Minister's Compensation Planning Guide

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Many people do not think about the congregation as an employer. Ministers are thought to be "called" to service rather than hired as employees. Non-ministerial staff members are often chosen because of skills and their loyalty to the church. Yet, congregations *are* employers and ministers and lay staff are employees. Therefore, it is important that both parties are aware of their respective responsibilities.

Thus, the following brief discussion is intended to address key concerns regarding the employment relationships.

A. What is Compensation?

a. Distinguishing between Employment Costs and Business Expenses

The cost a congregation incurs for its minister(s) is more than a salary and parsonage allowance (or parsonage). However, it is important in the employment relationship to first establish an appropriate salary for the services to be rendered. Employee benefits, which can represent a significant additional cost, need to be considered separately after the salary and parsonage allowance discussion has been finalized.

Thus, the cost of employment is *compensation plus benefits plus business expenses related to the minister's service*. A congregation that combines these into a single amount to be distributed places the minister at a distinct disadvantage, as benefit costs such as health care premiums rise faster than the percentage increase in the "salary package."

1. *Compensation* includes such items as salary and parsonage allowance (or parsonage). 2. *Benefits* include such items as pension dues, health care, Social Security offset, employer contributions to a 403(b) account and employer contributions to a Health Savings Account (HSA) or Health Reimbursement Account (HRA).
3. *Business expenses* include automobile or travel reimbursement, assembly registration and travel costs, professional expenses (e.g., books) and discretionary items.

When congregations lump all of the above items as a "Salary Package" and "cap" total expenses, it is often at the expense of the minister's salary. Experience shows that many ministers dip into salary to meet church business expenses or benefit costs, decreasing real income on which to live.

In addition, when retirement contributions (i.e., Pension Plan dues and/or Tax Deferred Retirement Contributions (TDRA)) are deducted from a "package," current tax law considers those contributions "elective deferrals" (i.e., employee contributions), even when the contributions are remitted on a pre-tax basis. Elective deferrals count towards the employee's lifetime retirement contribution limit, thus potentially limiting possible future retirement savings.

However, when Pension Plan dues and TDRA contributions are made over and above salary or in addition to salary, they are considered employer contributions and are not subject to the lifetime contribution limits.

Ideally, budget items for the reimbursement of business expenses should be established aside from salary and benefits and capped if necessary. The minister should provide regular "contemporaneous accounting" for automobile, other travel and meals costs when requesting reimbursement.

b. Compensation Review

Studies and experience indicate that ministers often seek relocation because of financial concerns. This can usually be avoided when the church has a plan to periodically review and adjust compensation, benefits and business expense budgets. An annual review is customary, to assess business costs and review salary and benefits in light of annual inflation and merit. Rising costs are a fact of life. Churches that neglect to take this into account ultimately pay a price for the greater stress this places on their leadership. In many instances, the church suffers financially in securing and relocating leadership.

c. Resources for Compensation Concerns

Pension Fund publishes a quarterly publication, *The Bridge*, which contains information about taxes, salaries, healthcare and other matters of interest to congregational officers and ministers. Pension Fund also periodically conducts workshops in general and regional assemblies on congregational compensation concerns and ministers' personal finances. Contact the Pension Fund directly to schedule an event.

Another important resource is the regional or area minister. He or she is familiar with the compensation that other congregations in your geographic vicinity provide. Many problems can be avoided by discussing compensation matters with someone who frequently works with pulpit and personnel committees.

B. Ministerial Salary and Parsonage Matters

a. Salary

Salaries for church employees should be comparable to salaries in the community for positions that require similar education, experience and responsibilities. The Bureau of Labor Statistics is an excellent source for obtaining salary information for ministers as well as for other positions requiring comparable education and responsibilities. The Bureau of Labor Statistics website is www.bls.gov. The National Association of Church Business Administrators ("The Church Network") is another excellent source for comparable salary information. Its website is www.nacba.net.

b. Parsonage

Some congregations find it helpful and efficient to provide the minister with a parsonage in which to live while serving the congregation. This can be most helpful in communities in which real estate markets are very slow (some rural communities) or in markets in which the price of housing far exceeds the 32 financial ability of pastors, based upon their ministerial income (some urban and coastal markets). The parsonage should be comfortable, adequate in size and in good repair. Note: If the congregation provides a parsonage, it is still advisable for the congregation to designate a portion of the minister's compensation as parsonage allowance for furnishings and utilities.

c. Parsonage Allowance

The congregation should designate a portion of a minister's salary as parsonage allowance in the following circumstances:

1. The congregation owns and cares for a parsonage -- Designate a housing allowance to cover furnishings and utilities.

2. The congregation does not own a parsonage and the minister elects to rent housing -- Designate a parsonage allowance to cover rent, furnishings and utilities.

3. The congregation does not own a parsonage and the minister elects to purchase a home -- Designate a parsonage allowance to cover the cost of housing.

The housing allowance is limited to 1) the fair rental value of the home, furnished plus the cost of utilities; *or* 2) the actual expenses of operating the home; *or* 3) the amount properly designated by the congregation, **whichever amount is lower**. The housing allowance must be noted in official church records (e.g., church board minutes) and must be designated ***in advance*** (i.e., by December for the following year).

The housing allowance is excluded from income tax but ministers must pay Social Security on the fair rental value of the parsonage and housing allowance. (*See Section D, Taxes and Tax Reporting*.)

d. Housing Assistance

There are unique situations in which the congregation may wish to assist the minister to purchase a home, which could result in income considerations. Generally these require creative funding procedures such as the following:

1. Providing a down-payment loan with a clearly defined method of repayment. (The IRS would consider imputed interest on this loan part of the minister's income, if the loan was provided at less than the current market interest rate.) The minister would finance most of the home with a long-term commercial loan. The congregation would provide the down-payment loan out of accumulated funds, or the congregation could borrow the funds from a bank or Church Extension. Usually, this type of loan would be repaid over a five-year period. Of course, the combined borrowing would need to be within the financial capacity of the minister.

2. Purchasing a home and selling it to the minister on a contract of sale. In order to protect both the congregation and minister, the services of a local attorney must be secured to develop the contract. The congregation could finance the purchase through accumulated resources or borrow the funds

from a bank or Church Extension. To borrow from Church Extension, the congregation would hold title to the property and provide to Church Extension a first mortgage or deed of trust.

3. Jointly provide a down payment for the purchase of a house, which the minister would finance with a commercial loan. An agreement would be reached about what percent of equity each participant (minister and congregation) has in the property. If and when the house is sold, the net receipts would be divided according to that agreement.

Each of these methods requires a signed agreement about the disposition of the property in case the minister retires or relocates before all financial obligations to the congregation have been met. Further, forgiveness of part of all of any related debt between the minister and congregation would result in taxable income to the minister. The congregation should consult an attorney and possibly a tax advisor before entering into any of these arrangements.

C. Employee Benefit Programs

Pension Fund provides Pension Plan and an array of retirement savings and health care programs for ministers and lay employees. Use of these programs requires a signed Participation Agreement, which outlines the Pension Fund programs in which the church will participate on behalf of its employees. Contact Pension Fund for assistance in establishing or updating the church's Participation Agreement.

a. The Pension Plan

Pension Fund of the Christian Church is an essential employee benefit program designed to provide protection for church employees, both ministerial and lay. As employers, all congregations are strongly encouraged to include all employees in this comprehensive plan.
The Pension Plan is more than a retirement program. It is a defined benefit program that also provides in-service death and disability benefits. These

benefits are fully funded on an actuarial basis. Ministers are vested immediately. Lay employees are vested after two years of participation in the Plan. Brochures providing a complete description of the Pension Plan including an Enrollment Form, are available without charge from the Pension Fund and may also be downloaded from the Pension Fund's website, www.pensionfund.org.

Eligibility

1. Lay employees -- All compensated employees are eligible to participate in the Pension Plan once employment begins. As with most secular employers, some congregations require a trial period of employment for lay employees before they will contribute to the Pension Plan. However, if enrollment is delayed beyond 24 months from the date of hire, death and disability benefits are modified for five years in accordance with plan stipulations. Therefore, it is important to begin participation as soon as possible.
2. Ministerial employees – A minister who is not already a member of the Pension Plan and who accepts a call to a congregation should be enrolled in the Plan effective with the first day of employment. Ministers who are already enrolled in the Pension Plan and who accept a call to a new location are viewed as continuing employment in the church. Thus, the new employing congregation should begin to pay pension dues effective with the first day of employment.

Pension Plan Dues

Pension Plan contributions, called dues, are 14% of compensation. Most congregations pay the full 14% of dues on behalf of their employees. Some congregations pay 11% and the employee pays the remaining 3%. (In these situations, withholding the 3% from salary before taxes are calculated still provides a tax advantage for the employee.)

Whenever a salary increase is granted, Pension Plan dues must be re-calculated. Salary changes often occur at the beginning of the congregation's fiscal year. The examples below can be used as guidelines for calculating pension dues on the new salaries. For additional information on calculating pension dues, see General Information for Remitting Officers in the Appendix of this Handbook or the Pension Fund's website. Pension Fund staff are also available to assist with the calculations.

When employment terminates, pension dues should be paid on compensation provided to the employee through the termination date. If vacation pay is provided beyond the last working day, pension dues should be paid on it also.

Calculating the Dues:

Dues for **lay employees** are calculated on salary only. Divide the annual salary by twelve in order to obtain the monthly salary. Then multiply this figure by 14 percent (.14) to calculate the monthly pension dues.

Example: A church secretary's salary is $21,000 per year. The monthly salary is $1,750.00 and Pension Plan dues are $245.00 per month ($21,000 divided by 12 months = $1,750.00 x .14 = $245.00). *Note: If the congregation is paying 11 percent, its portion is $192.50 and the 3 percent employee portion is $52.50*.

Dues for **ministerial employees** are computed on the salary plus housing and/or parsonage allowance.

For **ministers living in a church owned parsonage**, pension dues are calculated on the cash salary, fair rental value of the home, plus housing allowance for furnishings and utilities. The fair rental value is determined by what a similar home in the same area of the community would rent for.

Example: A minister receives cash salary of $23,000 plus parsonage that is valued at $7,200 per year (a similar home would rent for $600 per month). In addition, the minister has a housing (utilities) allowance of $3,600 per year ($300 per month). The total salary and housing is $33,800 per year, $2,816.67 per month and the pension dues are $394.33 per month ($33,800 divided by 12 = $2,816.67 x .14 = $394.33).

Ministers purchasing or renting housing: Pension dues are calculated on the cash salary plus housing allowance.

Example: A minister serving a congregation that does not own a parsonage has annual cash salary of $28,000 and housing allowance of $12,000, for a total of $40,000 per year, $3333.33 per month. Pension dues are $466.67 per month ($40,000 divided by 12 = $3,333.33 x.14 = $466.67).

Ministerial students: Congregations that employ ministerial students may remit pension dues on behalf of the student.

Example: A full time seminary student is serving a congregation and receives $800 per month in compensation. Dues for the seminary student would be $112.00 per month ($800.00 x .14 = $112.00).

Retired interim ministers: Ordinarily, retired ministers are receiving a retirement pension under the provisions of the Pension Plan. Therefore, no pension dues are paid. However, the congregation is encouraged to contribute the equivalent of Pension Plan dues to a Tax Deferred Retirement Account on behalf of the retired minister. (See information on Tax Deferred Retirement Accounts below.)
Payments

Pension Plan dues are paid monthly on the first of each month for that month. Invoices are mailed to church treasurers/remitting officers on the 15th of each month for the next month's remittance. (See sample Invoice in Appendix.)

Tax reporting

When Pension Plan dues are paid by the church employer on behalf of its employees, the dues are tax deferred and not reportable for income tax purposes. Retirement pensions will be reportable for tax purposes once the employee begins receiving his/her pension. If a portion of pension dues are paid with after tax dollars, it is important to communicate this to the Pension Fund. Dues paid with after tax dollars are recorded as an investment in contract and will not be taxed again when received as a benefit.

b. Tax-Deferred Retirement Account

The Pension Fund also offers a 403(b) Tax Deferred Retirement Account for church employees. This is a defined-contribution program that provides church employees an opportunity to set aside funds for retirement and earn an excellent rate of return. This program differs from the Pension Plan in that there are no death or disability benefits associated with the Tax Deferred account. Additional information about the Tax Deferred account and Application Form are available upon request from the Pension Fund or by download from www.pensionfund.org.

Eligibility: All compensated employees of the church are eligible to participate in the Tax Deferred account program. All participants in the Tax Deferred account program are vested immediately. Church employees may participate in both the Tax Deferred account and Pension Plan.

Contributions to the account: Deposits to tax deferred accounts must be made by the employer on behalf of the employee. Contributions may be made either 1) in addition to the employee's salary or 2) through salary reduction. If using the second method, the church and employee should complete a Salary Contribution Agreement, available from the Pension Fund. In both instances, the contributions are excluded from the employee's current taxable income to the extent they do not exceed the limits set out in the Internal Revenue Code.

Current tax regulations place limitations on the amount that can be contributed to a 403(b) account through salary reduction. Generally, the maximum amount that can be contributed is $18,000 (in 2015) annually if the employee is earning at least this amount in taxable income from church employment. For ministers, the housing allowance is already excluded from taxable income and cannot be included when calculating Tax Deferred account contributions. The contribution limit is increased periodically so employers and employees should contact the Pension Fund for information on the most current limits.
There are "catch up provisions" in the regulations which allow employees who have 15 years or more of service and for those who are over age 50 to contribute more than the $18,000. Since these provisions are periodically increased, employees wishing to utilize one or both of these provisions should contact the Pension Fund for assistance in calculating the contribution limit.

<u>Payments:</u> Generally, deposits to Tax Deferred accounts are made monthly and may be made along with Pension Plan dues payments. (See sample invoice in Appendix.)

<u>Tax reporting</u>: For **lay employees**, contributions made by an employer in addition to salary are excluded from income for both federal income and Social Security tax purposes. Contributions made through salary reduction are excluded from federal income tax but included for Social Security (FICA).

For **ministerial employees**, both contributions made in addition to salary and through salary reduction are excluded for federal income and Social Security tax purposes.

Tax reporting: For contributions made in addition to or in lieu of salary, no reporting is required. Contributions made through salary reduction are reported on the W-2 form in Box 12. Record the dollar amount followed by the letter E (this is the code for employee contributions to 403(b) plan).

c. Churchwide Health Care

Since 1972, Pension Fund has administered a health care program on behalf of the Christian Church (Disciples of Christ). The Christian Church Health Care Benefit Trust, with the Pension Fund as Trustee, offers self-insured health care benefits that are in complete compliance with the Affordable Care Act and recognized by the Internal Revenue Service as a denominational group health benefit plan for favorable fringe benefit tax free status. Information on plan designs offered and enrollment forms are available at Pension Fund's website, www.pensionfund.org or may be requested by email at healthcare@pensionfund.org.

Eligibility: All compensated employees are eligible to participate in the Churchwide Health Care program. Coverage begins the first of the month once the enrollment form and first month's premium is received. Coverage will be terminated upon request on the last day of the month through which premiums have been paid.

Premiums: Premiums are determined by the participant's age as of January 1 of the current year, plan design, type of coverage (member only, member and spouse, member and child(ren), member and family), and state of employment.

Payment: Healthcare premium invoices are mailed to the treasurer/remitting officer of the employer on or about the 15th of each month. (See sample Invoice in Appendix.) Premiums are due on the 1st day of the following month. Since the Christian Church Health Care Benefit Trust is a self-insured plan, premiums are used to pay our claims and expenses. If premiums become delinquent, one payment request attempt will be made to the member and the employer. If no payment is received, coverage will be ***retroactively*** cancelled at the last paid through date for lack of payment.

Tax reporting: When paid directly by the employer, Churchwide Health Care premiums are not reportable for income tax purposes. If the employee pays health insurance premiums personally, he/she may include the premiums as a medical expense deduction on Schedule A when filing the federal income return. All medical expenses will be reduced by 10% of adjusted gross income. For example, if adjusted gross income is $50,000 and medical expenses are $5,000 or less, then the deduction is $0.00. If medical expenses are above $5,000, then the deduction is the difference between total medical expenses minus $5,000.

Affordable Care Act: With the Affordable Care Act (ACA) church employers may need to change the way they provide health care for their employees. Some churches and ministries reimburse employees for coverage the employee purchases individually. Under the ACA, church employers 1) cannot pay for health insurance that the employee purchases, 2) cannot withhold health insurance premiums from salary on a pre-tax basis and 3) cannot reimburse the employee on a pre-tax basis for health insurance the employee purchases. The penalty for violating this rule could be severe.

In order to avoid possible penalties without lessening the benefit to employees, the congregation may 1) provide health insurance coverage through a group plan, such as Churchwide Health Care, or 2) increase the employee's salary to allow them to directly cover the premium for individual coverage. The total salary, including the amount for health insurance, must be reported in Box 1 of the W-2 form as taxable income. In order to take advantage of this option the church employer must establish a section 125. Contact Pension Fund for further information.

d. Churchwide Accident Insurance

Churchwide Accident Insurance provides low cost, 24/7 accidental death and dismemberment coverage. All compensated church employees, as well as Pension Plan members and beneficiaries, are eligible for coverage up to age 80. This insurance is offered on an annual premium basis with coverage extending from July 1 through June 30 of the following year.

New enrollment announcements and renewal notices are mailed in May and June of each year. Coverage ranges from $20,000 to $300,000 and the spouse may also be covered for one-half the principal amount ($10,000 to $150,000).

Premiums paid by the employer on behalf of the employee are non-taxable.

e. Other Benefits

Medical Expense Reimbursement Plans

Increases in health care premiums throughout our economy have prompted many to seek ways to manage health care costs more carefully. Associated with Churchwide Health Care are three tax advantaged strategies that can help.

1. Participants in Churchwide Health Care can set aside a portion of their income through salary renegotiation to fund a Flexible Spending Account. The contribution to such accounts comes from the employee under an agreed plan in which the congregation guarantees the annual funding commitment. The employee has access to the full amount of the annual commitment to meet qualified health costs. Employees are encouraged to utilize this tax advantaged opportunity to fund health costs on a pretax basis. Further information is available from the Pension Fund and on the http://www.pensionfund.org website.

2. Some congregations elect to provide a higher deductible healthcare program and self-insure all or part of the deductible and out-of-pocket portion of coverage. If the employee has health care needs that use up the higher deductible, the congregation can reimburse these additional

charges through a Health Reimbursement Account. However, if the employee does not utilize the full deductible, the congregation will save the funds that would have been used to pay for lower deductible premiums. Congregations wishing to establish a health Reimbursement Account need to contact an attorney.

3. Some congregations elect to secure a higher deductible healthcare program and encourage the employee to establish a Health Savings Account (HSA), which is a tax advantaged account associated with certain high deductible health care plans. The Churchwide Health Care program has a high deductible program for which HSA's are appropriate. However, Pension Fund does not offer HSAs. For further information contact the Pension Fund.

Term Life Insurance

As the name implies, term life insurance provides protection for a limited period of time, usually in one-year increments. Its purpose is to provide a death benefit for loved ones. It does not contain a savings element or retirement pension and has no cash surrender value. It does, however, assist the family with the financial transition associated with the loss of income of the deceased.

Congregations provide their employees with some protection through participation in the Pension Plan. However, employees with young children may need additional protection, which the congregation can help to provide by purchasing term insurance for its employee(s).

A congregation can purchase up to $50,000 of term insurance for its employees without tax consequences for the employee. Premiums for coverage in excess of $50,000 and the premium for any other insurance coverage of which the employee is the owner, are taxable. In addition, the premiums for any term life insurance may be taxable if the insurance is not provided to all full-time church employees on a nondiscriminatory basis.

Workers Compensation Insurance
Most states require employers to purchase workers compensation insurance. This is an insurance policy that assists in the event of an on-the-job injury for the employee. Some states exempt employers with less than a specified number of employees. However, workers compensation insurance provides protection for both the employee and the congregation. Even if not required, it is highly recommended that such coverage be purchased.

Liability Insurance

Adequate casualty insurance from a reputable provider is essential protection for a congregation. Of course coverage should provide protection on a congregation's buildings and contents. Equally important is coverage for personal and professional liability. Contact your local insurance agent to help you evaluate the congregation's insurance package. You may also want to contact the United Church Insurance Board, a combined program of the United Church of Christ and the Christian Church, to evaluate the wide array of insurance coverage available through its insurance program.

Social Security Offset (See section C. Taxes and Tax Reporting)

All churches are required to pay Social Security taxes (7.65 percent on compensation) for lay employees. Another 7.65 percent is withheld from the lay employee's salary making the total 15.3 percent of compensation.

Ministers are required to pay Social Security taxes at the self-employed rate (15.3 percent), based on salary plus parsonage/housing allowance. Many congregations provide their ministers with a Social Security offset, equivalent to the 7.65 percent employer portion they would pay if the minister were a lay employee. This does not mean that the minister is self-employed (in fact, or in regard to any other area of taxation or reporting).

Social Security offset payments to the minister do become taxable income. However, all or part of it may be put into a Tax Deferred Retirement Account, which defers taxes until the funds are withdrawn. If paid directly to the minister, it becomes taxable income but assists the minister with the payment of the Social Security tax to the same extent required for lay employees.

f. Establishing Accounts

Notification

When the congregation calls a new minister who is a Pension Plan member, the church communicates this to the Pension Fund by sending a completed Change of Employer Form (see sample in Appendix), a copy of the Letter of Call or by calling the Pension Fund at 866-495-7322 or 317-634-4504. Forms are available from the Pension Fund by mail or can be printed from the Pension Fund website.

Enrollment

When the congregation calls a new minister who is not a Pension Plan member, or when it hires a lay employee for whom benefits are to be paid, the congregation must send the employee's completed Enrollment Form along with an initial dues payment, to the Pension Fund, P O Box 6251, Indianapolis IN 46206-6251. The Enrollment Form is available from the Pension Fund by mail or can be printed from the Pension Fund website.

Remitting Payments

Invoices for Pension Plan dues and Tax Deferred Accounts are printed on blue paper and sent out on the 15th of each month for the next month's payment. A sample invoice is shown in the Appendix.

Churchwide Health Care invoices are printed on pink paper and are sent out on the 15th of each month for the next month's payment. A sample invoice is shown in the Appendix.

Communication Regarding Accounts

Regular invoices are mailed to a lock box at a bank for immediate deposit. Correspondence about accounts should not be included with the payment but directed to the Pension Fund office, P O Box 6251, Indianapolis IN 46206-6251.

Verifying Account Status

The Pension Fund will verify the payment status of Pension Plan, Tax Deferred or Health Care accounts whenever requested. If there is a question about whether a payment has been properly posted, the Pension Fund may request that the church treasurer provide a copy of the front on back of the check in question in order to research the error.

g. Business Expenses

Allowances (other than housing allowance) given to an employee to cover church business expenses are included in taxable income and result in unnecessary taxes for the church employee. If it has not already done so, the congregation should establish an Accountable Reimbursement Plan (see sample plan in Appendix).

With an Accountable Reimbursement Plan, the employee reports to the church treasurer in a timely manner the time, place, amount and business nature of the expense. The treasurer then issues a reimbursement check. Any funds advanced to the employee (e.g., General Assembly expenses) must also be accounted for and excess fund returned within two months.

Warning: Churches that use Accountable Plans may discover that there are funds remaining in the accounts at the end of the year and wish to disperse this to the employees. However, doing so negates the Accountable Plan and all of the funds paid to the church employee, even those that had been properly accounted for, become taxable income for the employee. If funds remain in a church business expense account at the end of the year, it is best to leave the funds in the account and re-evaluate the budgeted amount for the next year.

D. Taxes and Tax Reporting

The Church and Non-Profit Tax and Financial Guide, by Dan Busby, is an excellent resource providing additional information and instructions on completing tax forms. It is updated annually and available through the Evangelical Council for Financial Accountability (800) 323-9473, or Zondervan or Amazon.com.

990 Forms

Disciples congregations that are listed in the Year Book and Directory of the Christian Church (Disciples of Christ) are exempt from filing Form 990 unless there is Unrelated Business Income, such as rental income. Check with your tax advisor for further information. The Office of General Minister and President files annually for blanket 501 (c) 3 exemption for all congregations, regional and general ministries and related ministries.

W-2 Forms

Every year in January, the congregation must provide each employee with a W-2 form showing the amount of salary paid and the taxes withheld. IRS Publication 393 contains instructions for completing W-2 forms. This publication can be downloaded from the Internal Revenue Service's website, www.irs.gov .

W-3 Forms

Every employer must file a W-3 form by February 28 each year. The W-3 form reports taxes paid on behalf of all employees.

a. Lay employees

Income taxes: Congregations are required to withhold income taxes for their lay employees. Each employee must complete a W-4 form for his/her personnel record. The amount of tax to be withheld is calculated using the tables found in Publication 15-A, which is provided by the IRS annually to every employer remitting taxes.

Social Security: Congregations are required to pay Social Security on behalf of their lay employees, unless the congregation applied for and was granted an exemption by the IRS in 1984. Social Security taxes total 15.3 percent of salary. This amount is divided equally between employer and employee, with the employer paying 7.65% and 7.65% withheld from the employee's salary.

b. Ministerial Employees

Income taxes: The congregation is not required to withhold income taxes for ministers. When taxes are not withheld, the minister makes quarterly tax payments. However, income taxes may be withheld at the minister's request. To make the request, the minister should complete a W-4 form.

Social Security: Ministers must pay Social Security at the self-employed ***rate***. This ***does not*** mean that ministers are self-employed. By law, church employers ***cannot*** pay the employer portion of Social Security ***nor can they withhold*** the employee portion of Social Security for ordained ministers. Ministers must pay 15.3 percent of salary plus housing/parsonage allowance for Social Security.

A minister requesting tax withholding may request an additional amount to cover the Social Security obligation. The treasurer remits this to the IRS as income taxes withheld. When the minister files his/her tax return, the overpayment of income taxes will cover the Social Security tax owed. With this method, the minister does not need to make quarterly tax payments.

c. Commissioned, licensed and student ministers

Ministers and seminary students who are commissioned or licensed, may be treated as either lay employees or as ministerial employees for income tax and Social Security purposes. If treated as a lay employee, the commissioned/licensed minister cannot have a parsonage or housing allowance. Further, the church employer must withhold income tax and the employee's portion of Social Security as well as pay the employer's portion of Social Security, as for a lay employee. However, if the commissioned/licensed minister is treated as a ministerial employee, he/she may have a parsonage or housing allowance (and may request income tax withholding) but the church cannot withhold the employee's portion of Social Security, nor can the church pay the employer's portion of Social Security.

NOTE: If a congregation employs a commissioned or licensed minister and that minister is living in the church owned parsonage or the church has designated a housing allowance for the minister, the church must follow IRS rules regarding Social Security for ministerial employees, i.e., the church cannot pay the employer's portion nor withhold the employee's portion of Social Security.