a ruling that its ordained deacons were ministers without examining the facts relating to each individual minister.

---

## MEMORANDUM

TO: Bob Kohler  
Joaquin Garcia

FROM: Mary Logan

DATE: June 20, 2000

RE: Housing Allowance  
Probationary Members Seeking Ordination as a Deacon

---

We have received several inquiries about the “clergy” status of probationary members seeking ordination as a deacon under the *1996 Book of Discipline*. The question has arisen in the context of whether these persons are considered ministers of the gospel for federal income tax purposes and are thus entitled to a housing allowance under Internal Revenue Code Section 107 and likewise required to pay their own social security (see enclosed memorandum dated January 7, 1999, and related Q&A, regarding private letter ruling and clergy status of deacons in full connection).

If these persons are appointed as licensed local pastors, then they are entitled to a housing allowance, like all other licensed local pastors. If they are not serving as licensed local pastors, then they probably are not entitled to a housing allowance. The IRS would question the clergy status of any person who does not have a primary appointment in a ministry setting and who is not permitted to perform the religious and sacerdotal functions that an appointed deacon in full connection would be permitted to perform.

The 2000 General Conference enacted legislation that will create, effective January 1, 2001, a new category of license for probationary deacons. These persons will have a license similar to the license for local pastors. It is our understanding that deacons with this new license will have a primary appointment in a ministry setting and will be permitted to perform the religious and sacerdotal functions that an appointed deacon in full connection is permitted to perform. For this reason, we believe the housing allowance should be available to persons with this new license.

Please note: the private letter ruling pre-dates this new legislation from the 2000 General Conference and also addresses only deacons in full connection, whose primary appointment is in a ministry setting. For this reason, we cannot say with any certainty whether the IRS would agree with us. However, it is well established that licensed local pastors are entitled to the housing allowance (and required to pay their own social security), so we believe licensed probationary deacons appointed to a primary ministry setting **should** be treated the same way.

**As always, each deacon and probationary member seeking ordination as a deacon should seek his/her own tax advice from a competent tax professional. Each fact**

**situation is unique and GCFA is not providing legal, accounting or other professional services or advice.**

Enclosure



# GIFT ACCEPTANCE POLICY

## PURPOSE

The purpose of this Gift Acceptance Policy is to describe the type of gifts that can be accepted and the manner in which they can be accepted. Where a Permanent Endowment Committee (hereinafter referred to as The Committee) does not exist, The Board of Trustees (hereinafter referred to as The Trustees) is instructed by the Charge Conference to receive and distribute gifts received under the Gift Acceptance Policy of the Church.

## INTRODUCTION

In order to protect the interests of (**Church Name**) (hereinafter referred to as The Church) and the persons and other entities who support its programs, these policies are designed to assure that all gifts to the Church, or for the use of the Church, are structured to provide maximum benefit to both parties.

This document focuses on both current and deferred gifts, with special emphasis on various types of deferred gifts and gifts of non-cash property. The goal is to encourage funding of the Permanent Endowment Fund (hereafter referred to as The Fund) without encumbering the organization with gifts which may prove to generate more cost than benefit, or which are restricted in a manner that is not in keeping with the goals of the Church.

To optimize funding from individuals and other entities, the Church must be capable of responding quickly, and in the affirmative where possible, to all gifts offered by prospective donors. Except where stated otherwise, these policies are intended as guidelines only. Flexibility must be maintained since some gift situations can be complex and decisions only made after careful consideration of a number of interrelated factors. Therefore, these policies may in some instances require that the merits of a particular gift be considered by the Committee and a final decision be made only after a recommendation by that Board.

The Committee reserves the right to decline or otherwise refuse any gift offered to the church, with or without cause. Reasons for which a gift may be declined include, but are not limited to the following:

1. The Committee does not believe it is in the best interest of the church or the Fund to abide by the restrictions placed on the gift by the donor.
2. The costs to maintain the gift or to meet the restrictions placed on the gift by the donor are considered to be excessive for the Fund.
3. The gift is considered to be inappropriate or unrelated to the tax-exempt purposes of the Church or the Fund.
4. The gift is designated to benefit or to be channeled to a specific individual.

## **GIFT ACCEPTANCE TERMS AND CONDITIONS**

All gifts will be acknowledged by written confirmation of the gift and of any terms and conditions of the gift acceptance. All information concerning donors and prospective donors, including their names, names of beneficiaries, the amount and type of the gift, aspects relating to their estates, etc., shall be kept strictly confidential except when donors permit the release of such information.

### **I. OUTRIGHT GIFTS**

#### **A. CASH**

1. Gifts in the form of cash and checks shall be accepted in any amount.
2. All checks must be payable to **(Church Name)** and in no event shall they be made payable to an employee, agent, or volunteer for credit to the Church.

#### **B. PUBLICLY TRADED SECURITIES**

Securities that are traded on the exchanges shall be accepted by the Church. Shares will be liquidated upon receipt.

#### **C. CLOSELY HELD SECURITIES**

Non-publicly traded securities may be accepted upon approval by the Trustees. The Committee shall make the decision to keep or sell the security.

#### **D. REAL PROPERTY**

1. Prior to approval, the Committee shall make a recommendation for accepting the real estate and shall include a report on (but not limited to) the following:
  - a. current title and ownership
  - b. current zoning
  - c. any and all restrictions
  - d. any encumbrances, including an Affidavit of Lien signed by the Donor
  - e. an independent qualified third party appraisal
  - f. at least a Phase I environmental audit
  - g. a recommendation on marketability
2. Upon recommendation from the Committee, the Board of Trustees shall make the final decision to keep or sell the property.

#### **E. TANGIBLE PERSONAL PROPERTY**

1. Prior to approval, the Committee shall make a recommendation for accepting the personal property and shall include a report on (but not limited to) the following:
  - a. current title and ownership
  - b. an independent qualified third party appraisal
  - c. a recommendation on marketability
2. The Committee shall make the decision to keep or sell the property.

**F. OTHER PROPERTY**

The Committee shall make the decision to accept and to keep or sell any other property that it may deem to be in the interest of the Church.

**II. PLANNED (DEFERRED) GIFTS**

**A. BEQUESTS**

1. Gifts through wills (bequests) shall be actively encouraged by the Church.
2. Upon inquiry by a prospective donor, all representations as to the future acceptability of various properties to be left to the Church in a will or other deferred gift shall be made in accordance with the terms and provisions of Paragraph I (A-F) of the Gift Acceptance Policy.
3. Gifts of property that are not acceptable from estates shall be rejected by the Committee and that decision shall be communicated to the legal representatives of the estate.

**B. REVOCABLE LIVING TRUSTS AND CHARITABLE TRUSTS**

1. The Committee will recommend as fiduciary the United Methodist Foundation of Arkansas.
2. The fees for management of a Revocable Living Trust will not be paid by the Church.
3. Revocable Living Trusts and Charitable Remainder Trusts and all other deferred gifts shall be encouraged as a method of making gifts to the Church while retaining income which may be needed by the donor for personal purposes.
4. No representations as to the manner in which trust assets will be managed or invested shall be made by any employee or other persons acting on behalf of the Church.

**C. LIFE ESTATE GIFTS**

1. The Committee may accept such gifts provided that there has been a full disclosure of the possible ramifications of the transaction to the donor.
2. In instances where a life estate in a personal residence has been retained by a donor, the donor will continue to be responsible for maintenance expenses and the payment of taxes and insurance.

**D. LIFE INSURANCE POLICIES**

1. The Church will encourage donors to name the Church as beneficiary of life insurance policies that they have purchased.
2. The Church will not accept gifts from donors for the purpose of purchasing life insurance on the donor's life. Exceptions to this policy may be made only when the Church has an insurable interest and is in compliance with all State and Federal statutes.
3. No insurance products will be endorsed for use in funding gifts to the Church.
4. In no event shall lists of Church donors' names be furnished to anyone for

the purpose of marketing life insurance for the benefit of donors and/or the Church.

E. GIFT ANNUITIES

The Church may be named as beneficiary in Charitable Gift Annuities purchased from the United Methodist Foundation of Arkansas.

III. PAYMENT OF FEES RELATED TO GIFTS TO THE Church

A. FINDER'S FEES OR COMMISSIONS

No fees shall be paid to anyone as consideration for directing a gift to the Church.

B. PROFESSIONAL FEES

1. In general, the donor shall pay any fees associated with the gift.
2. No fees shall be paid to anyone as compensation for any sale of any products to the donor.

IV. RESTRICTIONS

- A. Any restriction on the use of any gift must be approved by the Committee prior to acceptance of the gift.
- B. A designated permanent fund, other than those identified, may be established with a minimum gift of (*for example, \$25,000*) or such minimum to be determined appropriate and approved by the Committee.

V. GIFT USE

- A. The use of undesignated gifts to the church, other than those gifts intended for undesignated use within the operating budget of the church, shall be determined by the Church Council. (Optional: If the gift is \$1,000 or less, the Wills and Legacies Committee, if one exists, shall make recommendation to the Church Council on the use of the gift. If the gift is more than \$1,000, the Church Council will entertain suggestions on the use of the gift from local church bodies prior to making a decision on its use.)
- B. The Church should maintain a "wish" list of projects and items that can be supported or purchased with undesignated gifts.
- C. The Church may direct that a percentage of all undesignated gifts to the Church be placed automatically in a Permanent Endowment Fund.

**NOTE: THIS IS A SAMPLE. CHURCHES SHOULD SEEK LEGAL ADVICE SPECIFIC TO YOUR CONTEXT IN DEVELOPING A POLICY.**

SAMPLE

### **Why do local church statistics matter?**

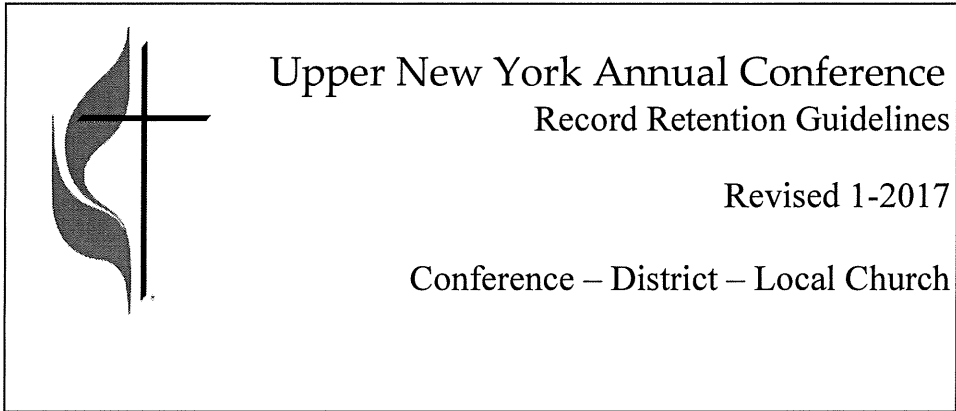
So a church gains or loses a few members from year to year... no big deal, right? But what if that church has doubled (or halved) in membership in the span of 40 years? Church statistics not only help answer the question of “How are we doing right now?” but also, “How are we doing in the long run?” A church’s leadership can review this data to interpret underlying meanings and help the congregation assess the story being told.

Apart from a church’s internal check-in, statistics provide information about the big picture and help researchers see trends, which in turn aid Church leaders in making decisions. For example, the number of Hispanic/Latino church members has gained more than 20,000 members in the past five years and is increasing at a rate of approximately 3% per year. This sort of information is integral when making a decision about languages used in church materials, for example. On a more local level, many bishops and annual conference cabinets use these statistics to assist in the clergy appointment process. Churches enjoying extraordinary success in a certain aspect of ministry, as well as those struggling in the same, can be identified.

In The United Methodist Church, the statistics are used by the general agencies for a variety of purposes:

- The General Board of Global Ministries (GBGM) uses them to help annual conferences, districts, and local churches plan how to more effectively minister within their own communities. Church statistics are combined with demographic data by the office of research to help local churches analyze where there are new opportunities for outreach.
- The United Methodist Publishing House (UMPH) uses them to assist in planning resources and marketing. The statistics help to determine where resources are already being used and where there may be opportunities to provide new resources to local churches.
- The General Commission on the Status and Role of Women (COSROW) and the General Commission on Religion and Race (G CORR) use the information to assist in monitoring and raising consciousness of gender and racial/ethnic inclusiveness in The United Methodist Church. Gender and Racial/Ethnic membership information provides a measure of progress toward the United Methodist Church's commitment toward becoming a fully inclusive denomination.

While it is recognized churches are about more than the number of persons attending worship or how many persons are baptized in a year, those numbers help bring attention to matters warranting concern or celebration. Sharing with each other the objective data numbers provide helps us to keep our connection vital.



Developed with assistance from:  
 The General Commission on Archives History  
 The United Methodist Church  
 P. O. Box 127  
 Madison, NJ 07940  
 Phone: (973) 408-3195

**Guidelines** ..... Pages 1-5  
 ❖ This symbol denotes a guideline or policy which is followed by the UNY Conference Office.

**Conference Office Retention Schedule** ..... Pages 5-10  
 Descriptive Examples ..... Pages 10-24

**District Office Retention Schedule** ..... Pages 25  
 Descriptive Examples ..... Pages 25-27

**Local Church Retention Schedule** ..... Pages 28-32  
 Descriptive Examples ..... Pages 32-47

**Records Management**

Records management is the attempt to systematically control the growth and disposition, or destruction, of office, committee and other official records. Its basic purpose is to help answer that nagging question of what do I keep, for how long do I keep it and when can I remove it from my office.

**Records Life Cycle:**

In records management the task is to recognize when a record has reached the end of its life cycle. That is to say that there comes a time when every record **no longer serves a useful administrative function**. In general, the less a record is consulted, the less useful

it is administratively. There are some significant exceptions to this rule, but the main focus is on those records occupying important space in an office and when can they be removed from that office. There are some records which will always have value, and which need to be kept, but which don't need to be in the main office files occupying valuable space. When a records has reached the end of its *useful administrative purpose* it is ready to be archived.

## **Records Appraisal:**

Appraisal is the process which identifies the administrative, legal, and fiscal value (primary value), and the historical and long-term research value (secondary value) of records. Once the value of a record series has been determined, a realistic retention period can be assigned to it. Appraisal can take place at any point during a record series' life cycle, but is most frequently done when the records become inactive.

There are several questions to be asked when appraising records: How frequently is the record used by those who created it? If the record is still frequently consulted then it should probably remain in the office. But even for records which are not consulted frequently, is there still a consistent, although low, demand for the record? Is there some legal or fiscal need to hold on to the record even though it is no longer consulted or used? An example here might be financial information. What is the historical significance of the record? Always consider records as historical when they contain information about the institution which created the record. An example here might be board minutes.

- Dispose of records as soon as legally possible. It is estimated that between 90 to 95 percent of all records are non-permanent; an estimated 85 percent have a retention period of less than eleven years.
  - In comparison to government, the church has fewer restrictions on what we are required to keep. For the majority of the records we produce we can set our own guidelines. There are laws affecting financial, personnel and legal files. But the majority of the material in our files falls outside these regulations.
  - Having a controlled filing system means a smaller system. This can save time by making record retrieval and re-filing easier and faster, and reduces the number of misfiles.
- ❖ Within the Conference Office, the overall responsibility for ensuring that the Records Retention Guidelines are utilized is the responsibility of the Executive Staff in their respective areas. For example, the Conference Treasurer is responsible for ensuring the proper file maintenance and retention of financial records while the Benefits Officer is responsible for those records that relate to benefits.



## Reasons for Record Retention

- In order for our future to have a past we must be concerned for the records of today. The development of a records management policy is the first step in preserving our past by deciding what needs to be kept today. A concern for the historical, the legal and the fiscal needs of our church and conference motivates us to faithfully preserve our important records.
- It is estimated that after personnel costs, records keeping is one of the largest expenditures in the church. Record creation, maintenance, filing, office storage space, filing supplies, and equipment all contribute to the high cost of keeping records. In our usually limited office space we are often faced with the question of what can we remove in order to have room for what we need.
- If the Conference is ever faced with legal action, having a records management program in place is one way to assure courts and litigants that records are being cared for and disposed of properly and in a routine manner, not maliciously or in a capricious way.
- The denomination has committed itself to openness. The relevant section from the *Discipline* is ¶ 721. To paraphrase, all meetings of the Church, including sub-unit meetings and teleconferences are open meetings. Therefore, constituents have the right to view various documents and a well-managed record environment enables the retrieval and reviewing of our public documents with greater ease and efficiency.

### Reasons for Records Management

1. Preservation of important and historical documents
2. Removing older records from the office means less time spent filing/searching for files and fewer storage requirements
3. Financial and legal concerns - will have the documents necessary for audits or for legal needs
4. Commitment to openness and transparency

## Electronic Records

Electronic records in the office are vital to its smooth operation. Electronic files are any files that reside on a Conference-owned computer or server, including email. **The same retention guidelines apply to electronic files as it does to paper files.** They require a somewhat different practical approach to management.

- ❖ Migrating the records when operating systems or software are upgraded. This is the responsibility of the IT Manager.
- ❖ Organizing the computer's file system is important. All staff should adhere to the following format:
  - ❖ The "Common" drive (currently S:\) should have less than a dozen main file folders, defined by the Executive Staff.
  - ❖ Sub-folders off of the main folders on the Common drive should be kept to two levels, if possible.

- ❖ There should be no documents on the Commons drive that are not in a file folder.
  - ❖ File Folders and Documents should be named using Upper case for the initial cap letter of each word in the name, and dates or numbers (if being used) at the end of the name so that everything is alphabetical. I.e. PensionMtg20051106.doc (Year, Month, Day)
  - ❖ When opening a file to view contents, and have determined that it needs to be renamed; do not "Save as", because this changes the date on the document. Close the file, then rename.
  - ❖ The "Users" drive (separate from Common), is set up so that each individual can only access their own File, which will be named by the individual's first name.
- ❖ Backing up is probably the most important task to be done. Files which reside on the hard drive of each computer should be backed up to a drive on the server, such as the U drive or the S drive. The IT Manager will maintain a schedule to back up the common drives. In addition, vital records should be backed up to a CD or removable drive and stored in a fireproof safe.
- ❖ Archiving: Electronic files, in order to be used, are dependent on software and hardware. This dependency makes them extremely vulnerable over time to loss due to changes in technology and the types of available software for viewing these records. Therefore, to safely preserve the most vital electronic files for the future, they need to be printed and filed accordingly. While there are standardized formats for both electronic document files and for databases, they are minimalist file formats, which means that much of the formatting of a document will be lost and some of the flexibility of complex databases will also be lost.

## **Retention Periods:**

The term "retention period" refers to the maximum and minimum lengths of time that a record must be kept. At the end of these guidelines are some examples of retention schedules.

The different retention period designations are: "Permanent", "Until Superseded", "Until Obsolete," or a specific number of years. "Permanent" indicates that the record series will be kept indefinitely. Records with a permanent designation should probably be sent to the archives. "Until Superseded" is a retention assigned to records that are routinely updated or revised and where the previous version has no continuing value. "Until Obsolete" is assigned to record series that become valueless on a non-routine basis. Specific time period retention periods are based upon usage factors and legal requirements, such as audits.

While establishing the retention period will be dependent upon the needs of the office or the committee, before actually disposing of any records one should verify that there are no pending legal actions against the conference which necessitates keeping the records longer.

## Calculating Retention Periods:

Retention periods usually begin at a chronological file break, such as the fiscal, calendar, or annual conference year. Financial and accounting records will use January 1 as the start of the fiscal year and all matters relating to annual conference actions, or appointments, will use July 1 as the start of the conference year.

## Archiving of Records

Archiving of records occurs when records need to be kept permanently, or the length of retention moves the record out of the active files and into a "holding" area.

- ❖ The Receptionist will provide a sufficient number of "banker boxes" for transferring records to the storage and/or archive room. The boxes will be 12 x 15 with removable lids.
- ❖ The staff member packing the box will note on the front of the box the following information: Box #, Location (room, row), Destroy Date or "Permanent," Record Dates, and Record Series/Contents. The Destroy Date or "Permanent" should be written in red marker. This information will also be kept in a spreadsheet available to each ministry area administrative assistant to assist in labeling and locating boxes.
- ❖ Some items achieve permanent archiving by virtue of inclusion in the annual Journal of the Annual Conference.
- ❖ Box numbers for the conference office will be labeled in the following numerical sequences by ministry area.

Benefits Office:	10000-19999
Camp & Retreat Ministries:	20000-29999
Communications:	30000-39999
Connectional Ministries:	40000-49999
District Office:	50000-59999
Episcopal Office:	60000-69999
Finance/Treasurer's Office:	70000-79999

## Destruction of Records

In today's world of identity theft it is important to thoroughly destroy the records which contain personal information, financial information or any type of information which can be considered private when they are permanently removed from the office. This means either shredding the documents when the quantity is manageable, or hiring a company that professionally shreds or burns records when the quantity of records is beyond the capability of the office shredder.

- ❖ Alert the Receptionist of larger quantities to be destroyed. At his/her discretion, records will be transferred to a company that specializes in record destruction and will certify that destruction.

## Retention Schedule

On the following pages are schedules to consult when making decisions around the life of a record or file.

- ❖ This schedule is to be utilized by Conference Staff in making determinations.
- ❖ "Total" column represents the total number of years the record series needs to be kept before being destroyed, unless labeled permanent
- ❖ "Current" column represents the number of years the documents currently in use need to be held out in the office space for regular use.
- ❖ "Archives" column will either say YES for non-current documents to be archived, or NO for non-current documents to be maintained in the regular office space.

<b>ANNUAL CONFERENCE OFFICE &amp; COMMITTEE RECORDS SCHEDULE</b>				
<b>RECORD SERIES TITLE</b>	<b>DESCRIPTION</b>	<b>Total</b>	<b>Current</b>	<b>Archives</b>
Accident and Injuries Records	Workers Compensation Claims Records	Settled+6	Active	NO
Account Request Forms	Request to Establish a New Account	Active+3	2	NO
Accounts Payable Records	Claims and Disbursements Records, Expenses, Accounting, Bookkeeping, Paid Invoices, Finance, Purchasing	7	2	YES
Accounts Receivable Records	A/Rs, Billing Records, Charges Records, Sales Fiscal Records, Rentals Fiscal Records, Journal Vouchers, Invoice Records	7	2	YES
Act of Incorporation	Official Papers and Records	Permanent		As Necessary
Administrative Reports	Conference Journal, Annual Reports for Conference Agencies or Corporations	Permanent	4	YES

<b>ANNUAL CONFERENCE OFFICE &amp; COMMITTEE RECORDS SCHEDULE</b>				
<b>RECORD SERIES TITLE</b>	<b>DESCRIPTION</b>	<b>Total</b>	<b>Current</b>	<b>Archives</b>
Affirmative Action Recruitment Review Records	Affirmative Action Compliance Record, Affirmative Action Compliance Data (AACD), Applicant Pool Reports	6		Yes
Annual Fiscal Reports	Closing of the Books Records, Financial Reports, Balance Reconciliation Records, State Accounts Reports	Permanent	4	YES
Architectural Drawings, Blueprints, and Maps		Permanent		YES
Audit Records		Permanent	4	YES
Bank Deposit Books		7	2	YES
Bank Deposit Slips		3	3	NO
Bank Statements		7	3	YES
Benefits Policies and Procedures Records		Permanent	Active	YES
Bequest and Estate papers	Wills, Gift Agreements, Bequests	Permanent		As Necessary
Budget Records	Annual Budget	Permanent	4	YES
Bylaws		Permanent	Active	YES
Cancelled Checks	Cashed Checks	7	1	NO
Certificates of Deposit, Canceled		3	3	NO

<b>ANNUAL CONFERENCE OFFICE &amp; COMMITTEE RECORDS SCHEDULE</b>				
<b>RECORD SERIES TITLE</b>	<b>DESCRIPTION</b>	<b>Total</b>	<b>Current</b>	<b>Archives</b>
Committee Records	Records & minutes of Conference Teams, Boards, Committee, agencies	Permanent	4	YES
Contracts	Repairs, Maintenance, Lease Agreements, Loans	4 - Service Contracts; 6 -Repairs, Lease, Loans; Permanent - New Construction	4	NO - Except for Those Going to Archives
Correspondence - Subject	Correspondence on Special or Topical Interest	Permanent	Active	YES
Correspondence - Transitory	Routine Correspondence	1	1	NO
Deduction Authorization Records	Deductions Input List	Active +4	Active	NO
Deeds	Deeds, Conveyances, Covenants, Easements	Permanent		As Necessary
Employment Eligibility Verification Forms	I-9 Form	Employed +1 or 3 years after termination	3	NO
Employee Medical and Exposure Records		30 years after termination		YES
Employment Policies and Procedures Records	Employment Policies	Permanent	Active	YES
Grievance Records		Settled +3	Active	NO
Insurance Policies		Permanent	Active	YES

<b>ANNUAL CONFERENCE OFFICE &amp; COMMITTEE RECORDS SCHEDULE</b>				
<b>RECORD SERIES TITLE</b>	<b>DESCRIPTION</b>	<b>Total</b>	<b>Current</b>	<b>Archives</b>
Insurance Election Records, Employees		Employed +6	Active	NO
Inventories of Property and Equipment		Until Superseded	Active	Transfer to Archives for Review
Invoices		7 (Except for major construction)	3	NO (transfer major construction series to Archives)
NYS Wage Notice		6	6	NO
Pay Authorization Records		6	2	NO
Personnel Records, Staff	Personnel Files	Active+7	Active	NO
Personnel Records, Ministerial	Members of the Annual Conference	Genealogical/appointment - Permanent Rest - Active +25	Active	YES for Permanent Material
Property Files	Deeds, Title Papers, Repair History, Permits, Lease Agreement	Permanent		As Necessary
Purchase Orders		7	3	NO
Real Estate Surveys	Surveys, Plot Plans and Related Correspondence	Permanent		As Necessary
Rejected Applications	Rejected and Incomplete Employment Applications	1	1	NO
Search Records- Accepted		Active+7	Active	NO

<b>ANNUAL CONFERENCE OFFICE &amp; COMMITTEE RECORDS SCHEDULE</b>				
<b>RECORD SERIES TITLE</b>	<b>DESCRIPTION</b>	<b>Total</b>	<b>Current</b>	<b>Archives</b>
Search Records - All Others		5	1	NO
Staff Meeting Records		10	4	YES
Tax-Exempt Applications & Renewals	Property Tax Exemption for Conference-Owned Property	Permanent	5	YES
Tax Exempt Certificates	Certificates and Form 990	Permanent		As Necessary
Tax Withholding Authorization Records		Active +7	Active	NO
Time Sheets		6	6	NO
Travel Records		5	1	NO
Working Papers, Employees Under 18 years old		Active	Active	NO

## **Descriptive Examples**

### **ACCIDENT AND INJURIES RECORDS**

*Workers Compensation Claims Records*

This series documents claims made by institution employees for occupational injuries, accidents, or illnesses; insurance coverage and related reimbursement issues; and safety analysis and compliance inspections. This series may include but is not limited to Report of Accident forms; Occupational Safety and Health Administration (OSHA) Form 300; OSHA Form 301; incident logs; employer payroll reports; hearing transcripts; notices of claim disposition; determination orders; opinions and orders; appeal letters; claim adjustment documentation; medical reports; cost statements; and related documentation and correspondence.

Official Copy: Conference Office

**Retention:** 6 years after case settlement

Destroy the Official Copy 6 years after case settlement



## **ACCOUNT REQUEST FORMS**

This series documents a request to establish a new account or change an existing one. This series reflect account titles and numbers; types of accounts; sources of funds; grant or contract numbers; dates of start or change to accounts; positions or names of staff members who will control accounts; and approving authority signatures.

Official Copy: Treasurer

**Retention:** 3 years after account becomes inactive

Destroy the Official Copy 3 years after account becomes inactive

## **ACCOUNTS PAYABLE RECORDS**

*Claims and Disbursements Records, Expenses, Accounting, Bookkeeping, Paid Invoices, Finance, Purchasing*

This series documents expenditures and purchases. The series may also be used to research, evaluate, and monitor prior transactions and/or track the budget. This series may include but is not limited to Purchase Orders; Contract Release Orders; Balance Sheets; bills; invoices; Invoice Vouchers; Journal Voucher/Entry Forms; price quotes; requisitions; justifications of purchases; payment authorizations; reports of receipt of goods or services; and related documentation and correspondence.

Official Copy: Treasurer

**Retention:** 7 years

Destroy the Official Copy after 7 years

Other copies used in offices

**Retention:** 2 years

Destroy other copies after 2 years

## **ACCOUNTS RECEIVABLE RECORDS**

*A/Rs, Billing Records, Charges Records, Sales Fiscal Records, Rentals Fiscal Records, Journal Vouchers, Invoice Records*

This series is used to provide a record of billings and collections for the office and units/programs which report to the office. It is also used to provide a record of customers owing monies and to reconcile the account. This series may include but is not limited to Account Edit sheets; classified advertisement forms; VISA/MasterCard payment forms; invoices; journal vouchers; receipts; and related documentation and correspondence.

Official Copy: Treasurer

**Retention:** 7 years

Destroy the Official Copy after 7 years

Other copies used in offices

**Retention:** 2 years

Destroy other copies after 2 years

**ACT OF INCORPORATION**

*Acts of Incorporation, incorporation papers*

Official papers relating to the incorporation of an agency or institution

Official Copy: Secretary

**Retention:** Permanent

**ADMINISTRATIVE REPORTS**

*Conference journals, board and committee reports,  
Camps, institutions and project reports*

This series documents the annual activity of the conference and its subdivisions. Final annual reports may be printed and bound or they may be less formal unpublished documents prepared for limited distribution. Report sections may include but are not limited to administrative activities; goals and objectives achieved; fiscal status; project work performed; personnel activity and accomplishments; facility changes; and related sections. This series may include but is not limited to annual conference journal, board and committees reports of the conference; camps and other institutions supported by the conference and special project run by the conference; and related documentation and correspondence.

Official Copy: Conference Office

**Retention:** Permanent; annually transfer two copies to the custody of the Conference Archives

Other copies: Receiving units

**Retention:** Until superseded or obsolete.

Destroy all other copies when superseded, obsolete, or no longer needed for reference.

**AFFIRMATIVE ACTION  
RECRUITMENT REVIEW  
RECORDS**

*Affirmative Action Compliance Record,  
Affirmative Action Compliance Data (AACD),  
Applicant Pool Reports, Contract Review Records*

This series documents review of all stages of hiring by Affirmative Action and Equal Opportunity. This series may include but is not limited to position descriptions; Affirmative Action Compliance Data sheets; Affirmative Action compliance statements (EEO-1); Applicant Pool and Appointment Reports; utilization reports; payroll-budget requests; contract requests to offer appointments; certificates of eligibles; and related documentation and correspondence.

Official Copy: Conference Office

**Retention:** 6 years for all

Destroy the Official Copy after 6 years

## **ANNUAL FISCAL REPORTS**

This series documents annual fiscal year-end status of accounts and is used to provide the office with summary information relating to its programs which may be used for planning or review. The series includes reconciliation reports; annual operating statements; schedules of rates; and related correspondence.

Official Copy: Treasurer

**Retention:** Permanent

Send official copy to Archives on regular basis.

Other copies used in offices

**Retention:** 3 years

Destroy other copies after 3 years

## **ARCHITECTURAL DRAWINGS, BLUEPRINTS, AND MAPS**

This series provides a detailed graphic record of land and buildings of the Conference. The series is used as a primary source tool when working on projects to improve or maintain existing buildings and/or land and also when working on new construction. These records are largely created as part of individual construction projects but may include drawings, maps, and photographs worked up independently by the office and from various sources. This series may include but is not limited to architectural blueprints; sketches; aerial photographs; preliminary planning drawings; as built drawings; drawings reflecting changes to the original plans; soil testing maps; any other type of graphic representation produced relating to buildings, systems, and land; and related documentation.

Official Copy: Conference Office

**Retention:** Permanent

Transfer the Official Copy to the Conference Archives when superseded or inactive.

Other copies used in offices

**Retention:** 3 years after contract completion

Destroy other copies 3 years after contract completion.

NOTE: Check with the Archives before destroying any other copies of records in this series.

## **AUDIT RECORDS**

This series documents the unit's response to internal and independent management, operations, and fiscal audits. This series may include but is not limited to audit reports; written responses showing how recommended changes will be implemented; and related documentation and correspondence.

Official Copy: Treasurer

**Retention:** Permanent

Send official copy to Archives on regular basis

### **BANK DEPOSIT BOOKS**

Official records of bank deposit transactions

Official Copy: Treasurer

**Retention:** 7 years

Destroy official copy after 7 years

### **BANK DEPOSIT SLIPS**

Receipt from bank of deposit transaction

Official Copy: Treasurer

**Retention:** 3 Years

Destroy official copy after 3 years

### **BANK STATEMENTS**

Routine statement of accounts (see canceled checks below).

Official Copy: Treasurer

**Retention:** 7 years

Destroy official copy after 7 years

### **BENEFITS POLICIES AND PROCEDURES RECORDS**

This series documents policy and procedure decisions and important events in the operations history of the office and includes contracts and formal documents which state or form the basis for policy or set precedents. This series includes but is not limited to records concerning dependent care flexible spending account program records; early retirement programs; employee orientation program; injured worker benefits; medical, dental, life/disability insurance program records; open enrollment records; Retirees; tax deferred investment programs; US Savings Bonds; Volunteer Insurance; and related documentation and correspondence.

Official Copy: Conference Office

**Retention:** Permanent

Transfer superseded documents to Archives

**BEQUEST AND ESTATE PAPERS**

*Wills, gift agreements, bequests and other grants of real property or assets.*

This series relates to gifts, financial or otherwise, to the conference or to one of its agencies. These papers document the origin, transfer and requirements or restrictions of the gift

Official Copy: Conference Office/agency

**Retention:** Permanent

Transfer to Archives for permanent safe keeping

**BUDGET RECORDS**

*Annual Budget*

This series documents the annual budget; and related documentation and correspondence.

Official Copy: Treasurer

**Retention:** Permanent

After 2 years, transfer the Official Copy to the Archives

**BYLAWS**

*Bylaws, procedural regulations, meeting policies, constitutions*

Organizational bylaws and other regulations relating to the conduct of meetings or organizations

Official Copy: Conference Office/committee chair

**Retention:** Permanent

Transfer previous version to Archives after amendment

**CANCELED CHECKS**

*Cashed Checks*

This series documents redeemed checks written on conference accounts. Information on each check may include check number, date, amount, endorsement, account number, validation date, and related documentation.

Official Copy: Treasurers

**Retention:** 7 years.

Destroy the Official Copy after 7 years

**CERTIFICATES OF DEPOSIT, CANCELED**

Redeemed or canceled certificate of deposits

Official Copy: Treasurer

**Retention:** 3 Years

Destroy official copy after 3 years

## **COMMITTEE RECORDS**

*Conference Committees Records, Agency Committee  
Records, Board Committee Records*

This series documents the activities of standing and ad hoc committees, agencies and boards of the conference. They may function as steering committees, activities committees, standards committees, planning committees, awards committees, councils, etc. This series may include but is not limited to agendas; meeting minutes; reports; notes; working papers; and related documentation and correspondence

Official Copy: Conference Office

**Retention:** 10 Years

Transfer the Official Copy of records to the Archives after 4 years. Committee actions reported or approved by Annual Conference are retained via Conference Journal.

## **CONTRACTS**

*Repairs and Maintenance, Lease Agreements,  
Loans and Notes*

This series contains contracts that have either been completed or terminated. This includes Repairs and Maintenance, Lease Agreements, Loans/Notes and Service type of contracts

Official Copy: Conference Office

**Retention:** 4 Years for Service contracts

Destroy after 4 years

**Retention:** 6 Years for Repairs/Maintenance, Lease, Loans and Notes

Destroy after 6 years

**Retention:** Permanent for contracts on new construction, betterments/improvements

Transfer to Archives for permanent safekeeping.

## **CORRESPONDENCE**

*Transitory correspondence, Subject correspondence*

A large amount of correspondence should be considered transitory or routine general correspondence. Correspondence of this type might include responses to inquiries concerning various functions of the conference, information about assistance programs run by the church or in which the church is involved and other routine correspondence which reflects a normal part of the conference's program. Special or subject correspondence may focus on a special program or service in which the conference is involved, such as special worship services or specific assistance programs or some other program which has a specific beginning and end. Transitory correspondence should be reviewed and destroyed on a yearly basis, which subject correspondence should be kept, as it documents a special event in the Conference's life.

Transitory correspondence

Official Copy: Conference office

**Retention:** 1 year

Destroy after one year

Subject correspondence

Official Copy: Conference office or program secretary

**Retention:** Permanent; transfer to archives on regular basis or after end of program

**DEDUCTION AUTHORIZATION RECORDS**

*Deductions Input List*

This series documents deductions from salary checks authorized by employees. These records include lists with notation of authorized deductions as well as actual deduction forms. This series may include but is not limited to deduction information on medical, dental, life, and disability insurance; United Way and Foundation contributions; and miscellaneous deductions.

Official Copy: Conference office

**Retention:** 4 years after authorization expires or is superseded

Destroy the Official Copy 4 years after authorization expires or is superseded

**DEEDS**

*Deeds, conveyances, covenants, easements, certificates of title to property*

This series is comprised of documents which deal with ownership and related correspondence.

Official copy: Conference office

**Retention:** Permanent

**EMPLOYMENT ELIGIBILITY VERIFICATION (I-9) FORMS**

*I-9s*

This series documents information used to establish the identity and to verify the employment eligibility of employees to preclude the unlawful hiring of persons not authorized to work in the United States. This series includes completed I-9 forms and copies of documents that establish the identity and the employment eligibility of the employee.

Official Copy: Conference Office

**Retention:** 1 year after employee separation or 3 years after hire, whichever is later.

Destroy the Official Copy 1 year after employee separation or 3 years after hire, whichever is later. Best to keep 3 years after separation to cover both.

## **EMPLOYEE MEDICAL AND EXPOSURE RECORDS**

This series is comprised of employee medical records specific to the results of medical examinations (pre-employment, pre-assignment, periodic, or episodic) and laboratory tests (including chest and other X-ray examinations taken for the purpose of establishing a base-line or detecting occupational illnesses and all biological monitoring not defined as an "employee exposure record"), Medical opinions, diagnoses, progress notes, and recommendations, Descriptions of treatments and prescriptions, and Employee medical complaints;

Exposure records include environmental (workplace) monitoring or measuring of a toxic substance or harmful physical agent, including personal, area, grab, wipe, or other form of sampling, as well as related collection and analytical methodologies, calculations, and other background data relevant to interpretation of the results obtained; Biological monitoring results which directly assess the absorption of a toxic substance or harmful physical agent by body systems (e.g., the level of a chemical in the blood, urine, breath, hair, fingernails, etc.) but not including results which assess the biological effect of a substance or agent or which assess an employee's use of alcohol or drugs; along with medical records

Official Copy: Conference Office

**Retention:** 30 years after termination

Transfer to Archives

## **EMPLOYMENT POLICIES AND PROCEDURES RECORDS**

*Employment Policies*

This series documents employment policies and procedures administered by personnel offices. This series may include but is not limited to information on appointments; employment of handicapped persons; family employment program; interviewing; job sharing; nepotism; temporary appointments; transfers; and related documentation and correspondence.

Official Copy: Conference office

**Retention:** Permanent

Retain the Official Copy in Conference office until superseded and then transfer to the custody of the Archives for weeding, arrangement, and permanent retention of historical materials.

## **GRIEVANCE RECORDS**

This series documents grievances brought forward by employees against the institution concerning affirmative action; equal opportunity; policies and procedures. This series may include but is not limited to notices of grievance; informal discussion notes; grievance responses; formal hearing records, including tapes; transcripts and tapes of individual interviews; logs of persons interviewed; action(s) taken; settlement agreements; case histories; final summary statements; appeals documentation; and related documentation and correspondence.



Official Copy: Conference office or Legal Advisor  
**Retention:** 3 years after grievance is settled  
Destroy the Official Copy 3 years after grievance is settled

### **INSURANCE POLICIES, INACTIVE**

This series is comprised of inactive insurance polices and related correspondence.

Official Copy: Conference Office  
**Retention:** Permanent  
Transfer inactive policies to the Archives

### **INSURANCE ELECTION RECORDS, EMPLOYEES**

This series is comprised of the forms filled out by employees when they make their insurance options elections

Official Copy: Conference Office  
**Retention:** 6 years after termination of employment  
Destroy official copy after 6 years

### **INVENTORIES OF PROPERTY AND EQUIPMENT**

This series consists of lists, both written and photographic, of the property and equipment of the conference or agency

Official Copy: Conference Office  
**Retention:** Until superseded by new version  
Transfer old copies to Archives for review

### **INVOICES**

This series contains invoices and paid bills

Official Copy: Treasurer  
**Retention:** 7 years, except for major building construction/alterations - Permanent  
Destroy official copy after 7 years (transfer construction records to Archives)

## **PAY AUTHORIZATION RECORDS**

This series consists of pay documents which substantiate and, in part, authorize the issuance of payroll checks for particular amounts. This series may include but is not limited to Payroll/Budget Request Forms and time cards.

Official Copy: Conference treasurer

**Retention:** 6 years

Destroy the Official Copy after 6 years

Other copies used in offices

**Retention:** 1 year

Destroy other copies after 1 year

## **NEW YORK STATE WAGE NOTICES (WTPA)**

*Wage Notices*

This series documents the NYS wage notices, required by law to be provided upon hiring, change in pay rate (if not noted on paystub within 7 days), and annually to all employees between January 1<sup>st</sup> and February 1<sup>st</sup>.

Official Copy: Conference office

**Retention:** 6 years

Destroy official copy after 6 full calendar years

## **PERSONNEL RECORDS, STAFF**

*Personnel Files*

This series documents the employee's work history and includes routine, non-evaluative information such as job title, rank, full-time equivalency (FTE), dates of employment, salary, employing department, education and employment background. Some of the documents comprising this series include confidential information such as social security number, birth date, and marital status. This series may include but is not limited to copies of Affirmative Action Compliance Data Forms; Applications and Contracts for Sabbatical Leave; Conditions of Employment; Memoranda of Agreement; Notices of Appointment; Pay/Budget Action Forms; Personnel Action Forms (PAs), including Salary Adjustments Requests for Approval for Outside Employment; resumes or curriculum vitae; Retirement Agreements; Sick Leave Accrual Forms; and related documentation and correspondence, such as letters of resignation and memos confirming appointments.

Official Copy: Conference office

**Retention:** 7 years after termination

Destroy official copy 7 years after termination of employment

**PERSONNEL RECORDS,  
MINISTERIAL**

*Ministerial records, diaconal records*

This series will contain identifying/directory information, such as name and address; census-type information, such as gender, ethnic origin and birth date; family data such as marital status, date of marriage and names of children; candidacy information; conference relationship information such as dates of admission and status; appointment information; judicial proceedings records and surrendered credentials. (See supervisory files)

Official Copy: Conference Office

**Retention:** Genealogical information and appointment data- Permanent; 25 years after end of relationship for rest of file

Transfer to archives after person no longer active

**PROPERTY FILES**

*Deeds, title papers, repair history, permits, lease agreement and correspondence*

This series contains records dealing with the ownership and maintenance of property.

Official Copy: Conference Office

**Retention:** Permanent

Transfer to Archives for permanent safekeeping

**PURCHASE ORDERS**

This series documents purchase of items, or repair of items and related correspondence

Official Copy: Treasurer

**Retention:** 7 years

Destroy after 7 years

**REAL ESTATE SURVEYS**

*Real estate survey, plots plans*

This series contains real estate surveys, plots plans and related correspondence.

Official Copy: Conference Office

**Retention:** Permanent

Transfer to Archives for safekeeping

## **REJECTED APPLICATIONS**

This series documents employment applications that were submitted for jobs with the conference and for reasons of incompleteness or inadequate qualifying experience/training are rejected.

Official Copy: Conference office

**Retention:** 1 year

Destroy the Official Copy after 1 year

## **SEARCH RECORDS**

This series documents the selection process for advertised management service and classified positions. This series may include but is not limited to applications; curriculum vitae or resumes; academic transcripts; samples of writing or publications; approvals of recruitment proposals; Certificate of Eligibles; candidate lists; position announcements; position advertisements; position descriptions; copies of Affirmative Action Compliance Data Forms; interview materials such as rating sheets, tallies, screening and interview notes, review committee notes and memoranda; telephone conversation notes; and related correspondence such as cover letters and reference letters.

Official Copy: Conference office

**Retention:** Place record with the personnel file; 5 years after search completed for all other records.

Retain application materials of successful candidate in the Personnel Files; destroy the Official Copy of all other records 5 years after the search is completed.

## **SHIPPING AND FREIGHT RECORDS**

This series documents the shipping receiving of material , either by freight carrier or by such carriers as UPS or FedEx, and related correspondence

Official Copy: Office of origin

**Retention:** 3 years

Destroy after 3 years

## **STAFF MEETING RECORDS**

This series documents the meetings of the staff of a department, or office which sets policy and procedures for the unit. Participants at meetings may be composed exclusively of or a mixture of staff, administrators, and managers; specialized and task oriented sub-committees composed of unit personnel are also documented as part of this record series. These meetings may concern routine matters of procedure and topics such as program development, planning, administrative and personnel management, and assessments of future needs. This series may include but is not limited to meeting notes/minutes; reports; working papers; agendas; and related documentation and correspondence.

Official Copy used in offices

**Retention:** 10 years

Record of policy actions retained permanently

## **SUPERVISORY FILES, MINISTERIAL**

This series may contain: list of appointments served; documents, conversations, agreements and supervisor perceptions and any actions which relate to them; letters and comments solicited and unsolicited, information from the local church; appraisals and summaries written by the district superintendent. It may also contain copies of material found in the personnel file. (See also Personnel Files, Ministerial)

Official Copy: Conference Office

**Retention:** 25 years after separation

Destroy official copy after 25 years

## **TAX-EXEMPT CERTIFICATES AND FORM 990**

This series documents the tax-exempt status of the conference and its functions.

Official Copy: Conference Office

**Retention:** Permanent

## **TAX RETURNS**

*Tax returns, tax filings*

This series comprises tax returns, supporting documentation and related correspondence

Official Copy: Treasurer

**Retention:** 7 years

Destroy 7 years after filing period provide no legal action being taken

**TAX WITHHOLDING  
AUTHORIZATION RECORDS**

W-4s

This series documents amounts withheld by Payroll from employees' checks for taxing authorities. This series may include but is not limited to the Statement for Claiming Benefits Provided by Section 911 of the Internal Revenue Code; Withholding Allowance Certificates (W-4s); and Non-resident Alien Request for Exemption from Tax Withholding (CO-477). Individual forms may include employees' names, addresses, social security numbers, and tax identification numbers.

Official Copy: Conference treasurer

**Retention:** 7 years after authorization expires or is superseded

Destroy the Official Copy 7 years after authorization expires or is superseded

**TIME SHEETS**

This series contains time sheets and related correspondence and memoranda.

Official Copy: Office of original

**Retention:** 6 years

Destroy after 6 years

**TRAVEL RECORDS**

This series documents approved travel by employees and is used to monitor travel expenditures and for planning purposes. This series may include but is not limited to travel request forms indicating purposes, itineraries, methods of travel, funds from which travel is to be paid, and estimated expenditures; Travel Reimbursement Requests (employee and non-employee); receipts; authorizing signatures; and related documentation and correspondence.

Official Copy: Conference office

**Retention:** 5 years

Destroy the Official Copy after 5 years

Other copies used in offices

**Retention:** 2 years

Destroy other copies after 2 years

## District Offices

DISTRICT OFFICE & COMMITTEE RECORDS SCHEDULE				
RECORD SERIES TITLE	DESCRIPTION	Total	Current	Archives
Administrative Reports	District Reports, District Conference Records	Permanent	4	YES
Charters, Constitutions & By-Laws		Permanent		YES
Committee Records	District Committee Records,	Permanent	4	YES
Correspondence - Subject	Correspondence on Special or Topical Interest	Permanent	Active	YES
Correspondence - Transitory	Routine Correspondence	1 year	1	NO
Employment Policies and Procedures Records	Employment Policies	Permanent	Active	YES
Newsletters	District newsletters such as, UMW, UMM, UMYF and other District group's newsletters	Permanent	2	YES
Staff Meeting Records		10	2	YES

## Descriptive Examples

### **ADMINISTRATIVE REPORTS**

*District Reports, District conference,  
Closed local church records*

This series contains official reports from within the district. This includes the reports from the various district committees and program groups as well as the official district conference session report filed by the superintendent. Closed local church records should be turned over to the conference archives as soon as possible after the closure is complete. See **Discipline ¶2549.4**.

Official Copy: District office

**Retention:** Permanent

Other copies: Receiving units

**Retention:** Until superseded or obsolete.

Destroy all other copies when superseded, obsolete, or no longer needed for reference.

**CHARTERS, CONSTITUTIONS & BY-LAWS**

*District organizations*

Charters, constitutions and by-laws for various district organizations

Official Copy: District office or organization secretary

**Retention:** Permanent

**COMMITTEE RECORDS**

*District Committee Records*

This series documents the activities of standing and ad hoc committees, agencies and boards of the district. This series may include but is not limited to agendas; meeting minutes; reports; notes; working papers; and related documentation and correspondence.

Official Copy: Committee secretary

**Retention:** Permanent for agendas, minutes, reports, and correspondence; 4 years for all other records

Transfer the Official Copy of permanent records to the Archives after 4 years; destroy the Official Copy of all non-permanent records after 4 years.

**CORRESPONDENCE**

*Transitory correspondence,  
Subject correspondence*

A large amount of correspondence should be considered transitory or routine general correspondence. Correspondence of this type might include responses to inquiries concerning time of services or other functions at the district level; information about assistance programs run by the church or in which the church is involved and other routine correspondence which reflects a normal part of the district's program. Special or subject correspondence may focus on a special program or service in which the church is involved, such as special worship services or specific assistance program or some other program which has a specific beginning and end. Transitory correspondence should be reviewed and destroyed on a yearly basis, while subject correspondence should be kept, as it documents a special event in the district's life.

Transitory correspondence

Official Copy: District office

**Retention:** 1 year

Destroy after one year

Subject correspondence

Official Copy: District office or program secretary

**Retention:** Permanent; transfer to archives on routine basis or after end of program



**EMPLOYMENT POLICIES AND PROCEDURES RECORDS**

*Employment Policies*

This series documents employment policies and procedures administered by personnel offices. This series may include but is not limited to information on appointments; employment of handicapped persons; family employment program; interviewing; job sharing; nepotism; temporary appointments; transfers; and related documentation and correspondence.

Official Copy: District office

**Retention:** Permanent

Retain the Official Copy in District office until superseded and then transfer to the custody of the Archives.

**NEWSLETTERS**

*District newsletters*

Newsletters document many of the basic activities of the District. Not only should the district newsletter be kept, but newsletters of the various groups within the district.

Official Copy: District office for newsletter, group secretary for others

**Retention:** Permanent; transfer copies to the archives after 2 years

**STAFF MEETING RECORDS**

This series documents the meetings of the staff which sets policy and procedures for the unit. Participants at meetings may be composed exclusively of or a mixture of staff, administrators, and managers; specialized and task oriented sub-committees composed of unit personnel are also documented as part of this record series. These meetings may concern routine matters of procedure and topics such as program development, planning, administrative and personnel management, and assessments of future needs. This series may include but is not limited to meeting notes/minutes; reports; working papers; agendas; and related documentation and correspondence.

Official Copy used in offices

**Retention:** 10 years

Retain the Official Copy of policy actions permanently

**WORKING PAPERS, EMPLOYEES UNDER 18 YEARS OLD**

This series includes the required working papers for minor staff (under age 18). This includes AT-18 (blue paper); AT-19 (green papers); AT-20 (salmon paper).

Official Copy: N/A

**Retention:** Retain original from school until employee separates, then return original to employee

Do not retain copy or original after employment ends

## Local Churches

<b>LOCAL CHURCH RECORDS SCHEDULE</b>				
<b>RECORD SERIES TITLE</b>	<b>DESCRIPTION</b>	<b>Total</b>	<b>Current</b>	<b>Archives</b>
Accident and Injuries Records	Workers Compensation Claims Records	Settled+6	Active	NO
Accounts Payable Records	Claims and Disbursements Records, Expenses, Accounting, Bookkeeping, Paid Invoices, Finance, Purchasing	7	2	YES
Accounts Receivable Records	Membership Contributions, Offering Records	7	2	YES
Administrative Reports	Charge Conference Reports, Administrative Board Reports, Council on Ministries Report, or Administrative Council Reports	Permanent	2	YES
Annual Fiscal Reports	Closing of the Books Records, Financial Reports, Balance Reconciliation Records, State Accounts Reports	Permanent	4	YES
Architectural Drawings, Blueprints, and Maps		Permanent		YES
Audit Records		Permanent	4	YES
Bank Deposit Books		7	2	YES
Bank Deposit Slips		3	3	NO
Bank Statements		7	3	YES
Benefits Policies and Procedures Records		Permanent	Active	YES

<b>LOCAL CHURCH RECORDS SCHEDULE</b>				
<b>RECORD SERIES TITLE</b>	<b>DESCRIPTION</b>	<b>Total</b>	<b>Current</b>	<b>Archives</b>
Bequest and Estate Papers	Wills, Gift Agreements, Bequests	Permanent		As Necessary
Budget Records	Annual Budget	Permanent	4	YES
Bulletins	Sunday Worship Bulletins, Special Local Church Occasion Bulletins	Permanent	2	YES
Bylaws		Permanent	Active	YES
Cancelled Checks	Cashed Checks	7	1	YES
Certificates of Deposit, Canceled		3	3	NO
Committee Records	Local Church Committee Records	Permanent	4	YES
Contracts	Repairs, Maintenance, Lease Agreements, Loans	4 - service contracts 6 -Repairs, Lease, Loans Permanent - new construction	4	NO - Except for those going to Archives
Correspondence - Subject	Correspondence on Special or Topic Interest	permanent	Active	YES
Correspondence - Transitory	Routine Correspondence	1	1	NO
Deduction Authorization Records	Deductions Input List	Active + 4	Active	YES

<b>LOCAL CHURCH RECORDS SCHEDULE</b>				
<b>RECORD SERIES TITLE</b>	<b>DESCRIPTION</b>	<b>Total</b>	<b>Current</b>	<b>Archives</b>
Deeds	Deeds, Conveyances, Covenants, Easements	Permanent		As Necessary
Directories		Permanent	Current	YES
Employment Eligibility Verification Forms		Active +1 (3 yrs Min.)	Active	NO
Employee Medical and Exposure Records		30 years after termination		YES
Employment Policies and Procedures Records	Employment Policies	Permanent	Active	YES
Grievance Records		Active +3	Active	NO
Insurance Policies		Permanent	Active	YES
Insurance Election Records, Employees		Employed +6	Active	NO
Inventories of Property and Equipment		Until superseded	Active	Transfer to Archives for Review
Invoices		7 (except for major construction)	3	NO (transfer major construction series to Archives)
Membership Records	Membership Register, Baptisms, Marriages, Transfers	Permanent		YES

<b>LOCAL CHURCH RECORDS SCHEDULE</b>				
<b>RECORD SERIES TITLE</b>	<b>DESCRIPTION</b>	<b>Total</b>	<b>Current</b>	<b>Archives</b>
Newsletters	Church Newsletters, UMW, UMM, UMYF and other church group's newsletters	Permanent	2	YES
NYS Wage Notice		6	6	NO
Pay Authorization Records		6	2	NO
Personnel Records	Personnel Files	Active+7	Active	NO
Property Files	Deeds, Title Papers, Repair History, Permits, Lease Agreement	Permanent		As Necessary
Purchase Orders		7	3	NO
Real Estate Surveys	Surveys, Plot Plans and Related Correspondence	Permanent		As Necessary
Rejected Applications	Rejected and Incomplete Employment Applications	1	1	NO
Search Records-Accepted		Active+7	Active	NO
Search Records - All Others		5	1	NO
Shipping and Freight Records		3	3	NO
Staff Meeting Records		Permanent	4	YES
Tax-Exempt Certificates	Certificates and Form 990	Permanent		As Necessary

<b>LOCAL CHURCH RECORDS SCHEDULE</b>				
<b>RECORD SERIES TITLE</b>	<b>DESCRIPTION</b>	<b>Total</b>	<b>Current</b>	<b>Archives</b>
Tax Returns		7	5	NO
Tax Withholding Authorization Records		Active + 5	Active	NO
Time Sheets		6	6	NO
Travel Records		5	1	NO

## **Descriptive Examples**

### **ACCIDENT AND INJURIES RECORDS**

*Workers Compensation  
Claims Records*

This series documents claims made by employees for occupational injuries, accidents, or illnesses; insurance coverage and related reimbursement issues; and safety analysis and compliance inspections. This series may include but is not limited to Report of Accident forms; Occupational Safety and Health Administration (OSHA) Form 300; OSHA Form 301; incident logs; employer payroll reports; hearing transcripts; notices of claim disposition; determination orders; opinions and orders; appeal letters; claim adjustment documentation; medical reports; cost statements; and related documentation and correspondence.

Official Copy: Church office

**Retention:** 6 years after case settlement

Destroy the Official Copy 6 years after case settlement

### **ACCOUNTS PAYABLE RECORDS**

*Claims and Disbursements Records,  
Expenses, Accounting, Bookkeeping, Paid  
Invoices,  
Finance, Purchasing*

This series documents expenditures and purchases. The series may also be used to research, evaluate, and monitor prior transactions and/or track the budget. This series may include but is not limited to Purchase Orders; Contract Release Orders; Balance Sheets; bills; invoices; Invoice Vouchers; Journal Voucher/Entry Forms; price quotes; Departmental Requisitions; justifications of purchases; payment authorizations; reports of receipt of goods or services; and related documentation and correspondence.

Official Copy: Treasurer  
**Retention:** 7 years  
Destroy the Official Copy after 7 years  
  
Other copies used in offices  
**Retention:** 2 years  
Destroy other copies after 2 years

### **ACCOUNTS RECEIVABLE RECORDS**

*Membership contributions, offering records*

This series is used to provide a record of collections and offerings for the local church.

Official Copy: Church Office  
**Retention:** 7 years  
Destroy the Official Copy after 7 years  
  
Other copies used in offices  
**Retention:** 2 years  
Destroy other copies after 2 years

### **ADMINISTRATIVE REPORTS**

*Charge Conference reports, Administrative Board Reports, Council on Ministries reports, or Administrative Council Reports*

This series documents the annual activity of the local church and its subdivisions. Final annual reports may be printed and bound or they may be less formal unpublished documents prepared for limited distribution. Report sections may include but are not limited to administrative activities; goals and objectives achieved; fiscal status; project work performed; personnel activity and accomplishments; facility changes; and related sections. This series may include but is not limited to local church charge conference report; administrative board and Council on Ministries reports, or Administrative council reports.

Official Copy: Church office  
**Retention:** Permanent  
  
Other copies: Receiving units  
**Retention:** Until superseded or obsolete.  
Destroy all other copies when superseded, obsolete, or no longer needed for reference.

### **ANNUAL FISCAL REPORTS**

*Closing of the Books Records, Financial Reports, Balance Reconciliation Records*

This series documents annual fiscal year-end status of accounts and is used to provide the office with summary information relating to its programs which may be used for planning or review. The series includes annual operating statements; schedules of rates; and related correspondence.

Official Copy: Treasurer

**Retention:** Permanent

Send official copy to Archives on regular basis.

Other copies used in offices

**Retention:** 3 years.

Destroy other copies after 3 years.

### **ARCHITECTURAL DRAWINGS, BLUEPRINTS, AND MAPS**

This series provides a detailed graphic record of land and buildings of the local church. The series is used as a primary source tool when working on projects to improve or maintain existing buildings and/or land and also when working on new construction. These records are largely created as part of individual construction projects but may include drawings, maps, and photographs worked up independently by the office and from various sources. This series may include but is not limited to architectural blueprints; sketches; aerial photographs; preliminary planning drawings; as built drawings; drawings reflecting changes to the original plans; soil testing maps; any other type of graphic representation produced relating to buildings, systems, and land; and related documentation.

Official Copy: Church office

**Retention:** Permanent

Transfer the Official Copy to the local church archives when superseded or inactive.

Other copies used in offices

**Retention:** 3 years after contract completion.

Destroy other copies 3 years after contract completion.

NOTE: Check with the Archives before destroying any other copies of records in this series.

### **AUDIT RECORDS**

This series documents the unit's response to internal and independent management, operations, and fiscal audits. This series may include but is not limited to audit reports; written responses showing how recommended changes will be implemented; and related documentation and correspondence

Official Copy used in offices

**Retention:** Permanent

Send official copy to Archives on regular basis



### **BANK DEPOSIT BOOKS**

Official records of bank deposit transactions

Official Copy: Treasurer

**Retention:** 7 years

Destroy official copy after 7 years

### **BANK DEPOSIT SLIPS**

Receipt from bank of deposit transaction

Official Copy: Treasurer

**Retention:** 3 Years

Destroy official copy after 3 years

### **BANK STATEMENTS**

This series documents redeemed checks and other financial matters related to local church bank accounts.

Official Copy: Church Office or treasurer

**Retention:** 7 years.

Destroy the Official Copy after 7 years.

### **BENEFITS POLICIES AND PROCEDURES RECORDS**

This series documents policy and procedure decisions and important events in the operations history of the office and includes contracts and formal documents which state or form the basis for policy or set precedents. This series includes but is not limited to records concerning dependent care flexible spending account program records; early retirement programs; employee orientation program; injured worker benefits; medical, dental, life/disability insurance program records; open enrollment records; Retirees; tax deferred investment programs; US Savings Bonds; Volunteer Insurance; and related documentation and correspondence.

Official Copy: Church Office

**Retention:** Permanent

Transfer superseded documents to Archives

## **BEQUEST AND ESTATE PAPERS**

*Wills, gift agreements, bequests and other grants of real property or assets.*

This series relates to gifts, financial or otherwise, to the conference or to one of its agencies. These papers document the origin, transfer and requirements or restrictions of the gift

Official Copy: Conference Office/agency

**Retention:** Permanent

Transfer to Archives for permanent safe keeping

## **BUDGET RECORDS**

*Annual Budget*

This series documents the annual budget; and related documentation and correspondence.

Official Copy: Treasurer

**Retention:** Permanent

After 2 years, transfer the Official Copy to the local church archives.

## **BULLETINS**

*Sunday worship bulletins,  
Special local church occasion bulletins*

Bulletins provide a resource for ministers as well as document the worship practices of the church. They often also include special news of interest for the local church. Special local church occasions could be a church anniversary, mortgage burning service, or dedication service.

Official Copy: Church office

**Retention:** Permanent, transfer to archives after 2 years.

## **BYLAWS**

*Bylaws, procedural regulations, meeting policies, constitutions*

Organizational bylaws and other regulations relating to the conduct of meetings or organizations

Official Copy: Church Office/committee chair

**Retention:** Permanent

Transfer previous version to Archives after amendment

**CANCELED CHECKS***Cashed Checks*

This series documents redeemed checks written on conference accounts. Information on each check may include check number, date, amount, endorsement, account number, validation date, and related documentation.

Official Copy: Treasurer

**Retention:** 7 years.

Destroy the Official Copy after 7 years

**CERTIFICATES OF DEPOSIT, CANCELED**

Redeemed or canceled certificate of deposits

Official Copy: Treasurer

**Retention:** 3 Years

Destroy official copy after 3 years

**COMMITTEE RECORDS***Church Committee Records*

This series documents the activities of standing and ad hoc committees, agencies and boards of the local church. They may function as steering committees, activities committees, standards committees, planning committees, awards committees, councils, etc. This series may include but is not limited to agendas; meeting minutes; reports; notes; working papers; and related documentation and correspondence.

Official Copy: Committee secretary

**Retention:** Permanent for agendas, minutes, reports, and correspondence; 4 years for all other records

Transfer the Official Copy of permanent records to the Archives after 4 years; destroy the Official Copy of all non-permanent records after 4 years.

**CONTRACTS***Repairs and Maintenance, Lease Agreements, Loans and Notes*

This series contains contracts that have either been completed or terminated. This includes Repairs and Maintenance, Lease Agreements, Loans/Notes and Service type of contracts

Official Copy: Church Office

**Retention:** 4 Years for Service contracts

Destroy after 4 years

**Retention:** 6 Years for Repairs/Maintenance, Lease, Loans and Notes

Destroy after 6 years

**Retention:** Permanent for contracts on new construction, betterments/improvements

Transfer to Archives for permanent safekeeping.

## **CORRESPONDENCE**

*Transitory correspondence,  
Subject correspondence*

A large amount of correspondence should be considered transitory or routine general correspondence. Correspondence of this type might include responses to inquiries concerning time of services or other functions at the church; information about assistance programs run by the church or in which the church is involved and other routine correspondence which reflects a normal part of the local church's program. Special or subject correspondence may focus on a special program or service in which the church is involved, such as special worship services or specific assistance program or some other program which has a specific beginning and end. Transitory correspondence should be reviewed and destroyed on a yearly basis, which subject correspondence should be kept, as it documents a special event in the local church's life.

Transitory correspondence  
Official Copy: Church office

**Retention:** 1 year

Destroy after one year

Subject correspondence

Official Copy: Church office or program secretary

**Retention:** Permanent; transfer to archives on a routine basis or after end of program

## **DEDUCTION AUTHORIZATION RECORDS**

*Deductions Input List*

This series documents deductions from salary checks authorized by employees. These records include lists with notation of authorized deductions as well as actual deduction forms. This series may include but is not limited to deduction information on medical, dental, life, and disability insurance; United Way and Foundation contributions; and miscellaneous deductions.

Official Copy: Church office

**Retention:** 4 years after authorization expires or is superseded.

Destroy the Official Copy 4 years after authorization expires or is superseded.

## **DEEDS**

*Deeds, conveyances, covenants,  
easements, certificates of title to property*

This series is comprised of documents which deal with ownership and related correspondence.

Official copy: Church Office

**Retention:** Permanent

## **DIRECTORIES**

*Local church directory, church  
photographic directory*

The church directory lists the members of the local church and photographic directories not only illustrate the people but often have scenes from church life.

Official Copy: Church office

**Retention:** Permanent. Transfer a copy to the archives.

Other copies used in offices

**Retention:** Destroy when superseded

## **EMPLOYMENT ELIGIBILITY VERIFICATION (I-9) FORMS**

I-9s

This series documents information used to establish the identity and to verify the employment eligibility of employees to preclude the unlawful hiring of persons not authorized to work in the United States. This series includes completed I-9 forms and copies of documents that establish the identity and the employment eligibility of the employee.

Official Copy: Church office

**Retention:** 1 year after employee separation or 3 years after hire, whichever is later.

Destroy the Official Copy 1 year after employee separation or 3 years after hire, whichever is later. Best to keep 3 years after separation to cover both.

## **EMPLOYEE MEDICAL AND EXPOSURE RECORDS**

This series is comprised of employee medical records specific to the results of medical examinations (pre-employment, pre-assignment, periodic, or episodic) and laboratory tests (including chest and other X-ray examinations taken for the purpose of establishing a baseline or detecting occupational illnesses and all biological monitoring not defined as an "employee exposure record"), Medical opinions, diagnoses, progress notes, and recommendations, Descriptions of treatments and prescriptions, and Employee medical complaints;

Exposure records include environmental (workplace) monitoring or measuring of a toxic substance or harmful physical agent, including personal, area, grab, wipe, or other form of sampling, as well as related collection and analytical methodologies, calculations, and other background data relevant to interpretation of the results obtained; Biological monitoring results which directly assess the absorption of a toxic substance or harmful physical agent by body systems (e.g., the level of a chemical in the blood, urine, breath, hair, fingernails, etc.) but not including results which assess the biological effect of a substance or agent or which assess an employee's use of alcohol or drugs; along with medical records

Official Copy: Conference Office  
**Retention:** 30 years after termination  
Transfer to Archives

## **EMPLOYMENT POLICIES AND PROCEDURES RECORDS**

*Employment Policies*

This series documents employment policies and procedures administered by personnel offices. This series may include but is not limited to information on appointments; employment of handicapped persons; family employment program; interviewing; job sharing; nepotism; temporary appointments; transfers; and related documentation and correspondence.

Official Copy: Church office

**Retention:** Permanent

Retain the Official Copy in Church office until superseded and then transfer to the custody of the Archives.

## **GRIEVANCE RECORDS**

This series documents grievances brought forward by employees against the institution concerning affirmative action; equal opportunity; policies and procedures; or articles contained in the Collective Bargaining Agreement. This series may include but is not limited to notices of grievance; informal discussion notes; grievance responses; formal hearing records, including tapes; transcripts and tapes of individual interviews; logs of persons interviewed; action(s) taken; settlement agreements; case histories; final summary statements; appeals documentation; and related documentation and correspondence.

Official Copy: Church office and Legal Advisor

**Retention:** 3 years after grievance is settled.

Destroy the Official Copy 3 years after grievance is settled.

## **INSURANCE POLICIES**

This series is comprised of inactive insurance policies and related correspondence.

Official Copy: Church Office

**Retention:** Permanent

Transfer inactive policies to the Archives

**INSURANCE ELECTION RECORDS,  
EMPLOYEES'**

This series is comprised of the forms filled out by employees when they make their insurance options elections

Official Copy: Church Office

**Retention:** 6 years after termination of employment

Destroy official copy after 6 years

**INVENTORIES OF PROPERTY AND  
EQUIPMENT**

This series consists of lists, both written and photographic, of the property and equipment of the conference or agency

Official Copy: Church Office

**Retention:** Until superseded by new version

Transfer old copies to Archives for review.

**INVOICES**

This series contains invoices and paid bills

Official Copy: Treasurer

**Retention:** 7 years, except for major building construction/alterations - Permanent

Destroy official copy after 7 years (transfer construction records to Archives)

**MEMBERSHIP RECORDS**

*Membership register, baptisms,  
marriages, transfers*

These are permanent records which list the names of each person of the local church. The reflect the membership and the activities of the local church.

Official Copy: Church office

**Retention:** Permanent

**NEW YORK STATE WAGE NOTICES (WTPA)**

*Wage Notices*

This series documents the NYS wage notices, required by law to be provided upon hiring, change in pay rate (if not noted on paystub within 7 days), and annually to all employees between January 1<sup>st</sup> and February 1<sup>st</sup>.

Official Copy: Conference office

**Retention:** 6 years

Destroy official copy after 6 full calendar years

## **NEWSLETTERS**

*Local church newsletters,  
Sunday School newsletters, UMW,  
UMM or UMYF newsletters*

Newsletters document many of the basic activities of the local church. Not only should the church newsletter be kept, but newsletters of the various groups within the local church.

Official Copy: Church office for newsletter, group secretary for others

**Retention:** Permanent; transfer copies to the archives after 2 years

## **PAY AUTHORIZATION RECORDS**

*PBs*

This series consists of pay documents which substantiate and, in part, authorize the issuance of payroll checks for particular amounts. This series may include but is not limited to Payroll/Budget Request Forms and time cards.

Official Copy: Treasurer

**Retention:** 6 years.

Destroy the Official Copy after 6 years.

Other copies used in offices

**Retention:** 1 year.

Destroy other copies after 1 year.



## **PERSONNEL RECORDS**

*Personnel Files*

This series documents the employee's work history and includes routine, non-evaluative information such as job title, rank, full-time equivalency (FTE), dates of employment, salary, employing department, education and employment background. Some of the documents comprising this series include confidential information such as social security number, birth date, and marital status. This series may include but is not limited to copies of Affirmative Action Compliance Data Forms; Applications and Contracts for Sabbatical Leave; Conditions of Employment; Memoranda of Agreement; Notices of Appointment; Pay/Budget Action Forms; Personnel Action Forms (PAs), including Salary Adjustments Requests for Approval for Outside Employment; resumes or curriculum vitae; Retirement Agreements; Sick Leave Accrual Forms; and related documentation and correspondence, such as letters of resignation and memos confirming appointments.

Official Copy: Church office

**Retention:** 7 years after termination.

## **PROPERTY FILES**

*deeds, title papers, repair history, permits,  
lease agreement and correspondence*

This series contains records dealing with the ownership and maintenance of property.

Official Copy: Church Office.

**Retention:** Permanent

Transfer to Archives for permanent safekeeping

## **PURCHASE ORDERS**

This series documents purchase of items, or repair of items and related correspondence

Official Copy: Treasurer

**Retention:** 7 years

Destroy after 7 years

## **REAL ESTATE SURVEYS**

*Real estate survey, plots plans*

This series contains real estate surveys, plots plans and related correspondence.

Official Copy: Church Office

**Retention:** Permanent

Transfer to Archives for safekeeping

## **REJECTED APPLICATIONS**

*Rejected and Incomplete  
Employment Applications*

This series documents employment applications that were submitted for jobs with the conference and for reasons of incompleteness or inadequate qualifying experience/training are rejected.

Official Copy: Church office

**Retention:** 1 year.

Destroy the Official Copy after 1 year.

## **SEARCH RECORDS**

This series documents the selection process for advertised management service and classified positions. This series may include but is not limited to applications; curriculum vitae or resumes; academic transcripts; samples of writing or publications; approvals of recruitment proposals; Certificate of Eligibles; candidate lists; position announcements; position advertisements; position descriptions; copies of Affirmative Action Compliance Data Forms; interview materials such as rating sheets, tallies, screening and interview notes, review committee notes and memoranda; telephone conversation notes; and related correspondence such as cover letters and reference letters.

Official Copy: Church Office

**Retention:** Place record with the personnel file; 5 years after search completed for all other records.

Retain application materials of successful candidate in the Personnel Files; destroy the Official Copy of all other records 5 years after the search is completed.

## **SHIPPING AND FREIGHT RECORDS**

This series documents the shipping receiving of material, either by freight carrier or by such carriers as UPS or FedEx, and related correspondence

Official Copy: Office of origin

**Retention:** 3 years

Destroy after 3 years

## **STAFF MEETING RECORDS**

This series documents the meetings of the staff of a department, or office which sets policy and procedures for the unit. Participants at meetings may be composed exclusively of or a mixture of staff, administrators, and managers; specialized and task oriented sub-committees composed of unit personnel are also documented as part of this record series. These meetings may concern routine matters of procedure and topics such as program development, planning, administrative and personnel management, and assessments of future needs. This series may include but is not limited to meeting notes/minutes; reports; working papers; agendas; and related documentation and correspondence.

Official Copy used in offices

**Retention:** Permanent

## **TAX-EXEMPT CERTIFICATES AND FORM 990**

This series documents the tax-exempt status of the conference and its functions.

Official Copy: Church Office

**Retention:** Permanent

## **TAX RETURNS**

Tax returns, tax filings

This series comprises tax returns, supporting documentation and related correspondence

Official Copy: Treasurer

**Retention:** 7 years

Destroy 7 years after filing period provide no legal action being taken

## **TAX WITHHOLDING AUTHORIZATION RECORDS**

W-4s

This series documents amounts withheld by Payroll from employees' checks for taxing authorities. This series may include but is not limited to the Statement for Claiming Benefits Provided by Section 911 of the Internal Revenue Code; Withholding Allowance Certificates (W-4s); and Non-resident Alien Request for Exemption from Tax Withholding (CO-477). Individual forms may include employees' names, addresses, social security numbers, and tax identification numbers.

Official Copy: Treasurer

**Retention:** 7 years after authorization expires or is superseded.

Destroy the Official Copy 7 years after authorization expires or is superseded.

## **TIME SHEETS**

This series contains time sheets and related correspondence and memoranda.

Official Copy: Office of origin

**Retention:** 6 years

Destroy after 6 years

## **TRAVEL RECORDS**

This series documents approved travel by employees and is used to monitor travel expenditures and for planning purposes. This series may include but is not limited to travel request forms indicating purposes, itineraries, methods of travel, funds from which travel is to be paid, and estimated expenditures; Travel Reimbursement Requests (employee and non-employee); receipts; authorizing signatures; and related documentation and correspondence.

Official Copy: Church office

**Retention:** 5 years.

Destroy the Official Copy after 5 years.

Other copies used in offices

**Retention:** 2 years.

Destroy other copies after 2 years.

## **WORKING PAPERS, EMPLOYEES UNDER 18 YEARS OLD**

This series includes the required working papers for minor staff (under age 18). This includes AT-18 (blue paper); AT-19 (green papers); AT-20 (salmon paper).

Official Copy: N/A

**Retention:** Retain original from school until employee separates, then return original to employee

Do not retain copy or original after employment ends



General Commission on Archives & History  
*The United Methodist Church*

Records Management Guidelines

**Guidelines for Managing Records of  
the Annual Conference & the Local  
Church  
2013 Edition**

The United Methodist Church    General Commission on Archives and History  
[www.gcah.org](http://www.gcah.org)

**GUIDELINES FOR  
MANAGING RECORDS OF  
THE LOCAL CHURCH AND ANNUAL CONFERENCE**

© 2013 The General Commission on Archives History  
The United Methodist Church  
P. O. Box 127  
Madison, NJ 07940  
Phone: (973) 408-3195  
FAX: (973) 408-3909  
[research@gcah.org](mailto:research@gcah.org)

## Purpose of this Manual

This manual is for local church history and records committees and for the annual conference commission on archives and history, because these are the groups responsible for the creation of a records management program for the local church and annual conference. This manual is also for the local church historian and the conference archivist; often the ones who must implement these plans and perhaps even assist in designing them.

This is a manual of examples and ideas. It is not meant to provide an exhaustive or comprehensive records management plan; that only can be done at the local level. The intention is to provide enough material and ideas, and some examples, to assist in starting a records management program for the your local church or annual conference. Some of the ideas mentioned here can be used directly in a local program, while others just offer a place to begin.

Purpose of this Manual.....	1
What is Records Management?.....	2
Disciplinary Responsibility.....	3
Reasons for Records Management.....	4
Vital Records.....	6
Electronic Records Issues.....	7
A Responsible Person - The Records Officer.....	9
Storage of Records.....	9
Shipping Records.....	10
Summary.....	10
Suggested Retention Periods.....	10
Annual Conference Examples.....	12
Conference Office and Conference Committees.....	12
District Superintendents and District Offices.....	32
Local Church Examples.....	35
Appendix: Creating a Records Schedule.....	54
Appendix: Sample Transmittal Form.....	56

## What is Records Management?

Records management is the attempt to systematically control the growth and disposition, or destruction, of office, committee and other official records. Its basic purpose is to help answer that nagging question of what do I keep, for how long do I keep it and when can I remove it from my office.

Now we need to define some terms. In every office there are a variety of records which are related because they result from the same filing process, or the same function or the same activity, or have a similar form or contents. This group of related documents we will call a *series*. For example file folders of bank statements from different banks would be a series. A collection of check requests would be another series. Staff memos are yet another series. For each series there are two important concepts, or questions to be asked. The first is "for how long are these records used?" - this is referred to as the *records life cycle*. The second is "how significant are these records?" - this is referred to as *appraisal*. Understanding these two concepts are key to understanding the nature of records management.

### What is Records Management

The essence of records management can be summarized as follows: The task of managing our office records so that we have the records on hand to conduct today's ministry, to dispose of those we no longer need, and to see that valuable records are preserved. Its basic purpose is to help answer that nagging question of what do I keep, for how long do I keep it and when can I remove it from my office.

### Records Life Cycle:

Records can be considered like a living organism; they are born, or created, mature during their use, and then are retired or removed. In records management the task is to recognize when a record has reached the end of its life cycle. That is to say that there comes a time when every record **no longer serves a useful administrative function**. In general, the less a record is consulted, the less useful it is administratively. There are some significant exceptions to this rule, but the main focus is on those records occupying important space in an office and when can they be removed from that office. There are some records which will always have value, and which need to be kept, but which don't need to be in the main office files occupying valuable space. When a records has reached the end of its *useful administrative purpose* it is ready to be retired from the office. It is the function of *appraisal* which helps us determine when to retire the

record and what to do with the record once it is retired.

### Records Appraisal:

Appraisal is the process which identifies the administrative, legal, and fiscal value (primary value), and the historical and long-term research value (secondary value) of records. Once the value of a record series has been determined, a realistic retention period can be assigned to it. Appraisal can take place at any point during a record series' life cycle, but is most frequently done when the records become inactive.

There are several questions to be asked when appraising a series: How frequently is the record used by those who created it? If the record is still frequently consulted then it should probably remain in the office. But even for records which are not consulted frequently, is there still a consistent, although low, demand for the record? Is there some legal or fiscal need to hold on to the record even though it is no



longer consulted or used? An example here might be financial information. What is the historical significance of the record? Always consider records as historical when they contain information about the institution which created the record. An example here might be Charge Conference records or staff or board minutes.

## Disciplinary Responsibility

Who is responsible for keeping records in our denomination? At what level are decisions made which affect our records keeping policy? The *Discipline* allocates the responsibility for records at four different levels. Probably additional levels and complexities could be discerned, but for our purposes there are four levels: the local church, the annual conference, the jurisdictional conference and the General Conference.

The local church, the first level, is responsible for its records. The relevant section from the *Discipline* is from ¶247.5a)

It is strongly recommended that the charge conference elect a church historian . . . . [The historian will] keep the historical records up to date; serve as chairperson of the committee on records and history, . . . provide an annual report on the care of church records and historical materials to the charge conference; and also provide, with the pastor and the committee on records and history, if any, for the preservation of all local church records and historical materials no longer in current use. Records [are anything] . . . made or received pursuant to any provisions of the *Discipline* in connection with the transaction of church business by any local church . . . .

*The Book of Discipline* is the basic body of administration and law for our denomination. It is reviewed, revised and edited once every four years by the General Conference. The General Conference is the only body which can speak for the entire denomination. It is composed of representatives selected from every annual conference. This means there are delegates from within and without the United States.

The local church historian, and the history and records committee, are the ones to implement a records policy. The records of the local church would include everything from the charge conference down to the papers generated in the church office. Some examples of local church records are: records from the trustees, administrative board and any other committee structure of the local church. Also included are any official publications of the local church. The creation of a records policy requires working closely with the pastor, as well as with various leadership groups within the local church.

The annual conference, the second level, is responsible for its records. The relevant sections from the *Discipline* are ¶ 641.1 and ¶2549.4.

In each annual conference there shall be a conference commission on archives and history. . . . It shall be the duty of the commission to collect, preserve, and make accessible the historically significant records of the annual conference and its agencies, . . . . establish retention and disposition schedules for annual

## 2013-2016 EDITION

conference and local church records under standards or guidelines developed by the General Commission on Archives and History; . . . .

All the deeds, records, and other official and legal papers, including the contents of the cornerstone, of a church that is so declared to be abandoned or otherwise discontinued shall be collected by the district superintendent in whose district said church was located and shall be deposited for permanent safekeeping with the commission on archives and history of the annual conference.

The conference commission on archives and history is to implement a records policy for the conference. The commission also assists the local church in developing its records policy. The records of the annual conference would include everything from the annual conference meeting down to the records generated in the conference office. Some examples are: the conference journal, records from the conference trustees, minutes of the various boards and agencies or committees of the conference and any official publications of the conference. This would include conference newspapers and publications from camps, district committee reports and reports from the district superintendents. It also includes records from closed and abandoned churches. While it does include records from the conference office, it does not include episcopal office records.

The General Commission on Archives and History, the fourth level, is responsible for implementing a records policy for the general agencies and for the episcopal area offices. It is also responsible for advising jurisdictional agencies, annual conferences and local churches on their records (See ¶1711 in the *Discipline*).

This manual will focus on the issues related to the first two levels. The third level - the jurisdiction - is described in the *Agency Records Guidelines*.

## Reasons for Records Management

There are a variety of reasons for the conference commission or local church to deal with records management; other than the obvious one that the *Discipline* requires it. Every office is faced with problems of storage space, as well as decisions about which records to keep and which to discard.

It must be made clear at the outset that this is a manual of **guidelines** only. Every effort has been made to provide reliable and accurate information. However, records management policy, rules and regulations, can vary from state to state. Before you put any records management program into place please check your plans with your local counsel.

This manual was designed to assist offices with these problems and decisions. A records management program strives to achieve economy and efficiency in the creation, use, maintenance, and disposal of church records.

## Preservation of the Important and the Historical:

In order for our future to have a past we must be concerned for the records of today. The development of a records management policy is the first step in preserving our past by deciding what needs to be kept today. A concern for the historical, the legal and the fiscal needs of our church and conference motivates us to faithfully preserve our important records.

## The Effective Use of Space & Time:

It is estimated that after personnel costs, records keeping is one of the largest expenditures in the church. Record creation, maintenance, filing, office storage space, filing supplies, and equipment all contribute to the high cost of keeping records. In our usually limited office space we are often faced with the question of what can we remove in order to have room for what we need.

We need to be aware of certain factors which can help us make the most effective use of space:

- Dispose of records as soon as legally possible. It is estimated that between 90 to 95 percent of all records are non-permanent; an estimated 85 percent have a retention period of less than eleven years.
- In comparison to government, the church has fewer restrictions on what we are required to keep. For the majority of the records we produce we can set our own guidelines. There are laws affecting financial, personnel and legal files. But the majority of the material in our files falls outside these regulations.
- Having a controlled filing system means a smaller system. This can save time by making record retrieval and refiling easier and faster, and reduces the number of misfiles.

## Legal Protection:

If an office or local church is ever faced with legal action, having a records management program in place is one way to assure courts and litigants that records are being cared for and disposed of properly and in a routine manner, not maliciously or in a capricious way.

## Church's Attitude to Openness:

The denomination has committed itself to openness. The relevant section from the *Discipline* is ¶ 722.

In the spirit of openness and accountability, all meetings of councils, boards, agencies, commissions, and committees of the Church at all levels of the church, including subunit

### Three Reasons for Records Management

1. Preservation of important and historical documents
2. Removing older records from the office means less time spent filing/searching for files and fewer storage requirements
3. Financial and legal concerns - will have the documents necessary for audits or for legal needs

## 2013-2016 EDITION

meetings and teleconferences, shall be open. . . . Portions of a meeting may be closed for consideration of specific subjects if such a closed session is authorized by an affirmative public vote of at least three-fourths of the voting members present. The vote shall be taken in public session and recorded in the minutes. Documents distributed in open meetings shall be considered public.

Great restraint should be used in closing meetings; closed sessions should be used as seldom as possible. Subjects that may be considered in closed session are limited to real estate matters; negotiations, when general knowledge could be harmful to the negotiation process; personnel matters; [See Judicial Council Decision 751,869, 1173] issues related to the accreditation or approval of institutions; discussions relating to pending or potential litigation or collective bargaining; communications with attorneys or accountants; deployment of security personnel or devices and negotiations involving confidential third-party information. Meetings of the committee on pastor-parish or staff-parish relations are to be closed meetings pursuant to ¶ 258.2e. While it is expected that the General Conference, the Judicial Council and the Council of Bishops will live by the spirit of this paragraph, each of these constitutional bodies is governed by its own rules of procedure.

A report on the results of a closed session is to be made immediately upon its conclusion, or as soon thereafter as is practicable.

We need to remember that all have a right to view various documents. A well managed record environment enables the retrieval and reviewing of our public documents with greater ease and efficiency.

## Vital Records

**V**ital records are those records necessary for basic church operation. They are the records which can not, or should not, be lost. While it is true that all records created by a church or conference are important it is also true that some records are more important and significant to the operation and well-being of the institution. The best way to understand the importance of vital records is to ask the question, if the building was destroyed which records would be most important for getting the church or conference back into operation? Some of those vital records are identified in the *Discipline* while others are identified by state or local laws. A few records which need to be included in any list would be membership records, baptism records, and marriage records. These need to be more than just current or recent records; requests for transfer of membership can happen for years as well as questions about baptism and marriages. In addition to these basic church records, there are also financial records, such as records of membership tithing, and records relating to the financial management of the church, its staff and programs. Deeds and contracts are other important records.

Copies or originals of these records should be stored offsite of the church or conference, perhaps in a local bank or other secure place. Some of these records may well exist in electronic format (such as membership databases). Copies of these electronic records should be stored offsite and frequently updated by replacing the older files with the most recent copies.

Having copies of your institution's vital records stored in a safe place will assist in the transition back to normal operations (or at least basic operations) after a disaster.

## Electronic Records Issues

What follows is a summary overview of electronic records issues. Please consult our *Guidelines for Managing Electronic Records* for a more detailed discussion of this important topic. The management of electronic records usually revolves around word processing documents. There are other types to be considered however. Most of the examples given will relate to word processing. To gain an idea of the complexity of the problem one only needs to consider the different number of word processing formats in use. A popular program which converts one type of word processing format to another currently has conversion routines for around 48 different formats. Without such a program, and if an archives wanted to maintain the electronic files in their native format, an archives would need more than 40 different word processing programs to deal with all of these formats. Not only would they need the programs, but also the operating system on which the program was designed to run. In the past twenty years there has been at least six different operating systems and a variety of versions under those six. It quickly becomes obvious why an archives cannot maintain electronic files in their native format. Electronic files, in order to be used, are dependent on software and hardware. This dependency makes them extremely vulnerable over time to loss due to changes in technology and the market. And this doesn't even touch the issue of the stability of the medium on which electronic records are stored. To preserve an electronic file for the future it either needs to be converted to some standardized electronic format or printed. While there are standardized formats for both electronic document files and for databases which are supported by the archival and technological communities, they are minimalist file formats, which means that much of the formatting of a document will be lost and some of the flexibility of complex databases will also be lost. The most secure way to deal with most electronic documents is to print the document out on paper. The document can then easily be managed under records retention guidelines.

With that said it must also be admitted that the use of electronic records in the office are vital to its smooth operation. Without the ease of use electronic records affords the office today much of our productivity would be lost. So, while electronic records in their native format are not useful, and in fact detrimental, for long term storage they are essential to today's productive office environment. In using electronic records there are several points which must be kept in mind.

- The first is migrating the records when operating systems or software are upgraded. This is one of the most easily overlooked issues. Most offices have a variety of records on their hard drives, servers and backup media like CDs. Many of the records are not used on a daily basis but need to be near by for routine occasional use. When a computer's operating system or software is upgraded the data files need to be migrated as well. This usually isn't a problem for the files stored on the computer or server and which are probably used on a regular basis. But files on backup media, diskettes, Zip drives, and CDs may be overlooked and could be found inaccessible when they are finally used. This could especially be the case if the files were created more than two upgrades ago. When software or operating systems are upgraded you want to make sure that all of your files can be accessed by the new system. Take the time to open and access files especially on your backup media and if necessary open them all and save them in the new format. And don't assume that the upgrade of the same product will mean that your files are always accessible. It is well known that a popular word processing product cannot read files from earlier versions. A person has to go back to an earlier version of the product, open and save the files and then they can be accessed by the most current

## 2013-2016 EDITION

version. If you are going to keep records in an electronic format always make sure that you migrate them along with each upgrade.

- Organizing your computer's file system is another important element. The same retention guidelines apply to electronic files as it does to paper files. Many users just store files on their hard drives without any planning. Some with just minimal planning. This has negative consequences in several areas. The first is a degradation of your computer's performance. Folders (or directories) which contain a large number of files are inefficient for the computer. It takes more memory and time to manage a large amount of files in a single folder. It is also takes longer to search a large folder or directory, either visually or with a search engine. As much as possible replicate your paper filing structure on your computer. This will make it easier for the computer to manage itself and for you to manage your files. Where appropriate make sure you can distinguish between files which do not need to be kept from those which have a longer or permanent retention. You can do this either by creating appropriate folders or by a naming convention. This makes backup easier and it makes management of your files easier. Copying entire directories is much faster than hunting through a long file list.
- Making backups is probably the most important task to be done. Computers do wear out and cease to operate and all information on them will be lost. Offices are damaged during storms and vandalism happens. Where are you keeping copies of your data? Backing up data is the most difficult thing to do, as it takes time and seems unproductive. But without it, after an accident, productivity will really cease. In a networked environment it is a little easier to backup data. Files can be stored on the server and the server automated to make backups on a regular basis. But in the small office the single-user computer also needs to be backed up. That may be as simple as copying files to a CD-RW on a daily basis, or using a backup program. And for very important files you will want to store the copies somewhere else than at work, just as you do for important papers. This has been touched on in the Vital Records section.

It is worth mentioning, as a final note, the longevity of some electronic media. None of the electronic storage media has as long as a shelf life as does acid-free paper. Disks, diskettes, and hard drives all have about a twenty-five year life expectancy. Zip drives also fall into this category. There have been several claims about CDs. Different claims actually apply to different types of CDs. The ones purchased in stores, such as music CDs and games, are usually pressed CDs which means that their data is actually pitted into the surface of the CD. That might be fairly stable. CD-Rs and CD-RWs use a heat sensitive dye which changes color when data is written to it. Both are encased in plastic and there are questions about the stability of the plastic. There are questions about what happens to heat sensitive dye when subjected to temperature extremes. There are questions about the stability of the CD if the plastic surface is scratched allowing air in to oxidize the metal. And finally, and more importantly, there are questions about stability as the technology that allows the CDs to be read. Just as there are hardly any computers which can read 8-inch floppy disks, the next generation of CD readers won't be able to read earlier CD versions. This is another way of emphasizing the importance of migration. Not only must electronic records be migrated as operating and software systems change, but they must be migrated as storage system change as well. It doesn't matter how long the media lasts if there is no equipment left which can read the media.

## A Responsible Person - The Records Officer

Every office ought to have at least one person who is responsible for seeing that the records management policies are carried out. This person should see that the files are weeded at the proper time, and see that the files are then disposed of in the proper fashion for each series. If a new series appears, which can be a frequent occurrence in some offices, then that person should also be responsible for bringing the situation to the attention of the records committee (either the local church history committee or the conference commission on archives and history) so that an appropriate action can be taken.

The records committee, along with the appropriate advisors, should then assess the new series and create a new schedule for those records.

## Storage of Records

In some cases records might be able to stay in their office of origin until they are destroyed or transferred to the archives. But in the case of small offices, another solution may be necessary. If office space is at a premium, then it may not be advisable to retain records which aren't used for seven or 20 years in the office. So, another step in the retention schedule concept is to determine how many years a record should remain in the office and then, if it still has some years to go before it can be destroyed, move it to some other storage location where it will remain until it can be destroyed. Permanent records could be immediately sent to the archives once they are removed from the office.

As an example of the procedure let's consider the case of some financial records which have no permanent value, but need to be kept for five years before they can be destroyed. However, let's say that the records are not used after their second year and so are taking up valuable space in the office. Yet the records can't be thrown out. The answer is to remove the records from the office, packed in a box, and store them in another safe location, either on the premises or at some rented space. The box could be labeled with the date of destruction for the records, and when that date rolls around the records officer removes the box, verifies there is no historical value to the records and/or no pending legal or financial actions and then appropriately disposes of the contents. Financial and other records which contain personal or financial information should be securely shredded or pulped. In the mean time the office has not been crowded with unnecessary records.

In a case like this always make a list of the material which is removed from the office and keep the list in the office. Be sure the list notes where the material is located, just in case the records are needed.

## Destruction of Records

In today's world of identity theft it is important to thoroughly destroy the records which your institution is not keeping. Any record which

Before disposing of your records be sure that there is nothing of historical value or no legal actions pending on those records.

In today's world there is no reason not to have a shredder in the office. A secure shredder will help to protect sensitive information from prying eyes.

## 2013-2016 EDITION

contains personal information, financial information or any type of information which can be considered private should be thoroughly destroyed when permanently removed from the office. This means either shredding the document or having it pulped. Secure shredders are affordable and within the budget range of most churches and all conferences. There is no reason not to have one. A single cut shredder, one which cuts the paper into strips, is no longer satisfactory. Multi-cut or screening shredders, ones which cut the paper into random sizes, should be used. Be sure to get a shredder which can cut credit cards and CDs as well. If you store your church's sensitive files on a CD-R once that CD is full and no longer useful it should be shredded. Even with shredding the institution should consider turning the paper over to an organization which pulps the paper. Almost every major city has one or more records management companies which provide secure shredding and pulping as one of its services.

## Shipping Records

**F**or both the local church and the annual conference a policy should be written which describes how to prepare records for temporary storage or for transfer to the archives. This should include :

information on which type of boxes to use, and how to pack the boxes; the creation of a list of the material in the box - this may be to list each file folder, or photograph or whatever the items are - without the list the items are as good as lost; and to whom to send the boxes.

## Summary

**Y**our committee is charged with a large task. It will take the commitment of your committee and the collaboration of others on the conference or local church level to make the process a success. Basically you need to meet; decide which records need to be managed (via a survey if necessary), what is the use and value of the records; how long they should be kept; what legal requirements affect the keeping of certain records; and how they should be stored. Once done your schedule is not finished. As offices change so must the schedule. It is a never-ending task. Yet the results are a more efficient office and more appropriate records, preserved in the archives. Don't forget to include your legal counsel in on this process.

## Suggested Retention Periods

**L**isted below are some examples of retention schedules for both the annual conference and local church. There is not one correct form for a records schedule. So we have prepared each schedule in two different formats; one more descriptive and one more tabular. The idea is to create a format which works best in your own office or organizational environment.

Again, these are not comprehensive schedules. In many cases the time factors and suggestions may be relevant for your situation. But always be sure to show your completed schedule to your local counsel in order to be sure that any legal requirements specific to your locale are adequately reflected in your document.



## 2013-2016 EDITION

Arrangement of the record series can be in any style which is easy and convenient for you. For the sake of these examples the series have been arranged in alphabetical format, though they could just have easily been grouped by topics such as financial, personnel, and administrative. The two types of schedules shown are descriptive and tabular. The descriptive schedule has a general title on the left and on the right are listed some examples which fit under the descriptive title. Next comes a description of the material. At the bottom of the entry is the office or person responsible for the record and how long the record should be kept. The tabular schedule follows the descriptive. The title of the series is in the first column and its description in the second column. The total number of years that the series should be kept is in the third column, the number of years to be kept in the current office files in the fourth and whether or not to send the series to the archives is in the last column. If the item is not sent to the archives it is to be destroyed.

## Annual Conference Examples

### CONFERENCE OFFICE AND CONFERENCE COMMITTEES

#### ACCIDENT AND INJURIES RECORDS

*Workers Compensation Claims Records*

This series documents claims made by institution employees for occupational injuries, accidents, or illnesses; insurance coverage and related reimbursement issues; and safety analysis and compliance inspections. This series may include but is not limited to Report of Accident forms; Occupational Safety and Health Administration (OSHA) Form 200; OSHA Form 101; incident logs; employer payroll reports; hearing transcripts; notices of claim disposition; determination orders; opinions and orders; appeal letters; claim adjustment documentation; medical reports; cost statements; and related documentation and correspondence.

Official Copy: conference office

**Retention:** 6 years after case settlement.

Destroy the Official Copy 6 years after case settlement.

#### ACCOUNT REQUEST FORMS

This series documents a request to establish a new account or change an existing one. This series reflect account titles and numbers; types of accounts; sources of funds; grant or contract numbers; dates of start or change to accounts; positions or names of staff members who will control accounts; and approving authority signatures.

Official Copy: Treasurer

**Retention:** 3 years after account becomes inactive.

Destroy the Official Copy 3 years after account becomes inactive.

#### ACCOUNTS PAYABLE RECORDS

*Claims and Disbursements Records, Expenses,  
Accounting, Bookkeeping,  
Paid Invoices, Finance, Purchasing*

This series documents expenditures and purchases. The series may also be used to research, evaluate, and monitor prior transactions and/or track the budget. This series may include but is not limited to Purchase Orders; Contract Release Orders; Balance Sheets; bills; invoices; Invoice Vouchers; Journal Voucher/Entry Forms; price quotes; requisitions; justifications of purchases; payment authorizations; reports of receipt of goods or services; and related documentation and correspondence.

Official Copy: Treasurer

**Retention:** 7 years

Destroy the Official Copy after 7 years.

## 2013-2016 EDITION

Other copies used in offices

**Retention:** 2 years.

Destroy other copies after 2 years.

### **ACCOUNTS RECEIVABLE RECORDS**

*A/Rs, Billing Records, Charges Records,  
Sales Fiscal Records, Rentals Fiscal Records,  
Journal Vouchers, Invoice Records*

This series is used to provide a record of billings and collections for the office and units/programs which report to the office. It is also used to provide a record of customers owing monies and to reconcile the account. This series may include but is not limited to Account Edit sheets; classified advertisement forms; VISA/MasterCard payment forms; invoices; journal vouchers; receipts; and related documentation and correspondence.

Official Copy: Treasurer

**Retention:** 7 years.

Destroy the Official Copy after 7 years.

Other copies used in offices

**Retention:** 2 years.

Destroy other copies after 2 years.

### **ACT OF INCORPORATION**

*Acts of Incorporation, incorporation papers*

Official papers relating to the incorporation of an agency or institution

Official Copy: Secretary

**Retention:** Permanent

## 2013-2016 EDITION

### ADMINISTRATIVE REPORTS

*Conference journals, board and committee reports, Camps, institutions and project reports*

This series documents the annual activity of the conference and its subdivisions. Final annual reports may be printed and bound or they may be less formal unpublished documents prepared for limited distribution. Report sections may include but are not limited to administrative activities; goals and objectives achieved; fiscal status; project work performed; personnel activity and accomplishments; facility changes; and related sections. This series may include but is not limited to annual conference journal, board and committees reports of the conference; camps and other institutions supported by the conference and special project run by the conference; and related documentation and correspondence.

Official Copy: Conference office

**Retention:** Permanent; annually transfer two copies to the custody of the Conference Archives

Other copies: Receiving units

**Retention:** Until superseded or obsolete.

Destroy all other copies when superseded, obsolete, or no longer needed for reference.

### AFFIRMATIVE ACTION RECRUITMENT REVIEW RECORDS

*Affirmative Action Compliance Record,  
Affirmative Action Compliance Data (AACD),  
Applicant Pool Reports, Contract Review Records*

This series documents review of all stages of hiring by Affirmative Action and Equal Opportunity. This series may include but is not limited to position descriptions; Affirmative Action Compliance Data sheets; Affirmative Action compliance statements; Applicant Pool and Appointment Reports; utilization reports; payroll-budget requests; contract requests to offer appointments; certificates of eligibles; and related documentation and correspondence.

Official Copy: Conference Office

**Retention:** 6 years.

Destroy the Official Copy after 6 years.

### ANNUAL FISCAL REPORTS

*Closing of the Books Records, Financial Reports,  
Balance Reconciliation Records, State Accounts Reports*

This series documents annual fiscal year-end status of accounts and is used to provide the office with summary information relating to its programs which may be used for planning or review. The series includes reconciliation reports; annual operating statements; schedules of rates; and related correspondence.

## 2013-2016 EDITION

Official Copy: Treasurer

**Retention:** Permanent

Send official copy to Archives on regular basis.

Other copies used in offices

**Retention:** 3 years.

Destroy other copies after 3 years.

### **ARCHITECTURAL DRAWINGS, BLUEPRINTS, AND MAPS**

This series provides a detailed graphic record of land and buildings of the Conference. The series is used as a primary source tool when working on projects to improve or maintain existing buildings and/or land and also when working on new construction. These records are largely created as part of individual construction projects but may include drawings, maps, and photographs worked up independently by the office and from various sources. This series may include but is not limited to architectural blueprints; sketches; aerial photographs; preliminary planning drawings; as built drawings; drawings reflecting changes to the original plans; soil testing maps; any other type of graphic representation produced relating to buildings, systems, and land; and related documentation.

Official Copy: Conference office

**Retention:** Permanent.

Transfer the Official Copy to the Conference Archives when superseded or inactive.

Other copies used in offices

**Retention:** 3 years after contract completion.

Destroy other copies 3 years after contract completion.

NOTE: Check with the Archives before destroying any other copies of records in this series.

### **AUDIT RECORDS**

This series documents the unit's response to internal and independent management, operations, and fiscal audits. This series may include but is not limited to audit reports; written responses showing how recommended changes will be implemented; and related documentation and correspondence.

Official Copy: Treasurer

**Retention:** Permanent.

Send official copy to Archives on regular basis.

## 2013-2016 EDITION

### **BANK DEPOSIT RECORDS**

Official records of bank deposit transactions

Official Copy: Treasurer

**Retention:** 7 years

Destroy official copy after 7 years

### **BANK DEPOSIT SLIPS**

Receipt from bank of deposit transaction

Official Copy: Treasurer

**Retention:** 3 Years

Destroy official copy after 3 years

### **BANK STATEMENTS**

Routine statement of accounts (see canceled checks below).

Official Copy: Treasurer

**Retention:** 7 years

Destroy official copy after 7 years

### **BENEFITS POLICIES AND PROCEDURES RECORDS**

This series documents policy and procedure decisions and important events in the operations history of the office and includes contracts and formal documents which state or form the basis for policy or set precedents. This series includes but is not limited to records concerning dependent care flexible spending account program records; early retirement programs; employee orientation program; injured worker benefits; medical, dental, life/disability insurance program records; open enrollment records; Retirees; tax deferred investment programs; US Savings Bonds; Volunteer Insurance; and related documentation and correspondence.

Official Copy: Conference Office

**Retention:** Permanent

Transfer superseded documents to Archives.

**2013-2016 EDITION**

**BEQUEST AND ESTATE PAPERS**

*Wills, gift agreements, bequests  
and other grants of real property or assets.*

This series relates to gifts, financial or otherwise, to the conference or to one of its agencies. These papers document the origin, transfer and requirements or restrictions of the gift

Official Copy: Conference Office/agency

**Retention:** Permanent

Transfer to Archives for permanent safe keeping

**BUDGET RECORDS**

*Annual Budget*

This series documents the annual budget; and related documentation and correspondence.

Official Copy: Treasurer

**Retention:** Permanent.

After 2 years, transfer the Official Copy to the Archives.

**BYLAWS**

*Bylaws, procedural regulations,  
meeting policies, constitutions*

Organizational bylaws and other regulations relating to the conduct of meetings or organizations

Official Copy: Conference Office/committee chair

**Retention:** Permanent

Transfer previous version to Archives after amendment

## 2013-2016 EDITION

### **CANCELED CHECKS RECORDS**

*Cashed Checks*

This series documents redeemed checks written on conference accounts. Information on each check may include check number, date, amount, endorsement, account number, validation date, and related documentation.

Official Copy: Treasurers

**Retention:** 7 years.

Destroy the Official Copy after 7 years

### **CERTIFICATES OF DEPOSIT, CANCELED**

Redeemed or canceled certificate of deposits

Official Copy: Treasurer

**Retention:** 3 Years

Destroy official copy after 3 years

### **COMMITTEE RECORDS**

*Conference Committees Records, Agency Committee Records, Board  
Committee Records*

This series documents the activities of standing and ad hoc committees, agencies and boards of the conference. They may function as steering committees, activities committees, standards committees, planning committees, awards committees, councils, etc. This series may include but is not limited to agendas; meeting minutes; reports; notes; working papers; and related documentation and correspondence

Official Copy: Committee secretary

**Retention:** Permanent

Transfer the Official Copy of permanent records to the Archives after 4 years.

### **CONTRACTS**

*Repairs and Maintenance, Lease Agreements,  
Loans and Notes*

This series contains contracts that have either been completed or terminated. This includes Repairs and Maintenance, Lease Agreements, Loans/Notes and Service type of contracts



## 2013-2016 EDITION

Official Copy: Conference Office

**Retention:** 4 Years for Service contracts

Destroy after 4 years

**Retention:** 6 Years for Repairs/Maintenance, Lease, Loans and Notes

Destroy after 6 years

**Retention:** Permanent for contracts on new construction, betterments/improvements

Transfer to Archives for permanent safekeeping.

### **CORRESPONDENCE**

*Transitory correspondence, Subject correspondence*

A large amount of correspondence should be considered transitory or routine general correspondence. Correspondence of this type might include responses to inquiries concerning various functions of the conference, information about assistance programs run by the church or in which the church is involved and other routine correspondence which reflects a normal part of the conference's program. Special or subject correspondence may focus on a special program or service in which the conference is involved, such as special worship services or specific assistance programs or some other program which has a specific beginning and end. Transitory correspondence should be reviewed and destroyed on a yearly basis, which subject correspondence should be kept, as it documents a special event in the Conference's life.

Transitory correspondence

Official Copy: Conference office

**Retention:** 1 year

Destroy after one year

Subject correspondence

Official Copy: Conference office or program secretary

**Retention:** Permanent; transfer to archives on regular basis or after end of program

### **DEDUCTION AUTHORIZATION RECORDS**

*Deductions Input List*

This series documents deductions from salary checks authorized by employees. These records include lists with notation of authorized deductions as well as actual deduction forms. This series may include but is not limited to deduction information on medical, dental, life, and disability insurance; United Way and Foundation contributions; and miscellaneous deductions.

Official Copy: Conference office

**Retention:** 4 years after authorization expires or is superseded.

Destroy the Official Copy 4 years after authorization expires or is superseded.

# Ministers Audit Techniques Guide

**NOTE:** This guide is current through the publication date. Since changes may have occurred after the publication date that would affect the accuracy of this document, no guarantees are made concerning the technical accuracy after the publication date.

This material was designed specifically for training purposes only. Under no circumstances should the contents be used or cited as sustaining a technical position.

**Publication Date:** April 2009

## Table of Contents

Introduction: Overview of Issues .....	1
Who Qualifies For Special Tax Treatment As A Minister .....	3
Income Issues:.....	4
Income To Be Reported .....	5
Gift or Compensation for Services .....	5
The Parsonage Allowance .....	6
Retired Ministers.....	9
Members of Religious Orders and Vow of Poverty.....	9
Business Expenses.....	11
Determination of Deductible Expenses Where Some Income is Tax Exempt .....	13
Self-Employment Tax: Exemption .....	15
Computing Self-Employment Tax .....	16
Employee versus Independent Contractor .....	17
Exhibit 1 JOB AID.....	19
Exclusion of Parsonage Allowance under Internal Revenue Code § 107.....	19
Exhibit 2 Job Aid .....	20
Computation of Allowable Expenses When Tax-Exempt Income Is Received.....	20

## Introduction: Overview of Issues

Under the Internal Revenue Code of 1986, as amended, (hereinafter referred to as 'IRC'), ministers are accorded some unique tax benefits for income, social security and Medicare taxes, which present several potential examination issues on ministers' tax returns in addition to income and expenses issues found in most examinations.

As follows is a brief description of the topics which will be discussed in further detail in this guide:

Although a minister is considered an employee under the common law rules, payments for services as a minister are considered income from self employment pursuant to IRC §§ 1402(c) and 3121(b)(8). A minister, unless exempt, pays social security and Medicare taxes under the Self-Employment Contributions Act (SECA) and is not subject to Federal Insurance Compensation Act (FICA) taxes or income tax withholding.

Payment for services as a minister, unless statutorily exempt, is subject to income tax, therefore the minister should make estimated tax payments to avoid potential penalties for not paying enough tax as the minister earns the income. If the employer and employee agree, an election can be made to have income taxes withheld. IRC § 3402(p)(3). Even though a minister may receive a Form 1099-MISC for the performance of services, he or she may be a common law employee and should in fact be receiving a Form W-2.

The determination of whether a minister is an employee or an independent contractor follows the same rules as any other industry determination. The challenge with a minister is the same as with any professional. The control test must be applied only after taking into account the nature of the work to be performed.

How a minister is classified for income tax purposes affects how they treat their expenses. A minister that is a common law employee must claim their trade or business expenses incurred while working as an employee as an itemized deduction on Form 1040 Schedule A, which is subject to the 2% -of-adjusted-gross-income (AGI) limitation and alternative minimum tax.

A minister is frequently provided a parsonage or is paid a housing allowance, which is exempt from income tax under IRC § 107. The “allowable” allowance is subject to self employment tax under SECA and IRC § 1402(a)(8). The “allowable” allowance is computed subject to limitations imposed by law as to the amount and the required designation by the employing church which is discussed in detail under the section on the parsonage allowance. Please be aware of the special rules for retired ministers. See 42 U.S.C. § 411(a)(7).

Because of the exemption from income tax for the “allowable” parsonage or housing allowance, the operation of IRC § 265 requires business expenses to be allocated between taxable and non taxable income. Other business expenses discussed in this guide are common to all other professionals.

Some other issues of ministers you may see in a smaller number of cases are:

- The earnings for qualified services a member of an exempt religious order, who has taken a vow of poverty, performs as an “agent” of their church or its agencies, may be exempt from income tax and self employment tax.
- Gifts given to a minister, other than retired ministers, may actually be compensation for services, hence includible in gross income under IRC § 61.

To summarize the topics unique to ministers are:

- Income Issue: Parsonage/Housing Allowance
- Income Issue: Gift or Compensation
- Income/SE Issue: Members of Religious Orders and Vow of Poverty
- SE Issue: Exemption
- SE Issue: Computing SE Income
- Employee or Independent Contractor
- Business Expenses: Operation of Section 265

Please refer to the table of contents for the location of each issue.

## **Who Qualifies For Special Tax Treatment As A Minister**

To qualify for the special tax provisions available to ministers, an individual must be a “minister” and must perform services “in the exercise of his ministry.” Treas. Reg. § 1.107-1(a) incorporates the rules of Treas. Reg. § 1.1402(c)-5 in determining whether the individual is performing the duties of a “minister of the gospel.”

Treas. Reg. § 1.1402(c)-5 requires that an individual be a “duly ordained, commissioned, or licensed minister of a church.” The Tax Court has interpreted this phrase to be disjunctive, finding the purpose is not to limit benefits to the ordained, but is to prevent self appointed ministers from benefiting. *Salkov v. Commissioner*, 46 T.C. 190, 197 (1966). The Tax Court in *Salkov* held that a Jewish cantor was a minister eligible for the IRC § 107 housing allowance. *Id.* at 198-99. It concluded that the petitioner qualified because he was commissioned by, and was a duly qualified member of the Cantors Assembly of America, which functions as the official cantorial body for the Conservative branch of the Jewish religion in America, and because he was selected by a representative Conservative congregation to perform the functions of cantor. *Id.* at 197.

Treas. Reg. § 1.1402(c)-5(b)(2) provides that service performed by a minister in the exercise of the ministry includes:

- a. Ministration of sacerdotal functions;
- b. Conduct of religious worship;
- c. Control, conduct, and maintenance of religious organizations (including the religious boards, societies, and other integral agencies of such organizations), under the authority of a religious body constituting a church or denomination.

Treas. Reg. § 1.1402(c)-5(b)(2) also provides that whether service performed by a minister constitutes conduct of religious worship or ministration of sacerdotal functions depends on the tenets and practices of the particular religious body constituting the church or denomination.

Treas. Reg. § 1.107-1(a) also provides examples of specific services considered duties of a minister, including:

- a. Performance of sacerdotal functions;
- b. Conduct of religious worship;
- c. Administration and maintenance of religious organizations and their integral agencies;
- d. Performance of teaching and administrative duties at theological seminaries.

The duties performed by the individual are also important to the initial determination whether he or she is a duly ordained, commissioned, or licensed minister. Because religious disciplines vary in their formal procedures for these designations, whether an individual is “duly ordained, commissioned, or licensed” depends on these facts and circumstances.

- a. In *Salkov v. Commissioner*, 46 T.C. 190, 197 (1966), and *Silverman v. Commissioner*, 57 T.C. 727, 732 (1972), the Tax Court, in holding that a cantor of the Jewish faith was a duly ordained, commissioned, or licensed minister, looked, in each case, to the systematic manner the cantor was called to his ministry and the ecclesiastical functions he carried out in concluding that he was a minister within the meaning of IRC § 107.
- b. In Rev. Rul. 78-301, 1978-2 C.B. 103, the IRS followed the Tax Court decisions in *Salkov* and *Silverman* and held that a Jewish cantor who is not ordained but has a bona fide commission and is employed by a congregation on a full-time basis to perform substantially all the religious worship, sacerdotal, training, and educational functions of the Jewish denomination's religious tenets and practices is a minister of the gospel within the meaning of IRC § 107. Revenue Ruling 78-301 revoked and modified prior revenue rulings to the extent that they required that an individual must be invested with the status and authority of an ordained minister fully qualified to exercise all of the ecclesiastical duties of a church denomination to be considered ministers under IRC §§ 107 and 1402.
- c. In *Knight v. Commissioner*, 92 T.C. 199, 205 (1989), the Tax Court considered whether a licentiate of the Cumberland Presbyterian Church (a status that was less than full ordination), who had not filed a timely exemption from self-employment tax, was a duly ordained, commissioned, or licensed minister in the exercise of required duties who was thus liable for self-employment tax. The petitioner argued that he was not formally ordained as a minister and could not administer church sacraments or participate in church government. Thus, he could not be a minister subject to IRC § 1402(c). The court rejected this view, and looked at all the facts. In concluding that he was a licensed minister, it cited the facts that he was licensed by the church, he conducted worship services, and he was considered by the church to be a spiritual leader. The court also noted the petitioner preached, performed funerals, visited the sick, and ministered to the needy within the context of his duties for the church.
- d. In contrast, the Tax Court held in *Lawrence v. Commissioner*, 50 T.C. 494, 499-500 (1968), that a "minister of education" in a Baptist church was not a "duly ordained, commissioned, or licensed" minister for purposes of IRC § 107. The petitioner held a Master's Degree in Religious Education from a Baptist Theological Seminary, but was not ordained. Although his church "commissioned" him after he assumed the position, the court interpreted the commissioning to be for tax purposes, as it did not result in any change in duties. Most significant, however, was the court's analysis of petitioner's duties or rather, the duties he did not perform. He did not officiate at Baptisms or the Lord's Supper, two Ordinances that closely resembled sacraments, nor did he preside over or preach at worship services. The court concluded that the evidence did not establish that the prescribed duties of a minister of education were equivalent to the duties of a Baptist minister.

## **Income Issues:**

Audit techniques required are in IRM 4.10.4 and summarized on the Examiner's Mandatory Lead Sheet Work Paper #400 "Minimum Income Probe Lead Sheet". The following provides information specific to this industry to assist in performing the various income analyses. (Note: Under IRC § 7602(e), the Service may not use indirect methods to reconstruct income unless it "has a reasonable indication that there is a likelihood of...unreported income." See IRM 4.10.4 for the techniques that should be employed to determine whether there is a likelihood of unreported income.)

## **Income To Be Reported**

A minister usually receives compensation from the employing church or church agency for personal services but may also receive bonuses or "special gifts." In addition, the minister may receive fees paid directly from parishioners for performing weddings, funerals, baptisms, masses and other contributions received for services. Under Treas. Reg. § 1.61-2(a)(1), all are includible in gross income, along with expense allowances for travel, transportation, or other business expenses received under a nonaccountable plan. If the church or church agency pays amounts in addition to salary to cover the minister's self-employment tax or income tax, these are also includible in gross income. Rev. Rul. 68-507, 1968-2 C.B. 485.

Fees for weddings, funerals, etc., given directly to the church rather than to the minister are not considered compensation to the minister. Contributions made to or for the support of individual missionaries to further the objectives of their missions are includible in gross income. Rev. Rul. 68-67, 1968-1 C.B. 38.

A minister's compensation package often includes a designated parsonage allowance, that is, the use of church owned housing, a housing allowance, or a rental allowance. This is treated differently for income tax and self-employment tax purposes, and is discussed in detail below in the section on Parsonage allowance.

## **Gift or Compensation for Services**

You need to look at the facts and circumstances of each transfer. Some transfers are obvious gifts while others might actually be compensation for services.

IRC § 61(a) provides that gross income includes all income from whatever source derived unless specifically excluded by the Code. Compensation for services in whatever form received is definitely included in income. IRC § 102(a) excluded from gross income the value of property acquired by gift. Whether an item is a gift is a factual question and the taxpayer bears the burden of proof. The most significant fact is the intention of the taxpayer. The Supreme Court provided guidance in this area in two key cases which were summarized in *Charles E Banks and Rose M Banks v. Commissioner*, T.C. Memo. 1991-641 as follows:

"In *Commissioner v. Duberstein*, 363 U.S. 278, 4 L. Ed. 2d 1218, 80 S. Ct. 1190 (1960); at 285-286, the Supreme Court stated the governing principles in this area: the mere absence of a legal or moral obligation to make such a payment does not establish that it is a gift. And, importantly, if the payment proceeds primarily from "the constraining force of any moral or legal duty," or from "the incentive of anticipated benefit" of an economic nature, it is not a gift. And, conversely, "where the payment is in return for services rendered, it is irrelevant that the donor derives no economic benefit from it." A gift in the statutory sense, on the other hand, proceeds from a "detached and disinterested generosity," "out of affection, respect, admiration, charity or like impulses." And in this regard, the most critical consideration, is the transferor's "intention." "What controls is the intention with which payment, however voluntary, has been made."

The intention of the transferor is a question of fact to be determined by "the application of the fact-finding tribunal's experience with the mainsprings of human conduct to the totality of the facts of each case." *Commissioner v. Duberstein*, supra at 289. We must make an objective inquiry into the circumstances surrounding the transfer rather than relying on the transferor's subjective characterization of the transfer. *Commissioner v. Duberstein*, supra at 286; *Bogardus v. Commissioner*, 302 U.S. 34, 43 (1937).

In the *Charles E Banks and Rose M Banks v. Commissioner*, T.C. Memo. 1991-641, case a structured and organized transfer of cash from members of the church took place on four special days of each year. Prior to making the transfers, members of the Church met amongst themselves to discuss the transfers. The amounts of the transfers were significant. Several members testified in Court. Their testimony indicated "the primary reason for the transfers at issue was not detached and disinterested generosity, but rather, the church members' desire to reward petitioner for her services as a pastor and their desire that she remain in that capacity." The Court ruled the transfers were compensation for services hence included in gross income.

In *Lloyd L. Goodwin v. U.S.*, 870 F. Supp 265, 269 (S.D. Iowa 1994), aff'd 67 F. 3d 149 (8th Cir. 1995), a similar situation existed. Cash was collected from the congregation as a whole on established special occasion days. The collection was done by the congregation leaders in a structured manner. The fact was revealed that the congregation knew that it probably could not retain the pastor's service at his relatively low salary without the additional payments. The Court ruled the funds as compensation for services, not gifts.

There are numerous court cases that ruled the organized authorization of funds to be paid to a retired minister at or near the time of retirement were gifts and not compensation for past services. Rev. Rul. 55-422, 1955-1 C.B. 14, discusses the fact pattern of those cases which would render the payments as gifts and not compensation.

The Tax Court had ruled in *Potito v. Commissioner*, T.C. Memo 1975-187, aff'd 534 F2d 49 (5th Cir. 1976), that the value of a boat, motor and boat trailer was included in gross income as payment for services. The taxpayer, a minister, had not produced any evidence regarding the intention of the donors that the transfer of the property was out of "detached and disinterested generosity".

## **The Parsonage Allowance**

IRC § 107 provides an exclusion from gross income for a "parsonage allowance," housing specifically provided as part of the compensation for the services performed as a minister of the gospel. This includes the rental value of a home furnished to him or her as part of compensation or a housing allowance, to the extent that the payment is used to rent or provide a home and to the extent such allowance does not exceed the fair rental value (FRV) of the home, including furnishings and appurtenances such as a garage and the cost of utilities. IRC § 107(2). The term "parsonage allowance" includes church provided parsonages, rental allowances with which the minister may rent a home and housing allowances with which the minister may purchase a home. A minister can receive a parsonage allowance for only one home.



A housing allowance must be included in the minister's gross income in the taxable year in which it is received to the extent that such allowance is not used by him during the taxable year to rent or otherwise provide a home or exceeds the FRV of the home including furnishings and appurtenances such as a garage and the cost of utilities. Treas. Reg. § 1.107-1(c) and IRC § 107(2). The value of the "allowed" parsonage allowance is not included in computing the minister's income subject to income tax and should not be included in W-2 wages. However, the parsonage allowance is subject to self-employment tax along with other earnings. IRC § 1402(a)(8). (See special rules for retired ministers below). If a church-owned parsonage is provided to the minister, instead of a housing allowance, the fair rental value of the housing must be determined. Determining the fair rental value is a question of all facts and circumstances based on the local market, but the church and minister have often already agreed on a figure and can provide documentary evidence.

The exclusion under IRC § 107 only applies if the employing church designates the amount of the parsonage allowance in advance of the tax year. The designation may appear in the minister's employment contract, the church minutes, the church budget, or any other document indicating official action. Treas. Reg. § 1.107-1(b).

An additional requirement for purposes of IRC § 107 is that the fair rental value of the parsonage or parsonage allowance is not more than reasonable pay for the ministerial services performed.

The amount of the parsonage allowance excludible from gross income is the LEAST of:

1. The amount actually used to provide a home,
2. The amount officially designated as a housing allowance, or
3. The fair rental value (FRV) of the home, including furnishings and appurtenances such as a garage plus the cost of utilities. IRC § 107(2).

The following examples illustrate the application of these rules. For simplification, assume that mortgage payments include property taxes and insurance.

### **Example 1**

A is an ordained minister. She receives an annual salary of \$36,000 and use of a parsonage which has a FRV of \$800 a month, including utilities. She has an accountable plan for other business expenses such as travel. A's gross income for arriving at taxable income for Federal income tax purposes is \$36,000, but for self-employment tax purposes it is \$45,600 (\$36,000 salary + \$9,600 FRV of parsonage).

### **Example 2**

B, an ordained minister, is vice president of academic affairs at Holy Bible Seminary. His compensation package includes a salary of \$80,000 per year and a \$30,000 housing allowance. His housing costs for the year included mortgage payments of \$15,000, utilities of \$3,000, and \$3,600 for home maintenance and new furniture. The fair rental value of the home, as furnished, is \$18,000 per year.

The three amounts for comparison are:

- a. Actual expenses of \$21,600 (\$15,000 mortgage payments + \$3,000 utilities + \$3,600 other costs)
- b. Designated housing allowance of \$30,000
- c. FRV plus utilities of \$21,000 (\$18,000 + \$3,000 utilities)

B may exclude \$21,000 from gross income but must include in income the other \$9,000 of the housing allowance. The entire \$30,000 will be considered in arriving at net self-employment income.

### **Example 3**

C is an ordained minister and has been in his church's employ for the last 20 years. His salary is \$40,000 and his designated parsonage allowance is \$15,000. C's mortgage was paid off last year. During the tax year he spent \$2,000 on utilities, and \$3,000 on real estate taxes and insurance. The FRV of his home, as furnished, is \$750 a month.

The three amounts for comparison are:

- a. Actual housing costs of \$5,000 (\$2,000 utilities + \$3,000 taxes and insurance)
- b. Designated housing allowance of \$15,000
- c. FRV + utilities of \$11,000 (\$9,000 FRV + \$2,000 utilities)

C may only exclude his actual expenses of \$5,000 for Federal income tax purposes. He may not exclude the FRV of his home even though he has paid for it in previous years. *Swaggart v. Commissioner*, T.C. Memo. 1984-409. \$15,000 will be included in the computation of net self-employment income.

### **Example 4**

Assume the same facts as in Example 3, except that C takes out a home equity loan and uses the proceeds to pay for his daughter's college tuition. The payments are \$300 per month. Even though he has a loan secured by his home, the money was not used to "provide a home" and can't be used to compute the excludible portion of the parsonage allowance. The results are the same as for Example 3. The interest on the home equity loan may be deducted as an itemized deduction subject to the limitations, if any, of IRC § 163.

### **Example 5**

D is an ordained minister who received \$40,000 in salary plus a designated housing allowance of \$12,000. He spent \$12,000 on mortgage payments, \$2,400 on utilities, and \$2,000 on new furniture. The FRV of his home as furnished is \$16,000. D's exclusion is limited to \$12,000 even though his actual cost (\$16,400) and FRV and utilities (\$18,400) are more. He may not deduct his housing costs in excess of the designated allowance.

### **Example 6**

E's designated housing allowance is \$20,000. She and her husband live in one half of a duplex which they own. The other half is rented. Mortgage payments for the duplex are \$1,500 per month. E's utilities run \$1,800 per year, and her tenant pays his own from a separate meter. During the year E replaced carpeting throughout the structure at a cost of \$6,500 and did minor repairs of \$500. E must allocate her mortgage costs, carpeting, and repairs between her own unit and the rental unit in determining the amount of the excludible parsonage allowance. Amounts allocable to the rented portion for mortgage interest, taxes, etc., would be reported on Schedule E as usual. Her actual costs to provide a home were \$14,300 (\$9,000 mortgage payments, \$1,800 utilities, and \$3,500 for half the carpeting and repairs). The FRV for her unit is the same as the rent she charges for the other half, which is \$750 a month, and she estimates that her furnishings add another \$150 per month to the FRV. Her FRV plus utilities is \$12,600 (\$10,800 FRV + \$1,800 utilities). E may exclude \$12,600 for Federal income tax purposes.

Pursuant to IRC § 265(a)(6) and Rev. Rul. 87-32, 1987-1 C.B. 131 even though a minister's home mortgage interest and real estate taxes have been paid with money excluded from income as a housing allowance, he or she may still claim itemized deductions for these items. The sale of the residence is treated the same as that of other taxpayers, even though it may have been completely purchased with funds excluded under IRC § 107.

Because expenses attributable to earned income which is exempt from tax are not ordinarily deductible, a minister's business expenses related to his or her earnings must be allocated and become partially nondeductible pursuant to IRC § 265 This is discussed in detail in the section on Business Expenses.

Exhibit 1 provides a worksheet for the computation of the amount that is excludible as a parsonage allowance

## **Retired Ministers**

A retired minister may receive part of his or her pension benefits as a designated parsonage allowance based on past services. Trustees of a minister's retirement plan may designate a portion of each pension distribution as a parsonage allowance excludible under IRC § 107. (Rev. Rul. 63-156, 1963-2 C.B. 79, and Rev. Rul. 75-22, 1975-1, C.B. 49) The "least of" rules should be applied to determine the amount excludible from gross income.

The retired minister may exclude from his/her net earnings from self-employment the rental value of the parsonage or the parsonage allowance received after retirement. The entire amount of parsonage allowance received is excludible from net earnings from self employment, even if a portion of it is not excludible for income tax purposes. In addition, the retired minister may exclude from net earnings from self-employment any retirement benefits received from a church plan. Rev. Rul. 58-359, 1958-2 C.B. 422.

## **Members of Religious Orders and Vow of Poverty**

If you are a member of an exempt religious order who has taken a vow of poverty, you are exempt from income tax and self employment tax on your earnings for qualified services you

perform as an “agent” of your church or its agencies. The religious order must be an organization described in IRC § 170(c)(2). Rev. Rul. 76-323, 1976-2 C.B. 18, stated “Amounts received by members of an exempt religious order, not acting as agents of the order, for work performed outside the religious community and paid over, in full or part, to the order at its direction, are includible in the gross incomes of the members and are wages subject to the FICA and income tax withholding. However, the individual members are entitled to charitable contribution deductions under IRC § 170 for amounts donated to the order.” The ruling stated in reference to performance as an “agent” that “ordinarily a member is performing services as the agent of the religious order only if the order is engaged in the performance of the services as a principal. Ordinarily an order is not engaged in the performance of services as a principal where the legal relationship of employer and employee exists between the member and the third party with respect to the performance of such services.”

The United States Court of Appeals for the Federal Circuit in *Reverend Gerald P Fogarty, S.J. v the United States*, 780 F.2d 1005, 1012 (Fed. Cir. 1986), provided a flexible facts and circumstance test for determining if the member is acting as an agent for the order or in their individual capacity. The Court stated the relevant facts to consider are:

“The presence of unique facts in each case will inevitably lead the court to place more emphasis on one or more factors and less on others. The relationship between the order and the member gives rise to a number of factors. Relevant considerations there will include the degree of control exercised by the order over the member as well as the ownership rights between member and order, *Kelley v. Commissioner*, 62 T.C. 131 (1974), the purposes or mission of the order, and the type of work performed by the member vis-a-vis those purposes or mission, ...

Other factors will include the dealings between the member and the third-party employer (circumstances surrounding job inquiries and interviews, and control or supervision exercised by the employer), and dealings between the employer and order.” *Id.* The outcome of the case was that the Appeals Court ruled that the income earned by Reverend Fogarty, a member of the Society of Jesus religious order, as a professor at the University of Virginia, Department of Religious Studies, was taxable to him. He was not acting as an agent of the order.

The U.S. Court of Appeals for the Seventh Circuit, in *Francine Schuster v. Commissioner*, 800 F.2d 672, 678-79 (7th Cir. 1986), ruled the earned income of a nun, a member of a religious order who worked as a nurse in a clinic in the employment of the National Health Services Corps, was taxable to her as an individual and not as an agent of the order. The Court applied the six factors above to the facts of the case in making its determination.

Likewise the U.S. States Court of Appeals for the Federal Circuit in *Jerome G. Kircher, O.F.M. and Valens Waldschmidt, O.F.M. v. The United States*, 872 F.2d 1014, 1018-20 (Fed. Cir. 1989), applied the six factors above to the facts of the case in making its determination that the taxpayers, priests who were members of a religious order who worked as chaplains in a leper hospital and a mental hospital, earned income was taxable to them and not as an agent for the order.

In Rev. Rul. 77-290, 1977-2 C.B. 26, the earned income of an attorney who was a member of a religious order who has taken a vow of poverty, was taxable to him and not the order even though the income was directly deposited in the order's bank account. It also determined that a secretary, who was also a member of the same order, who worked on the direction of the order at the business office of the church that supervises the order, was acting as an agent for the order and the earned income was not taxable to the secretary.

In Rev. Rul. 79-132, 1979-1 C.B. 62, the earned income a military chaplain who was a member of a religious order who has taken a vow of poverty, was taxable to him and not the order even though he turned over the remuneration to the order.

## **Business Expenses**

### **Employee business expenses:**

Ministers who are employees may deduct the following expenses on Schedule A as miscellaneous expenses subject to the 2 percent floor:

1. Unreimbursed employee business expenses (that is, expenses for which the minister is not reimbursed under an IRC § 62(a)(2)(A) accountable plan) and
2. "Nonaccountable" reimbursed business expenses

The limitations on deductibility of employee business expenses may be avoided if the church adopts an "accountable plan." An accountable plan is an arrangement that meets all the requirements of Treas. Reg. § 1.62-2, that is, business connection (deductibility under IRC § 162), substantiation within a reasonable period of time, and return of amounts in excess of substantiated expenses within a reasonable period of time. The regulations provide two safe harbor methods under the reasonable period of time requirement.

If an arrangement meets all the requirements for an accountable plan, the amounts paid under the arrangement are excluded from the minister's gross income and are not required to be reported on his or her Form W-2. If, however, the arrangement does not meet one or more of the requirements, all payments under the arrangement are included in the minister's gross income and are reported as wages on the Form W-2, even though no withholding at the source is required.

If the church has a salary reduction arrangement which "reimburses" the minister for employee business expenses by reducing his or her salary, the arrangement will be treated as a nonaccountable plan because it does not meet the reimbursement requirement of Treas. Reg. § 1.62-2(d). See Treas. Reg. § 1.62-2(j), Example 2. This is the result regardless of whether a specific portion of the minister's compensation is designated for employee expenses or whether the portion of the compensation to be treated as the expense allowance varies from pay period to pay period depending on the minister's expenses. As long as the minister is entitled to receive the full amount of annual compensation, regardless of whether or not any employee business expenses are incurred during the taxable year, the arrangement does not meet the reimbursement requirement.

A minister may deduct ordinary and necessary business expenses. However, if a minister's compensation includes a parsonage or housing allowance which is exempt from income under IRC § 107, the prorated portion of the expenses allocable to the tax exempt income is not deductible, per IRC § 265, *Deason v. Commissioner*, 41 T.C. 465 (1964), *Dalan v. Commissioner*, T.C. Memo. 1988-106, and *McFarland v. Commissioner*, T.C. Memo. 1992-440.

Before this allocation is made, the total amount of business expenses must be determined. Ministers are subject to the same substantiation requirements as other taxpayers.

Typical business expenses for ministers include the following:

### **Transportation**

Many ministers receive a non-accountable auto allowance, which is includible in income. Transportation costs which may be deductible include trips for hospital and nursing home visits, attendance at conferences, or other church business. However trips between the minister's personal residence and the church are considered nondeductible commuting expenses. *Hamblen v. Commissioner*, 78 T.C. 53 (1982).

### **Travel**

A minister may incur travel away from home occasionally for special conferences or other duties out of the area. The same rules regarding the deductibility of meals, entertainment, and lodging apply as for other taxpayers.

### **Business Use of Home**

In order for a home to qualify as a principal place of business under IRC § 280A(c)(1)(A), the functions performed and the time spent at each location where the trade or business is conducted are the primary considerations and must be compared to determine the relative importance of each. *Sohman v. Commissioner*, 506 U.S. 168, 177113 S. Ct. 701, 707 (1993)

The church often provides an office on the premises for the minister, so the necessity of an office in the home should be questioned closely. Furthermore, since the total cost to provide the home is used in computing the exempt housing allowance, home office deductions for taxes, insurance, mortgage interest, etc. would be duplications. (Note that itemized deductions are allowable for mortgage interest and taxes. IRC § 265(a)(6), and Rev. Rul. 87-32, 1987-1 C.B. 131).

### **Supplies, Publications**

Ministers may incur some out-of-pocket costs for office supplies and job-related books and periodicals for which they are not reimbursed. This may be more common in small churches. Increasingly, ministers are using computers for writing sermons, correspondence, and record-keeping. Personal use should be determined.

### **Dues versus Contributions**

Ministers often pay a small annual renewal fee to maintain their credentials, which constitutes a deductible expense. However, ministers' contributions to the church are not deductible as business expenses. They may argue that they are expected to donate generously to the church as part of their employment. This is not sufficient to convert charitable contributions to business expenses. The distinction is that charitable contributions are given to a qualifying organization (such as a church) for the furtherance of its charitable activities. Dues, on the other hand, are usually paid with the expectation that a financial benefit will result to the individual, as in a realtor's multi-list dues or an electrician's union dues. A minister's salary and benefits are not likely to directly depend on the donations made to the church. They may still be deducted as contributions on Schedule A but may not be used as a business expense to reduce self-employment tax.

### **Other Expenses**

A minister may incur expenses for special vestments that would qualify as "uniforms." Their reasonable cost and care would be deductible. Ordinary street clothes or suits for church are not deductible. Unreimbursed long distance phone calls made for business purposes are deductible.

### **Determination of Deductible Expenses Where Some Income is Tax Exempt**

Once total business expenses have been determined, the nondeductible portion can be computed using the following formula. Exhibit 2 provides a computation worksheet.

#### **Step 1**

Divide the allowable housing allowance or fair rental value (FRV) of parsonage by the total ministry income to get the nontaxable income percentage

Total ministry income includes salary, fees, expense allowances under nonaccountable plans plus the allowable housing allowance or FRV of the parsonage.

#### **Step 2**

Multiply the total business expenses times the nontaxable income percentage from step 1 to get the expenses allocable to nontaxable income which is not deductible.

These examples illustrate the computation:

#### **Example 7**

F receives a salary of \$36,000, an exempt housing allowance of \$18,000 and an auto expense allowance of \$6,000 for his services as an ordained minister. F incurs business expenses as follows: auto, \$7,150; vestments, \$350; dues, \$120; publications and supplies, \$300; totaling \$7,920. His nondeductible expenses are computed as follows:

Step 1: \$18,000 housing allowance/Nontaxable Income divided by \$60,000 total ministry income (\$36,000 salary, \$18,000 housing and \$6,000 car allowance) equals 30% nontaxable income percentage

Step 2: Total business expenses of \$7,920 times 30%, the non taxable income percentage equals \$2,376 the nondeductible expenses

Total expenses \$7,920 less the nondeductible expenses of \$2,376 equals the deductible expenses of \$5,544.

F's deductible expenses are reported as Schedule A miscellaneous deductions since his church considers him an employee and issues a W-2. These expenses, along with any other miscellaneous deductions are subject to a further reduction of 2 percent of his adjusted gross income.

### **Example 8**

G received a salary of \$12,000, a housing allowance of \$9,000, and earned \$3,000 for various speaking engagements, weddings, funerals, etc., all related to her ministry. She reports her salary as "wages" on page 1 of her Form 1040 and her fees on Schedule C. Because her actual housing costs (\$6,000) were less than her housing allowance and the FRV of her home for the year, she must include \$3,000 of her housing allowance as "other income" for income tax purposes. Her total business expenses are \$4,500. The computation of deductible expenses is shown below:

Step 1: \$6,000 (housing allowance actually exempt from income tax) divided by \$24,000 total ministry income (\$12,000 salary + \$9,000 housing + \$3,000 fees) equals 25% Nontaxable income percentage.

Step 2: Total expenses \$4,500 times 25% non taxable income percentage equals \$1,125 nondeductible expenses  
Total expenses \$4,500 less \$1,125 equals \$3,375 deductible expenses.

Note that this \$3375 would further be allocable between Schedule A miscellaneous deductions (related to salary) and Schedule C (related to other fees).

However, as you will see in the next section, this allocation will not change G's self-employment tax, since all ministry income and ministry expenses are included in the computation, regardless of where they are reported on the return for income tax purposes. The allocation between Schedule A and Schedule C will also affect any AGI-dependent computations.

### **Charitable Deduction:**

Occasionally a minister may receive no compensation for services. In this case, any actual out-of-pocket costs are deductible as charitable contributions. Revenue Ruling 69-645, 1969-2 C.B. 37; *Gibson v. Commissioner*, T.C. Memo. 1981-668 (note: IRS non acquiescence on part with respect to food contributions valuation- AOD 1982-083, 1982 WL 212507 (1982))



## Self-Employment Tax: Exemption

Ministerial services are covered by social security and Medicare provisions under the Self Employment Contributions Act (SECA). Earnings for these services are subject to self-employment tax unless one of the following applies under IRC § 1402(e):

1. The minister is a member of a religious order whose members have taken a vow of poverty, or
2. The minister has requested, and the IRS has approved, an exemption from self-employment tax, or
3. The minister is subject only to the social security laws of a foreign country under the provisions of a social security agreement between the United States and that country (see Publication 54 for more information)

To claim exemption from self-employment tax, a minister must:

1. Be an ordained, commissioned, or licensed minister of a church or denomination. Treas. Reg. § 1.1402(c)-5
2. File Form 4361. This is an application for exemption from self-employment tax for use by ministers, members of religious orders, and Christian Science practitioners. Treas. Reg. § 1.1402(e)-2A(a)(1).
3. Be conscientiously opposed to public insurance (Medicare/Medicaid and Social Security benefits) because of religious beliefs. Treas. Reg. § 1.402(e)-2A(a)(2).
4. File for exemption for reasons other than economic
5. Notify the church or order that he or she is opposed to public insurance. Treas. Reg. § 1.402(e)-5A(b).
6. Establish that the organization that ordained, licensed, or commissioned the minister is a tax-exempt religious organization.
7. Establish that the organization is a church or a convention or association of churches.

Form 4361 must be filed by the due date of the Form 1040 (including extensions) for the second tax year in which at least \$400 in self-employment ministerial earnings was received. The 2 years do not have to be consecutive.

An approved Form 4361 is effective for all tax years after 1967 for which a minister received \$400 or more of self-employed income for ministerial services.

The exemption from self-employment tax applies only to services performed as a minister. The exemption does not apply to other self-employment income.

To determine if a minister is exempt from self-employment tax, request that he or she furnish a copy of the approved Form 4361 if it is not attached to the return. If the taxpayer cannot provide a copy, order a transcript for the year under examination. The ADP and IDRS Information handbook shows where the ministers' self-employment exemption codes are located on the transcripts and what the codes mean. Transcripts will not show exemption status prior to 1988.

If the transcript does not show a MIN SE indicator and the taxpayer still claims that he or she is exempt from self-employment tax, the Taxpayer Relations Branch at the Service Center where the Form 4361 was filed can research this information and provide the taxpayer with a copy. The Social Security Administration in Baltimore also can provide the information on exemption for an individual.

### **Example 9**

H has ministerial earnings of \$400 in 2007 and \$1800 in 2008. He has until April 15, 2009 (if no extension has been filed) to file Form 4361. If the approved Form 4361 is not received by the due date for the 2007 return, the self-employment tax for 2007 is still due by that date. If he later receives the approved 4361, he may amend his 2007 return.

### **Example 10**

J earned \$500 in 2006, \$300 in 2007, and \$6,000 in 2008 from her ministry. She has until April 15, 2009 (if no extension has been filed) to file Form 4361. If the approval of the exemption is not received by April 15, 2007, J must pay the self-employment tax with her 2006 return, but may amend it after the exemption is approved. J may file a claim for refund (an amended tax return) within 3 years from the time the return was filed or within 2 years from the time the tax was paid, whichever is later.

### **Example 11**

K, ordained in 2007, has \$7,500 in net earnings as a minister in both 2007 and 2008. He files Form 4361 on March 5, 2009. If the exemption is granted, it is effective for 2007 and all following years.

### **Example 12**

L, an ordained minister, has applied for and received exemption from self-employment tax for his services as a minister. In 2008 he has ministerial income of \$12,000 and income from his shoe repair business, a sole proprietorship, of \$9,000. He must compute self-employment tax on the \$9,000.

## **Computing Self-Employment Tax**

If an exemption from self-employment tax is not applied for, or is not granted, self-employment tax must be computed on ministerial earnings. To compute self-employment tax, allowable trade or business expenses are subtracted from gross ministerial earnings, then the appropriate rate is applied.

Include the following items in gross income for self-employment tax:

1. Salaries and fees for services, including offerings and honoraria received for marriages, funerals, baptisms, etc.. Include gifts which are considered income as discussed under the section on income.
2. Any housing allowance or utility allowances.
3. Fair Rental Value (FRV) of a parsonage, if provided, including the cost of utilities and furnishings provided.
4. Any amounts received for business expenses treated as paid under a nonaccountable plan, such as an auto allowance.
5. Income tax or self-employment tax obligation of the minister which is paid by the Church.

### **Example 13**

M receives a salary from the church of \$20,000. His parsonage/housing allowance is \$12,000. The church withholds Federal income tax (by mutual agreement) and issues him a Form W-2. He has unreimbursed employee business expenses (before excluding nondeductible amounts attributable to his exempt income) of \$5,200. His net earnings for self-employment tax are \$26,800 ( $\$20,000 + \$12,000 - \$5,200$ ). Note that all of M's unreimbursed business expenses are deductible for self-employment tax purposes, although the portion attributable to the exempt housing allowance is not deductible for Federal income tax purposes. IRC § 265 regarding the allocation of business expenses related to exempt income relates to income tax computations but not self-employment tax computations.

### **Example 14**

G, as shown in Example 8, computes her self-employment taxable income as follows: \$12,000 salary plus \$9,000 housing allowance plus \$3,000 Schedule C income less (\$4,500) total business expenses equals \$19,500 self-employment income.

**NOTE:** IRS Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers is a very useful guide for taxpayers and as a quick reference.

## **Employee versus Independent Contractor**

A minister can be a common law employee for income tax purposes even though the payments for services as a minister is statutorily considered income from self employment for social security and medical taxes and the minister can even apply to be exempt from social security tax.

The handling of business expenses for income tax purposes is determined by whether the minister is classified as an employee or an independent contractor. If an independent contractor then the business expenses are reported on the Schedule C. If an employee then the expenses are reportable subject to statutory limitations as an employee business expense itemized deduction. To be properly reported on Schedule C, a minister's expense must come from a trade or business of his own, other than that of being an employee.

The fundamental question of employee vs. independent contractor status has received extensive statutory, regulatory, and judicial attention. The statute defines an employee as one who is such

"under the usual common law rules applicable in determining the employer-employee relationship. . . ." IRC § 3121(d)(2). See also Treas. Reg. § 31.3121(d)-1(c).

This subject is complex and dependent on the facts and circumstances in each case, which is why it is highly litigated. As follows is a brief discussion of the subject. Research should be conducted on litigation that has occurred in your appeals circuit to assist in making the status determination. The litigation has generally occurred where the minister claims independent contractor status and the Internal Revenue Service determines the minister was an employee.

The Internal Revenue Services looks at factors that fall within three categories, namely behavioral control, financial control and the relationships of the parties. Behavioral control deals with facts that substantiate the right to direct or control the detail and means by which a worker performs the required services. Financial control deals with facts of the economic aspects of the relationship of the parties and if the worker has the opportunity for the realization of profit or loss. Some factors are: significant investment, un-reimbursed expenses, making services available, and methods of payments. Relationship of the parties is important because it reflects the parties' intent concerning control.

The Courts consider various factors to determine an employment relationship between the parties. Relevant factors include:

1. The degree of control exercised by the principal over the details of the work;
2. Which party invests in the facilities used in the work;
3. The opportunity of the individual for profit or loss;
4. Whether or not the principal has the right to discharge the individual;
5. Whether the work is part of the principal's regular business;
6. The permanency of the relationship; and
7. Relationship the parties believe they are creating.

No one factor dictates the outcome. Rather, we must look at all the facts and circumstances of each case. *Weber v. Commissioner*, 60 F.3rd 1104, 1110 (4th Cir. 1995)

In the *Weber* case, where the issue was whether a minister was an employee or independent contractor, the court stated:

"The "right-to-control" test is the crucial test to determine the nature of the working relationship...The degree of control is one of great importance, though not exclusive...Accordingly, we must examine not only the control exercised by the alleged employer, but also the degree to which an alleged employer may intervene to imposed control...In order for an employer to retain the requisite control over the details of an employee's work, the employer need not stand over the employee and direct every move made by that employee...Also, the degree of control necessary to find employee status varies according to the nature of the services provided...

The threshold level of control necessary to find employee status is generally lower when applied to professional services than when applied to nonprofessional services...In *James v. Commissioner* 25 T.C. 1296 (1956), this Court stated that "despite this absence of direct control over the manner in which

professional men (and women) shall conduct their professional activities, it cannot be doubted that many professional men (and women) are employees". Also in *Azad v. United States*, 388 F.2d 74 (8th Circuit, 1968), the Court of Appeals for the Eight Circuit said that "From the very nature of the services rendered by \*\*\* professionals, it would be wholly unrealistic to suggest that an employer should undertake the task of controlling the manner in which the professional conducts his activities" Generally a lower level of control applies to professional."

The absence of the need to control the manner in which the minister conducts his or her duties should not be confused with the absence of the right to control. The right to control contemplated by the common law as an incident of employment requires only such supervision as the nature of the work requires. *McGuire v. United States*, 349 F.2d 644, 646 (9th Circuit 1965).

Finally, section 530 of the Revenue Act of 1978 does not apply to the minister's status since they are statutorily exempt from FICA and are subject to SECA. The employer has no federal employment tax obligations. Section 530 terminates the business's, but not the worker's, employment tax liability.

## **Exhibit 1 JOB AID**

### **Exclusion of Parsonage Allowance under Internal Revenue Code § 107**

Home Owned Or Rented/ Housing Allowance Received

The exclusion is limited to the least of:

1. Amount designated as housing allowance
2. Amount actually used to provide a home which is composed of the following items:
  - Rent
  - House payments
  - Furnishing
  - Repairs
  - Insurance, Taxes
  - Utilities
  - Other Expenses
3. Fair rental value of home, including furniture, utilities, garage

Amount excludible from income tax liability is the least of 1,2, or 3 above.

**If Parsonage provided, you can deduct only the fair rental value**

The entire designated housing allowance is subject to self-employment tax unless you have been approved for exemption or are retired.

## **Exhibit 2 Job Aid**

### **Computation of Allowable Expenses When Tax-Exempt Income Is Received**

Step 1 Enter amount of tax-exempt income (Housing allowance or fair rental value of parsonage provided)

Step 2 Total income from ministry computed by adding the following:

- Salary
- Fees
- Allowances
- Step 1 Amount

Step 2 Total of items above to derive total income from ministry

Step 3: Divide step 1 amount by total step 2 amount to obtain the non taxable income %

Step 4 Compute total business expenses substantiated by adding the following items

- Auto
- Travel
- M & E
- Other

Step 4 total of items above to derive total business expenses substantiated

Step 5 Multiply step 4 total by step 3 percentage to obtain nondeductible expenses allocable to tax exempt income

Step 6 Subtract step 5 amount from step 4 amount to obtain the deductible expenses for Federal Income tax purposes