

# THE CORNERSTONE

A good compensation package, including benefits like retirement and insurance, protects both the minister and church from unforeseen events. It ensures ministers have support, even if unable to fully carry out their ministry call for the church.

A basic compensation package has three components:

## 1. Cash compensation:

- Salary or base wage of compensation is reported on line 1 of Form W-2. Ordained ministers have a dual tax status. They are considered employees for wages, but self-employed for Social Security and Medicare. Therefore, never take out taxes for Social Security and Medicare through a minister's W-2. A church is permitted to withhold federal tax from the minister's W-2 if the minister has an agreement with the church to do so.
- Housing/Parsonage Allowance is the specified amount of pay which must be designated by the church this portion of pay is not subject to federal tax but is subject to Social Security and Medicare tax if the minister has not filed for and received an exemption from the IRS. The housing allowance is typically reported on line 14 of Form W-2 for information purposes only.
- Social Security/Medicare Tax Offset is the amount given to the minister to compensate for having to pay the full amount of Social Security and Medicare tax. This amount is 7.45% of the combined salary and housing allowance portion of payment, and would be added to the base compensation reported on line 1 of Form W-2

## 2. Benefits package:

- Retirement investing: An ordained minister should seek out a church-sponsored 403-B plan such as offered through GuideStone or Clergy Advantage, This special type of plan allows ministers to deposit money, tax-deferred and, if used for housing, take it out tax-free. Thus they are far superior to any traditional IRA.
- Disability Insurance: Statistics show that an individual is far more likely to become disabled than to die a pre-

mature death. Having an adequate disability policy is an often overlooked and underappreciated benefit.

- Health insurance
- Life Insurance

3. Reimbursement of job-related expenses: With an IRS compliant accountable plan, some expenses can be reimbursed. Examples of reimbursable expenses include:

- Business-related travel and automobile use
- Hospitality
- Conference attendance
- Continuing education
- Subscriptions/books/periodicals
- Fees and dues for professional associations
- Work-related cellphone use
- A church credit card can be very valuable for reimbursable job-related expenses. An ordained minister, or any employee, may use the card and, as long as they meet the guidelines for a compliant accountable plan, they incur no tax consequence and have no out-of-pocket cost.

This article is addressed primarily to licensed/ordained/commissioned ministers of the gospel. Tax benefits such as the housing and parsonage allowance are exclusive to this class of ministers. Specific guidelines are put forward by the IRS. Denominational polity also plays a factor in who can and cannot be so designated.

This article is written for general information purposes and is not to be taken as specific financial or legal advice. Individuals are encouraged to consult their own professional counsel in dealing with their specific situations. There is much nuance around many of these topics of which this article only serves as a brief summary. For additional information consult source documentation.

Information is taken from:

- <https://www.guidestone.org/CompensationPlanning>
- [https://www.mmbb.org/docs/MMBB\\_Compensation\\_Guide.pdf](https://www.mmbb.org/docs/MMBB_Compensation_Guide.pdf)
- <http://ssfoundation.net/pastors/faq/the-pastor-and-his-salary-package/>
- <https://static1.squarespace.com/static/57f2960d440243f93267edde/t/5824bea46b8f5ba506526b53/1478803110166/Minister%27s+Compensation+Manual.pdf>

