



Instructions for Completing the 2012 Pastoral Services Worksheet for Pastors who Live in a Parsonage

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 $3/5$ 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. $3/5$ 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. Fair market rental value of the parsonage. This should be an agreed upon amount between the pastor and church board. The pastor and church pay self-employment tax on this amount and it also figures into the amount that the church contributes to the pastor's pension fund. Therefore, care should be taken to neither over or understate the amount.

Including utilities paid by the church. To avoid the tax consequences for the pastor on this allowance, the church must have an accountable reimbursement plan or must pay the utility bills directly to the utility provider. Otherwise, this allowance is subject to income taxes and must be reported on the pastor's W-2 or 1099 as income.

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. Enter this amount on line F.

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 parsonage allowance estimate. Ministers who live in a church-owned parsonage often incur expenses in maintaining the parsonage. Common examples include repairs, insurance, and furnishings. The portion of a minister's compensation that is designated in advance by the church as a "parsonage allowance" is nontaxable for income tax reporting purposes to the extent it is used by the minister to pay out-of-pocket expenses incurred in maintaining the parsonage.

General Conference Treasurer Elizabeth Brown has prepared a video explanation of the pastoral housing allowance.



- I. Income reportable to IRS as wages.** Subtract lines D and H from G to determine the figure to be reported to the IRS on the W-2 or 1099 form as the pastor's wages/income. If your pastor does not use the entire parsonage allowance for allowable parsonage-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 amount the church is encouraged to contribute toward the pastor's retirement fund.
- 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 I (income reportable to the IRS as wages), line J (contribution to pension plan), and line K (health insurance premium) and enter the total on line L. Keep in mind that line D is not a cash payment, so the actual out of pocket cost to the church is the cost of keeping up the parsonage, not the fair rental value of the parsonage.

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 2012

Add lines L and R to determine the total 2012 budget amount needed to fairly compensate your pastor and provide adequate funding for ministry-related expenses.