



Instructions for Completing the 2012 Pastoral Services Worksheet for Pastors who Own/Rent a Home

I. Pastoral compensation

- A. Base salary.** The base salary refers to the portion of compensation provided to sustain the leader called to carry out the Lord's work as a pastor within a local congregation. The base salary should reflect an appropriate starting salary for a new pastor in your region, excluding housing, adjustments for years of service, or professional expenses. (Allowances for these factors are accounted for separately on the worksheet.) The base salary for a part-time pastor should be prorated using the ratio of actual number of days per week that he or she is contracted by the church divided by the standard number of days worked by a full-time pastor (e.g. the starting base salary for a part-time pastor working three days a week at a church where full-time is five days per week should be $\frac{3}{5}$ of the full-time base). If you are uncertain what amount to use, your bishop can assist you.
- B. Increments for years of service.** Historically, the denomination has recommended adding \$800 for each year a pastor has shepherded a congregation within the Brethren in Christ Church, up to a maximum of \$8,000. Part-time pastors are entitled to increments as well, prorated as in A (e.g. $\frac{3}{5}$ of \$800 = \$480/year of service up to \$4,800). Churches in start-up mode or experiencing financial decline should work with their bishop to determine appropriate compensation increments.
- C. Education consideration.** Although the General Church does not mandate a specific amount for this item, \$900 is the suggested amount for a seminary degree. The education amount should be prorated for less than a full degree. To date, further education (e.g., D. Min.) has not qualified for additional remuneration.
- D. Compensation in lieu of a church-provided parsonage.** The church shall budget an amount commensurate with the total cost of buying, furnishing, and maintaining a median-priced home in the church's community. Compensation in lieu of a parsonage shall reflect the rental value of such a house, not necessarily the actual mortgage and other related costs incurred by the pastor for housing. Seek objective criteria from local realtors and bank representatives to establish the amount to use for compensation in lieu of a parsonage.
- E. Total of lines.** Total of previous lines used to calculate social security allowance.
- F. Social Security allowance.** Multiply line E by 7.65% (.0765) to calculate the amount of additional compensation the church should pay to help cover the portion of social security taxes that would normally be paid by an employer.
- G. Social Security taxable income.** In computing the Social Security tax on Schedule SE of Form 1040, non-retired ministers must include the actual housing allowance exclusion as income on line 2 of either the "short" or "long" Schedule SE (whichever applies). To determine your pastor's social security taxable income, add together lines E and F and place the total on line G.
- H. Pastor's housing allowance estimate.** A pastor, according to IRS regulations, is entitled to a housing allowance for eligible housing-related expenses that he/she incurs. It is the responsibility of the pastor to provide an estimate of actual housing expenses. Very rarely is this the same amount as line D. It can be more or less, depending on anticipated costs in a given year. Although the designated housing allowance (line H) does not have a bearing on what he/she is paid, it does provide a significant income tax benefit for your pastor. Upon the completion of a Housing Allowance Worksheet, the total estimated amount is entered on line H.
- General Conference Treasurer Elizabeth Brown has prepared a video explanation of the pastoral housing allowance.*



- I. Income reportable to IRS as wages on a W-2 or as self-employed income on a 1099.** Subtract line H from line G to arrive at the amount to be reported to the IRS as the pastor's wages/income. If your pastor does not use the entire housing allowance for allowable housing-related expenses, he/she must report the difference as additional income to the IRS.
- J. Contribution to retirement fund.** Multiply line E by 10% (.10) to calculate the expected contribution by the church into the pastor's retirement plan.
- K. Contribution toward health insurance premium.** The church should provide an insurance policy to cover the medical care of the pastor and his/her dependents, with the costs either covered in full by the church or in a shared payment arrangement between the pastor and the church. (Duplication of policies is not encouraged.)
- L. Pastor's total compensation.** Add together line G (Social Security taxable income), line J (contribution to pension plan) and line K (health insurance premium) and enter the total on line L.

II. Accountable business reimbursements

It is recommended that each congregation adopt the policy to fully reimburse all reasonable professional expenses incurred by the pastor(s).

Since the intent of the policy is to provide the funding needed for the pastor to carry out the ministry of the church, it is desirable to establish a policy that avoids burdening the pastor with unnecessary taxes or tax reporting. To accomplish this, the church must have an **accountable reimbursement policy**. Without an accountable reimbursement policy, these payments are subject to income taxes and are to be included on the pastor's W-2 or 1099 as income.

Adequate accounting for reimbursement, according to the Internal Revenue Service, includes the following:

- 1) The expenses are reasonable in amount;
- 2) The minister documents the **amount, date, place, business purpose**, and in the case of entertainment expenses, the business relationship of the person(s) entertained **of each such expense**; and
- 3) The minister substantiates such expenses by providing the treasurer with an accounting of such expenses no less frequently than monthly. In no event should an expense be reimbursed if substantiated more than 60 days after the expense is paid or incurred by a minister.

General Conference Treasurer Elizabeth Brown has prepared a video explanation of an accountable reimbursement plan.

III. Total pastoral compensation/remuneration for 2011

Add lines L and R to determine the total 2011 budget amount needed to fairly compensate your pastor and provide adequate funding for ministry-related expenses.