

A Local Church Guide for Ministerial Compensation
Pacific Northwest Conference
of the
Free Methodist Church
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Introduction

The Scriptures call for a fair and equitable wage for all workers, and such is fundamental to productivity, longevity and good human relations. This guide is to assist local church leaders by providing information and suggesting accepted policies and procedures to help in administering a well-balanced compensation structure that considers the merits of each minister and local situation.

The basic premise used here is that the support level of any minister should appear reasonable to the lay leadership, the majority of the membership, and the minister and family of each local church. Minister, as used in this guide, can mean senior pastor, associate or any other pastor, minister of youth, missions, music, administration, family life, etc., or any other employed professional. This does not necessarily apply to support staff.

Biblically, ministerial remuneration rests on the principle of reciprocity. The minister is given to the church by the Lord in order to share His blessings and Word of God. The congregation is given to the minister to develop and shepherd, and to share in the material blessings God has allowed it to steward. Note the following passages: (NIV)

Luke 10:7, Jesus instructed those whom he had just appointed to go into every city and place, and to “stay in that house, eating and drinking whatever they give you, for the worker deserves his wages.”

Galatians 6:6, to the church Paul wrote, “Anyone who receives instruction in the word must share all good things with his instructor.”

1 Corinthians 9:14, Paul stated, “... the Lord has commanded that those who preach the gospel should receive their living from the gospel.”

It is reasonable to conclude from these Scriptures that ministers should be full-time, should be paid a full-time salary, and that the level should allow them to live at least on the same standard or level as the congregation and community.

Recommendations

The following is a series of recommended perspectives, policies, procedures and some general information relating to ministerial compensation. We hope it will be helpful to local church leaders, Local Boards of Administration (LBA) and ultimately, honoring to God and His Kingdom. The stewardship of funds is one of the most visible and potentially volatile things we as Christians do, and unbelievers and new believers watch us with great interest. Discussion about compensation should be an agenda item at least once per year so the Local Board of Administration and minister(s) understand each other on these issues. In both Old and New Testaments, the first use for the tithes and offerings of the peoples was to support their vocational ministers. It remains a first priority for church income today.

It is well understood that some small churches must work their way through these pages selectively because they are in no position to meet each point. Every worthy minister understands that and should be satisfied with a church and a LBA that does its best. For these, the value of the guide is to keep “fair compensation” on the agenda and establish a goal to get as close as is reasonable. Earnest prayer and sacrificial giving should be made a major part of this process.

Compensation should be based upon the job description, responsibilities, qualifications, and requirements of the position, along with the church’s ability to provide at any given point in time. It should not be influenced by the minister’s family size, personality, existing financial resources, age, etc., as long as those are not part of written job qualifications or requirements.

There are basically four types of professional ministers: 1) vocational, 2) bi-vocational, 3) part-time, and 4) volunteer. The approach for compensation varies and should be considered on an individual basis.

Vocational

The professional minister who is (or intends to become as quickly as possible) for their full career, fully active in and supported by their Christian ministry assignment.

Bi-vocational

The professional minister who does (or intends to) share their career Christian ministry with another occupation and receive shared support from each assignment.

Part-time

The employed minister who is needed or available for less than 32 hours per week and is paid for their Christian ministry on that basis.

Volunteer

The minister who offers their Christian ministry services on a gratis basis and receives only specified gifts and expense reimbursement for approved expenditures in return.

Who is a “Minister” for Tax Purposes

Individuals who are ministers for tax purposes:

- Are eligible for an income tax-free housing allowance
- Are self-employed for Social Security purposes
- Are exempt from federal income tax withholding
- Use quarterly estimated taxes to pay their income and Social Security taxes unless they elect voluntary withholding on IRS Form W-4 with their church.

Although an individual might be considered a minister by a church, he or she might not be a minister in the eyes of the Internal Revenue Service for tax purposes. For example, a church might have a youth pastor or a minister of music who is treated as a minister by the congregation, but that individual might not be a minister for tax purposes.

According to the Internal Revenue Service, ministers are individuals who are duly ordained, commissioned or licensed by a religious body constituting a church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions and administer ordinances and sacraments according to the prescribed tenet and practices of that religious organization. Thus according to the IRS definition, ministerial candidates are not considered “ministers” for tax purposes.

The Internal Revenue Service publishes some helpful information that is available on its Web site at www.irs.gov. Publication 517—“Social Security and Other Information for Members of the Clergy and Religious Workers” has a useful comprehensive example with forms that illustrate many of the tax implications for ministers. Also of interest are

Publication 15-A—“Employer’s Supplemental Tax Guide”, Publication 1828—“Tax Guide for Churches and Religious Organizations” and Publication 526—“Charitable Contributions”. A useful reference book for ministers and church treasurers is Church & Clergy Tax Guide by Richard R. Hammar, a certified public accountant and an attorney.

The publication entitled “Tax and Financial Guide for Local Churches” has a more thorough treatment of many of the tax-related issues mentioned here, and copies are available from the conference office upon request.”

Compensation and Benefits

Compensating our ministers includes both an enabling to meet personal living costs at a level that fits both the community and church family norms, as well as providing for their home. The principle used must be “as much as we are able”. Like most self-employed individuals, the minister should benefit from the “fruit of his/her labors” and neither be exploited through punitive frugality nor pandered to through unwarranted liberality. It is a Biblical responsibility for the church to pay what is “right” and for the minister to work productively for what is “agreed”. (Matt 20:1-15)

1. Personal Salary

Prior to the appointment of a minister, a stated salary should be agreed upon and placed in writing in church minutes. Thereafter, annual or semi-annual reviews should be conducted. It is demeaning for the minister to be forced to come “hat in hand”—suffering deprivation. It is also demeaning for the congregation to be manipulated to “pay what I want” under threat or intimidation. Open-reasoned, and regular discussion of realities must be provided for.

Salary Increases

The types of salary increase that should be considered are based on merit, performance, or excellence. These types of salary increases are where “fruit of labor” is rewarded. Growth, especially that resulting in additional church income, should be shared with the minister who helps it take place. This may be done through a pay increase or a bonus.

Cost of living

Changes brought about by inflation/recession movement within the region should be responded to appropriately. Regional *Consumer Price Index* reports are available. Automatic basic salary adjustments having nothing to do with performance should be made when called for. However, because such indexes may be heavily impacted by real estate, an “across the board” application of the percentages may not be warranted.

Taxation

For income tax purposes, our ministers should be treated as employees and not as self-employed individuals. Churches should issue an IRS Form W-2, not an IRS Form 1099, at the end of the year. See items 4 and 8, below, for more information on estimated taxes, tax withholding and Social Security taxes.

2. Housing

Church-owned home

When the church owns the home in which the minister will live there are certain understandings which must be reached. We recommend that the church provide for all remodeling and redecorating, maintenance and repairs, basic equipment (lawn, etc.), basic appliances (as needed), household furnishings such as window and floor coverings, and all utilities.

Ministers living in a church-owned house will not acquire equity nor share in capital gains as most homeowners do. It is suggested a special policy to offset that be considered, in which an annuity is funded through monthly investments. This should be done through tax sheltered instruments so as to reap those benefits. For example, \$125 per month invested at 7% interest will grow in ten years to \$21,654 and in twenty years to \$65,116.

A "parsonage allowance" should be designated by the LBA in addition to the fair rental value of the parsonage to cover out-of-pocket expenses incurred by the pastor.

Minister-owned home

The *Internal Revenue Code section #107* provides a significant tax advantage for purchasing a house. The housing allowance for "fair rental value", upkeep, and operational costs may be excluded from taxable income. In order to qualify, the following procedures must be followed:

The LBA must approve the allowance prior to the start of the period covered and record it in its minutes. This "approval" cannot be given retroactively. It is thus recommended that the housing allowance be approved in the last LBA meeting of every year for the following year. In the case of a new pastor, the LBA meeting prior to his or her start date should be used to approve the housing allowance.

The amount approved should be the amount requested by the applicable pastor. The amount should be a dollar amount and not a %. Note that the housing allowance does not change total compensation of the pastor, but merely allocates a portion of it.

The minister must keep detailed records of expenses, and if the entire housing allowance is not used for its allowed purpose, the unused portion must be added to taxable income on the tax return. It is recommended that the housing allowance be set on the high side to cover unexpected housing expenses.

The entire housing allowance must be added back into income amounts being used for figuring Social Security taxes.

3. Honorariums

Honorariums may be accepted from weddings, funerals, and outside speaking engagements. Ministers should report honorariums as self-employment income, separate from the compensation received from the church.

4. Estimated Taxes and Income Tax Withholding

Income tax is a "pay-as-you-go" system through income tax withholding. For example, an employee (non-minister) such as an office administrator or janitorial staff person normally must have income tax withheld from his or her pay. However, ministers are specifically exempt from income tax withholding. Ministers should make quarterly estimated tax payments to prepay their income taxes and self-employment taxes. They may, however, enter into a voluntary withholding agreement with the local church to cover any income and self-employment tax that may be due. This agreement is made on IRS Form W-4.

5. Health Insurance

While the Conference does not provide a group policy for health, dental or vision benefits for pastors or staff, local churches are urged to consider these benefits as essential parts of the employee salary and benefits packages offered. Consideration should be given to such issues as size of deductibles, out-of-pocket expense maximums, percentage of coverage

offered and accessibility to providers and care networks. Churches should seek to encourage the health and wellness of their staff and to protect them from the burden of catastrophic medical bills.

6. Vacation

A vacation policy should be established and be based upon the length of vocational service within the Free Methodist Church, not the current ministry assignment. Experienced ministers transferring into the Free Methodist Church should have like consideration for their years of service. Conference recommendations are as follows:

- 1st – 2nd year @ two weeks
- 3rd - 15th year @ three weeks
- 16th - 24th year @ four weeks
- 25th - 29th year @ five weeks
- 30th - retirement @ six weeks

Attendance at denominational and Conference functions are not vacation. They are business and professional meetings where local church representation and ministerial development generally take place.

Some ministers receive invitations for speaking/teaching outside of the local church. A policy should be written which covers how this will be handled. How much time will be allowed outside of vacation, what will be done with expenses and honorariums, etc. should be addressed. Outside ministry should be encouraged as long as it does not interfere negatively with ministry responsibilities.

Holidays are often celebrated on weekends and there is no way the minister can avoid assigned responsibilities. The generous church will find a way to compensate. It may rotate in substitutes for some holidays and grant alternate days for others.

Ministers should be expected to take off one to two days per average week as well as spend some evenings at home with family. Because ministers are cause-driven it may be necessary for church leadership to insist on this and accept any ramifications.

7. Sick Leave

Short-term illnesses should be handled as best possible when they occur. Long term illnesses should be covered by a policy that includes impact on continuation of wages, benefits, handling of pulpit duties and, at what point resignation would be appropriate.

Major illness is a time when, what a church would like to do and what it is able to do may conflict. For this reason a rational approach of having supplemental life insurance and short term disability in addition to the regular LTD and basic life insurance described in "9" in place is encouraged.

8. Social Security Taxes

The professional minister is considered self-employed for Social Security tax purposes. Therefore, the minister (not the church) is responsible for paying the entire self-employment tax under the Self-Employment Contributions Act (SECA). However, many churches provide one half of a pastor's Social Security taxes by giving additional income or a bonus to help cover the self-employment tax. This optional income or bonus is simply additional taxable income for the pastor.

The 1986 Tax Reform Act provides for a decision allowing ordained ministers to opt out of Social Security. This is a lifetime decision. It cannot be withdrawn! Opting out requires a conscientious/religious objector stand. Such a decision cannot be made on an economic

basis but only as a matter of conscience with integrity. Most Free Methodist ministers would not qualify for this exemption. The Conference does not recommend such a stand at this time.

9. Group Disability and Life Insurance Benefits

The Pacific Northwest Conference provides the following group benefits for those who are full time under Conference appointment at a local church. Premiums are paid by the local church.

1. Long Term Disability. Benefits include 60% of salary and housing allowance to a maximum monthly benefit of \$5,000. Benefits begin after a waiting period of 180 days of disability. Benefits duration periods are 24 months for Own Occupation and to age 65 for Any Occupation
2. Life Insurance. Benefits include life insurance of \$15,000 and Accidental Death and Dismemberment of \$15,000.

The company's name has changed to Gallagher Reppond, but the phone number is the same (1-800-542-3737). The contact people are Jennifer Conway and Robert Erlewine.

10. Pension

The Free Methodist Church pension plan is available to all its appointed ministers including supply pastors.

11. Retirement Plans

There are provisions in the law that allows ministers to invest certain funds for future retirement, bypassing income taxes until they are distributed. Only "qualified funds" can be used, and deposits must follow proper tracks. In some cases that means the minister may deposit the moneys personally; in others it means the church must deposit the moneys directly.

12. Study Leave, Professional Development (see also Ministerial Expenses 4.3)

Seminary advanced degrees may require additional time away. A minimum of two weeks should be set aside for study leave. Additional time needed should be worked out with the local church and pastor.

13. Sabbatical

Following seven years of service in a congregation, and at five-year intervals thereafter, Conference-appointed personnel, the pastor, and associate level staff are eligible for a two to three month sabbatical at full salary, in addition to the regular annual vacation. A specific proposal for such an arrangement, including goals for the sabbatical, plans for covering church responsibilities and financial understandings are to be submitted for approval to the Local Board of Administration and the Superintendent at least six months in advance. Sabbatical leaves are for the purpose of enhancing ministry to the church. They should, therefore, incorporate plans for study, taking classes or attending seminars, travel, ministry outside the church, or any combination of the above, along with some level of planned rest and renewal.

14. Severance Pay

There is generally no severance pay involved in the transaction between appointments of pastors. Vacation should be taken prior to the close of the Conference year.

Ministry Expenses

It is always better for the church to establish reimbursement account policies for expenses rather than an allowance procedure. In "reimbursements" the minister is required to turn in

expense reports to the church for payment. The minister then is not required to file a 2106 tax form as is required for “allowances”. The church also is able to establish a “need” basis and better monitor activity, and at no additional cost except ledger entries and check writing.

1. Travel Expense

Car expenses may be handled either in a monthly amount that is fixed, so expense reporting back is not required, or through an expense reported per-mile reimbursement. Either should consider not only gas but also maintenance, repairs, insurance and depreciation. For tax purposes it is highly recommended that the per-mile reimbursement method be used.

The minister who receives a fixed amount monthly must report it as income and justify the deduction of the ministry portion.

In some cases the church may provide a purchased or leased vehicle. The minister then should have a personal car or record and reimburse the church for personal use.

Trips that require other forms of travel, lodging or meals should be reimbursed as shown on an expense reimbursement report.

Ministers are advised to keep accurate and detailed records of business miles for tax purposes regardless of the way car expense is handled.

2. Office Expense

Furnishings and equipment are part of the “tools” for ministry the church provides for its ministers. These should be modern, in good condition (and appearance), adequate, and comfortable. They belong to the church and remain after a minister leaves.

Supplies such as paper, filing materials, postage, business cards, calendars and appointment books, tape, staples, etc. are church expense. It is best if an account with a supplier is established so these can be purchased as needed without requiring immediate payment.

The telephone/cellphone is an essential part of ministry equipment. The church should reimburse for all ministry related calls.

3. Entertainment Expense

Local ministry may include expectations for attending ministerial associations, joining civic clubs, or participating in interchurch programs. The local church should reimburse such expense. Where such functions are truly optional to the minister they may be considered personal expense.

Some effective ministry is done over coffee or meals. Within reasonable and determined parameters the church should reimburse for these expenses.

When ministry expectations include hosting visiting persons or require the attendance of a spouse to specific events the church should provide reimbursement for costs, including childcare.

4. Conference Functions

Annual Conference

All licensed ministers are required to be present at the Annual Conference to represent their church. The expense for this responsibility properly belongs to the church and should be so budgeted and authorized. Time for this event is not vacation time.

The local church should also attempt to fund the expenses of their delegates to the Annual Conference.

In-Service Training

Events such as Pastors Days and the annual Pastors and Spouses Retreat are provided for training and spiritual development. All ministers and spouses are encouraged to participate for their own spiritual well-being, refreshing and development, as well as the significant benefits of building the ministerial team and peer interaction. The Conference funds Pastors Days. The Pastors and Spouses Retreat costs should be a part of the church ministry budget.

Continuing Education Units

The local church should expect its ministers to keep professionally up-to-date and will benefit thereby. The “pew” seldom rises higher than the “pulpit”. The Free Methodist Church requires a minimum number of CEU credits. The board may even want to participate in the selection of curriculum. It is strongly recommended that this be provided for in the budget at least to the level of Conference requirements.

Formal education, seminars, workshops, classes, etc. outside of FMC/CEU requirements accrue to the personal and professional benefit of the minister. The church should consider participating in the full or partial reimbursement of these expenses as the local church will benefit too.

5. Mission Trips

It is recommended that the church establish a policy and program that will enable its ministers to visit mission fields. This produces something special in the life of the minister and produces great dividends for the church itself.

Professional Expenses

There are certain expenses that, in the normal performance of ministerial functions, will be incurred. It is good for a church to assist in covering these costs. If a church determines to not establish an allowance to cover such expenses, the minister must remember that many of these expenses may be deducted from personal income taxes.

1. Marriage Enrichment

The local church is encouraged to support their ministerial couples in seeking marriage enrichment opportunities.

2. Books and Periodicals Allowance

The strength of the Church rests in its ministers. When the minister continues to grow and develop, everyone benefits. It is recommended that the local church consider participating by reimbursing for applicable books or providing a book/periodical allowance that will enable its minister to purchase these tools and build their personal library.

3. Dues

Certain ministers may be required (or prefer) to belong to professional organizations that keep their credentials valid or provide other district benefits. The church may want to assist with these as it reviews them on an individual basis.

4. Designated Gifts

At times, individuals desire to give designated money for special projects related to the minister, personally. These may be for non-vacation trips, equipment, studies, etc. Those dollars may be passed through the church accounts and receipted as contributions as well as non-taxable income for the minister, as long as the designation is approved by the Local Board of Administration and clearly marked for professional enhancement.