

# Guidelines for Clergy Compensation

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Paragraph 624.2 of the 2004 *Book of Discipline* spells out the purpose of the Commission on Equitable Compensation. Of the three purposes, the Commission for our conference has done an admirable job on the first two. This booklet is the result of our focus to fulfill the third purpose. Paragraph 624.2c of the 2004 *Book of Discipline* states the purpose is to... “provide counsel and advisory material on pastoral support to district superintendents and committees on pastor-parish relations.”

We offer the following pages as the fulfillment of our responsibilities, and a helpful guide to the churches of our conference.

If you have questions about the information provided here, or about matters related to Equitable Compensation, you may contact:

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## **Guidelines for Clergy Compensation**

To: Committee on Pastor-Parish Relations (Staff-Parish Relations)

Considering and arriving at the recommendation for your pastor's compensation is one of the most difficult tasks of your committee. This task is undertaken with prayerful guidance, discussions with and evaluation of the pastor(s) and full consideration of the ministry of the local congregation. The Commission on Equitable Compensation has prepared this advisory material to assist you. We hope you find it instructive, and helpful.

The PPRC (SPRC) should consider themselves as stewards of the church's resources, both material and personnel. Your committee leads the way in being sensitive to the local church's mission and being sensitive to the needs of its workers. Moreover, the church has a spiritual obligation to provide adequate support for those who labor in the local church. This means providing adequate salaries and benefits, uninterrupted times for rest, relaxation and spiritual growth, and providing for the staff's continued professional growth.

The Book of Discipline assigns you the responsibility to consult\* with the pastor(s) and staff on matters pertaining to compensation proposals and benefits, and to make annual recommendations regarding such matters to the Committee on Finance to be incorporated into the proposed budget for the coming year. The Administrative Board/Council then considers your recommendations and the total budget. The Charge/Church Conference votes separately on pastoral compensation.

\*Consultation requires more than informing. It is appropriate that the pastor be present, and engaged in the discussions involving compensation throughout the process of formulating the compensation recommendation.

Adequate time must be allowed for this important process. Having met no less than four times in the year develops a relationship for discussion. It is appropriate to begin considering compensation for the following year in July, as many church/charge conferences occur in the early fall.

Factors to be considered in relationship to compensation for your pastor(s) include:

- Churches of similar size in your area
- Churches of similar size in the conference
- Other professionals with similar education

A full-time pastor in the Detroit Conference must be paid at least the minimum cash salary for her/his years of appointed service in the United Methodist Church. A chart of the 2009 Minimum Compensation Schedule illustrating years of service, and minimum salary levels is included with this material. (See page 15)

## **Counting Years of Service for Salary Schedule & Compensation**

**Resolution Adopted by DAC – May 2008**

The Detroit Annual Conference establishes the following guidelines for counting years of service as it relates to salary schedules and compensation:

- a) Clergy serving full and part time will have years of service counted equally for the purpose of moving through the salary schedule.
- b) Clergy serving more than six months under appointment in a year will be credited with a full year's service for the purpose of moving through the salary schedule.
- c) Clergy serving six months, or less under appointment in a year will remain in the year of the salary schedule they are in. When an additional full year of appointment is completed, clergy will move to the next year in the salary schedule.
- d) Years of service for salary schedule purposes are carried over equally from the categories of Local Pastor to Associate Member, and from Probationary Member to Full Member.
- e) Years of service for salary schedule purposes for those moving from either Local Pastor to Probationary Member, or Associate Member to Probationary Member, are given half credit for up to 10 years of service. No pastor moving from Local Pastor or Associate Member to Probationary Member will be given more than five years credit in the Probationary Member salary schedule. Pastors who have served an odd number of years as a Local Pastor or Associate Member will be have their service counted at the next lower number of even years for the purpose of arriving at the value of their previous years of service, and beginning year in the Probationary Member schedule.

## **Compensation Increases for 2009**

Salary increases are given to help meet rising costs of living and to honor service in the ministry of the local church. Some local churches use a percentage increase as experiences by other professionals, while other churches determine a fair dollar amount to be added to the current year's salary.

An increase should reflect both cost of living and merit. The Commission on Equitable Compensation uses the Consumer Price Index to determine this figure. This information is available at the Bureau of Labor's website, [www.bol.gov](http://www.bol.gov)

Please know the CPI increase fluctuates each year. Last year was a different percentage than this year, and next year will likely be different too. The percentage

increase for 2009 is in response to the increases in the Consumers Price Index for 2007. It may well be that the year for which the increase seeks to address in the salary schedule is very different in terms of fluctuations in the CPI than the year it is put into place. Since Annual Conference adopts the schedule in May, and in response to the previous year's changes in CPI, this lag exists.

It should be known by your committee, to propose a raise which does not meet the increase in CPI is to ask your pastor or staff person to take a reduction in salary, as their buying power is diminished by rising costs as are yours.

With regard to merit, we recommend the following:

Performance	Recommendation
Poor	No Increase
Fair	.50 – 1.50%
Good	1.51 – 3.00%
Excellent	3.01 – 4.50%

It is a fair question as to how the committee would arrive at measuring performance, and coming to a recommendation regarding merit increases. This issue is easily enough dealt with if the PPRC/SPRC and the pastor(s) establish mutually agreed upon goals annually, by which the committee will be measuring merit worthy performance.

For example, if the pastor and the SPRC agree on five goals the pastor will focus on achieving in the year in which they will be evaluated for a merit increase, and all of the goals have been accomplished, the SPRC may consider that to be good performance, and give a merit increase accordingly. If the pastor and SPRC also agree on goals that if achieved, would go above and beyond, and those goals are achieved, that kind of performance would be considered excellent, and a merit increase to reflect would be appropriate. If fewer than the agreed upon number of goals were accomplished by the pastor, a merit increase of fair or poor would be appropriate.

At times in the life of congregations, due to economic forces beyond the control of most, churches will not be able to offer the amount of a salary increase to their pastor as they would desire. In these times, it is appropriate to share their desire to offer more to both their pastor and the District Superintendent. Care should be made to make sure the pastor and the District Superintendent understand the stressed budget of the church, and the desire to do more than current finances will allow. Churches who use this reason as merely a crutch, and make a habit of foregoing appropriate salary increases for their pastor so as to put together an easily met budget offer a poor witness of the goodness and abundance of God, and their call to share such goodness and abundance.

Some pastors will choose to forego in part or in whole the merit increases offered to them for a variety of personal reasons. In these cases, it is appropriate to inform the

District Superintendent of how the SPRC feels about the performance of the pastor, and that the increase being given does not indicate the full picture with regards to the performance of the pastor.

**Please note:** These are recommendations to assist you. *The Book of Discipline* clearly states that the primary responsibility for determination and payment of pastoral salaries remains with individual pastoral charges.

## **Further Comments about Compensation**

1. Do not include mileage reimbursements and continuing education payments in a pastor's paycheck. If these are simply included in a paycheck, they become fully taxable and must be reported on a W-2 Form.
2. A Professional Reimbursement Account may be established to reimburse the pastor for expenses related to the ministry of the congregation. These are to be vouchered, and payment is not to be included in a paycheck.
3. Pastors and staff who meet the criteria are eligible to reduce taxable income by arranging with the local church and the General Board of Pensions to have their PIP contribution to their account with the Board of Pensions a 403(b) tax deferred annuity.
4. Pastors living in church-provided parsonages may designate a portion of their compensation as a Household Furnishings Allowance. This amount is paid directly to the pastor in their regular paycheck, and the pastor bears the responsibility to satisfy the IRS that allowable expenses have been incurred. The amount (if any) that falls short of qualifying expenditures becomes taxable income, and is reported as such by the pastor to the IRS.
5. Pastors living in their own homes are eligible for the same Allowance, and the same IRS requirements apply.
6. FICA vs. SECA issues and Mileage reimbursement issues have been addressed on later pages, with information researched and compiled by the Conference Treasurer.

## **Other Items to Consider**

1. All full-time pastors shall be provided a parsonage or a housing allowance. The conference policy that governs clergy housing concerns is included in this booklet. Care should be taken to dispel the notion that "The pastor has it made, in that the church has to provide them a house to live in, and a full

salary too.” Parsonages or Housing Allowances are provided as a part of the full compensation package, not in addition to those packages.

2. The charge shall pay the health insurance premiums for coverage relating to individual, couple, or family in the Conference Health plan, as is applicable to their currently appointed pastor(s). The pastor shall pay the percentage of health insurance premiums billed to them according to their participation, and salary level.
3. The church shall pay the billed amount of pension to the Annual Conference. All unpaid balances accumulate.
4. The charge shall provide a continuing education allowance for each pastor appointed. This amount should be arrived at after careful investigation into what continuing education opportunities cost. This budget category is to be used on a vouchered basis, and is not a part of the pastor’s taxable compensation. The charge is encouraged to look upon this allowance as an investment in future ministry.
5. The pastor shall be reimbursed for vouchered miles driven in parish work at the IRS rate. Some churches will need a larger amount set for this expense due to the likely travel distances their pastors will face. Travel reimbursement is not to be looked upon as a part of the pastor’s compensation, but rather a cost of doing ministry.

## **Commonly Asked Questions**

### **1. Why is there a minimum salary schedule for full-time clergy? Why don’t we allow churches to pay what they can afford?**

One of the key factors in appointing pastors in the United Methodist Church is the missional needs of the congregation. A pastor can neither lobby for a more lucrative position, nor can he/she refuse an appointment based on the salary it offers. Moreover, the United Methodist Church actively discourages any outside employment for pastors in full-time appointments. A Minimum Salary based on years of service guarantees a pastor that no matter where he or she is asked to serve, there will be fair compensation.

### **2. How is the Minimum Salary determined?**

The current salary schedule was arrived at considering the various groupings pastors within the denomination would fit. With little exception, the schedule is merely adjusted annually for cost-of-living increases.

### **3. If a church would like to have a full-time pastor, but is not able to pay the full minimum salary, is there Conference help?**

Yes, the Commission of Equitable Compensation, upon request of the congregation and approval of Cabinet will consider grant requests. The commission requires a number of pieces from the congregation to consider requests. These include, the plan for coming off compensation support, an understanding of how the congregation finds themselves needing support, full financial disclosure.

Not every request is granted, and not every request that is granted is fully granted. The Commission has a limited budget, and has to make the best possible use of the funds available.

Compensation support, when granted, is done so on a declining schedule. The intention of the Commission is that the grant would be needed for no more than 5 years. To illustrate, a church might receive support in the amount of \$2000 for the first year, \$1600 for the second year so on to the fifth year, after which there would no longer be support provided.

### **Flexible Housing Policy Resolution adopted by DAC: May 2007**

It was resolved that the Detroit Annual Conference adopt the following revision to the flexible housing policy for clergy.

The historic parsonage system is the basic housing policy of the Detroit Annual Conference. In recognition of changing circumstances which may indicate that the basic policy of a church-provided parsonage may not be desirable in every situation, the Detroit Conference and the 2004 Book of Discipline &259.2g)(16), recognize that exceptions thereto may be made.

All pastors serving full time in local churches, all conference staff members who are clergy, and district superintendents shall be provided with a parsonage or housing allowance. Housing or a housing allowance shall not be considered as part of compensation or remuneration, but shall be considered as means provided by the local church/conference, and for the convenience of the local church/conference to enable its ministry and the itinerant ministry of the annual conference.

The guidelines for providing a housing allowance are as follows:

1. The Bishop and cabinet must be informed by letter of request from the pastor and /or the local church, including a rationale for the exception, and approval must be granted before negotiations progress.
2. (a) Negotiations to establish a housing allowance in a local church will include the pastor, the pastor/staff parish relations committee, the finance committee, and the chair of the board of trustees. The district superintendent shall be kept informed

as negotiations progress. The purpose of these negotiations is to develop a clear understanding by all parties as to the arrangements mutually acceptable. Final arrangements must have approval of church/charge conference.

(b) Negotiations to establish a housing allowance for a cabinet appointment will include the district superintendent, the district superintendency committee, the district board of trustees or parsonage committee, the district board of church location and building, conference council on finance and administration, trustees of the annual conference, and the bishop. Final arrangements must be mutually agreed to by these parties.

(c) Negotiation to establish a housing allowance for a conference staff appointment will include the staff person, the personnel committee, conference council on finance and administration, the trustees of the annual conference, and the bishop. Final arrangements must be mutually agreed to by these parties.

(d) Negotiations to establish a housing allowance for a new church start, will include the committee on church extension of the conference board of global ministries, the associate council director for parish development, the district superintendent, the local congregation leadership team and the pastor. Final arrangements must be mutually agreed to by these parties.

3. A written record of the housing agreements (signed by the parties mentioned above) shall be maintained in the files of the district superintendent, the pastor, and the charge conference, and also by the bishop's office and conference trustees where applicable. The written agreement will stipulate clearly:

(a) the amount to be allowed every month;

(b) a written statement, signed by the pastor, agreeing that the arrangement for a housing allowance in lieu of a parsonage shall not hinder participation in the itinerant system for future appointments; and

(c) a written statement, signed by the pastor-parish relations committee, agreeing that the arrangement for a housing allowance in lieu of a parsonage shall not hinder the acceptance of a subsequent pastoral appointment where a church/charge must provide a parsonage (either through purchase or rental). The church/charge conference shall also have the option to change to a parsonage at subsequent transition times.

4. It is recommended that a housing allowance may be based on the rental value and cost of utilities of an average home in the parish setting that meets conference parsonage standards.

5. No assets from the sale of a church-owned parsonage shall be used for current operating expenses of the charge (*2004 Book of Discipline, &2542.1*) Proceeds from the sale of such a church-owned parsonage shall be placed in escrow by the trustees of the local church, at least equaling an amount necessary to cover the future purchase

of a parsonage or an amount to cover a down payment plus closing costs. It is recommended that the principal amount in escrow be adjusted annually to provide equity with inflation and the real estate market. Interest received from an escrow account may be used toward the provision of a housing allowance or housing related expenses. Any such sale of a church-owned parsonage must include consent of the pastor, district superintendent, board of church location and building, and the charge conference (*2004 Book of Discipline* &2539.3, &2540.3).

If the parsonage is not sold, but held for rental purposes, income may be applied toward a housing allowance for the pastor or for current expenses. Said rental parsonage shall be maintained at the conference and local community rental housing code standards and inspected annually by the local board of trustees, in readiness for possible future use as the parsonage. The rental/lease agreement shall include a clause requiring the renter/lessee to vacate the house on 30 day notice in the event the house is needed for service as a parsonage.

6. Once initiated, a housing allowance shall continue for the duration of a pastoral appointment. The allowance shall be subject to annual approval of the charge conference. The charge conference shall not have the authority to reduce the housing allowance without negotiation and consent of the pastor, the committee on pastor-parish relations, and the district superintendent.

7. The local church/charge shall allow the pastor who receives a housing allowance to live where they choose in the community served. If the pastor chooses to live outside the communities served, they must receive approval of the Charge/Church Conference and the district superintendent.

8. The housing allowance may be used for purchase, rent, or lease expenses as desired by the pastor.

9. If a church needs to purchase a parsonage for an incoming pastor, some housing accommodation shall be provided for the pastor until the new parsonage is ready and any extra moving and storage costs shall be the responsibility of the local church or appropriate conference agency.

10. If a pastor is granted an exception to the parsonage system, after living in the parsonage, the costs of moving to another home using a housing allowance is the pastor's. If a church is granted an exception to the parsonage system after providing a parsonage for the pastor, the costs of moving the pastor are borne by the church.

## Mileage Issues

### **Allowance versus Accountable Reimbursement:**

Allowance: Sometimes pastors and church treasurers do not want to “bother” with reviewing the travel expense of the pastor. They prefer to give an “allowance” that the pastor will use for travel as needed. The money provided for travel through an allowance (a non-accountable arrangement) is **taxable income** to the pastor and must be reported as part of **taxable salary in Box 1 of the W-2**.

Accountable Reimbursement: The recommended treatment is to reimburse the pastor for travel expenses as they occur. This involves recordkeeping on the part of the pastor, and review on the part of church officials. This method makes the travel reimbursement an **expense of the church** and it is **not taxable income** to the pastor. It is **not reported on the W-2**. However, to use this method there are boundaries that must be observed. The pastor is reporting an IRS matter (taxability of the income) to the church instead of the IRS; the church officials must be diligent in determining whether the reimbursement is legitimate according to IRS definitions of business expense. Following are some guidelines:

1. You must “**substantiate** reimbursements of business expenses under an accountable reimbursement arrangement. If you fail to keep the records required by law, then you cannot claim a reimbursement from the church for business expenses that you incur. ...Section 274(d) of the tax code states that no deduction for local business transportation, overnight business travel (including meals and lodging), business entertainment, or gift expenses will be allowed unless a taxpayer can substantiate the information summarized in Table 7-6 (attached). You must be able to substantiate each item *by adequate records or by sufficient evidence corroborating your own statement.*”<sup>1</sup>
2. **Adequate records**: “You should keep the proof you need in an account book, diary, statement of expense, or similar record. You should also keep documentary evidence that, together with your record, will support each element of an expense.”<sup>2</sup>
3. **Documentary evidence**: “You generally must have documentary evidence, such as receipts, canceled checks, or bills, to support your expenses, [except for] transportation expense for which a receipt is not readily available.”<sup>3</sup>
4. For transportation expense, a log of trips must be presented, showing a) the date of the travel, b) the destination, c) business purpose of the expense and d) relationship of the recipient that establishes their business relationship.
5. **Proving business purpose**: “You must generally provide a written statement of the business purpose of an expense. However, the degree of proof varies according to the circumstances in each case. If the business purpose of an expense is clear from the surrounding circumstances, then you do not need to give a written explanation. (*Example: A minister who frequently visits church members*)

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<sup>1</sup>Hammar, Richard R., Church Law & Tax Report, Church & Clergy Tax Guide, 2004 edition, Christian Ministry Resources, Matthews, NC, 233.

<sup>2</sup> Ibid., 234

<sup>3</sup> Ibid, 234.

*in a local hospital does not have to give a written explanation with each entry”<sup>4</sup> except to note “hospital”, and “church member’s name”. A visit to a family member of the minister, if the relative is not a member or attendee at the appointed church, would not qualify as a business purpose of the church and would not be submitted for reimbursement.)*

6. **Confidential information:** To protect the privacy of church members, the pastor does “not need to put confidential information relating to an element of an expense (such as place, business purpose, or business relationship)” in the record for reimbursement that is submitted to the treasurer for payment. That record will be maintained by the treasurer along with other audit papers, and will be viewed by other persons in the course of the audit. “However, [the pastor must] record the information at or near the time of the expense, and make it available to fully prove that element of the expense.”<sup>5</sup> The Pastor-Parish Relations Committee is the “human resource department” for the pastor; it is recommended that one person from that committee be designated to review the travel expense reimbursement request, and that full disclosure of information be made to that one person in order to fulfill the church’s duty of *verifying the taxability of income* that will be provided by the reimbursement. When the detailed information has been reviewed, the PPRC person authorizes an abbreviated version of the travel expense report and presents it to the treasurer for reimbursement. Any questions about a particular item of expense will be referred to the PPRC person, who will verify whether or not the item stands as an expense with a business purpose.
7. **Commuting:** “Daily transportation expenses incurred in going between a taxpayer’s residence and a work location are nondeductible commuting expenses. For example, daily transportation expenses ministers incur in driving between their home and the church are nondeductible commuting expenses and cannot be treated as business expenses.”<sup>6</sup> This is an IRS rule.
8. **Employment at a Temporary Location:** “Driving from home to a local hospital to visit members of the congregation [can be reported as a business expense rather than personal commuting.] The entire cost of these trips, whether the pastor goes from the hospital to the church or returns home, can be reported as business expense. However, if the pastor goes on to the church after stopping at the hospital, and at the end of the day returns directly home without stopping at any temporary work location, then the trip home must be treated as personal commuting and not as a business expense. [If the pastor] works at two places in one day [a two-point charge appointment], you can [report] the expense of getting from one workplace to the other. However, if for some personal reason you do not go directly from one location to the other, you cannot deduct more than the amount it would have cost you to go directly from the first location to the second.”<sup>7</sup>
9. **Standard mileage rate:** “A simple, common method of computing transportation expense is to multiply the standard business mileage rate for each business mile

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<sup>4</sup> Ibid, 234.

<sup>5</sup> Ibid, 234.

<sup>6</sup> Ibid. 195.

<sup>7</sup> Ibid, 196.

that can be substantiated.”<sup>8</sup> (*IRS rates: In 2007 the standard mileage rate for business miles is 48.5 cents per mile for all miles driven. The charitable mileage rate is 14 cents per mile, and the medical mileage rate is 14 cents per mile.*)

- 10. Business versus Charitable:** While on business related directly to the congregation, the standard mileage rate for business applies. While on business related to another entity, such as a conference committee, mileage reimbursement would be made by that entity at the charitable (volunteer) mileage rate. Reimbursements claimed on Form 1040 for medical mileage would be calculated at the medical mileage rate. *The church would not reimburse the pastor for mileage incurred in obtaining personal (or family) medical services.*
- 11. Timely substantiation:** When employees substantiate business miles with adequate records at least every 60 days, and are reimbursed at the IRS approved rate, reimbursements are not taxable income and should not be included in the pastor’s W-2.<sup>9</sup>
- 12. Travel expense of a spouse/dependent:** Reimbursement of the travel expenses of a non-employee spouse or child will represent taxable income to the minister, unless the church required that the minister be accompanied by his spouse or child while on business trips for accountability purposes.<sup>10</sup>
- 13. Educational expenses:** Some educational expenses are deductible by ministers as an itemized deduction on Schedule A of Form 1040. Special rules apply; consult a tax manual or tax preparer. Some employer-provided education assistance may be excluded from taxable income if an accountable reimbursement plan for professional expenses exists. Again special rules apply. Travel associated with educational expenses can not be substantiated as the business expense of the church. Travel could be covered in an accountable reimbursement plan if properly instituted.
- 14. Continuing education:** One of the duties of the Pastor-Parish Relations Committee (*2004 Book of Discipline*, ¶259.2g(8)) is “to consult with the pastor and staff concerning continuing education and spiritual renewal, to arrange with the church council for the necessary time and financial assistance for the attendance of the pastor and/or staff at such continuing education and spiritual renewal events as may serve their professional and spiritual growth, and to encourage staff members to seek professional certification in their fields of specialization.” As part of their supervision, District Superintendents are to (¶421.5) “receive annually from each clergyperson a report of his or her program of continuing education and spiritual growth, to give counsel concerning future plans, and to encourage congregations to give time and financial support to such programs.” When a plan of study, seminar, conference, or other activity that constitutes continuing education is approved by the PPRC and the District Superintendent, time and money may be allocated, after consultation and with approval of the PPRC and Finance Committees, for the support of such activity. Reimbursement of expenses from appropriately budgeted funds is made upon presentation of PPRC-approved documentation. Assistance with continuing

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<sup>8</sup> Ibid, 197.

<sup>9</sup> Ibid, 198.

<sup>10</sup> Ibid, 209-210.

education costs may also be provided by the Conference Board of Ordained Ministry.

**Table 7-6: How to Prove Certain Business Expenses<sup>11</sup>**

IF you have expenses for:	THEN you must keep records that show details of the following elements:			
	Amount	Time	Place or Description	Business Purpose and Business Relationship
<b>Travel</b>	Cost of each separate expense for travel, lodging, and meals. Incidental expenses may be totaled in reasonable categories such as taxis, daily meals, etc.	Dates you left and returned for each trip and number of days spent on business.	Destination or area of your travel (name of city, or other destination).	<u>Purpose</u> : Business purpose for the expense or the business benefit gained or expected to be gained.  <u>Relationship</u> : Not applicable.
<b>Entertainment</b>	Cost of each separate expense. Incidental expenses such as taxis, telephones, etc. may be totaled on a daily basis.	Date of entertainment.	Name and address or location of place of entertainment. Type of entertainment if not otherwise apparent.	<u>Purpose</u> : Business purpose for the expense or the business benefit gained or expected to be gained.  For entertainment, the nature of the business discussion or activity. If the entertainment was directly before or after a business discussion; the date, place, nature, and duration of the business discussion, and the identities of the persons who took part in both the business discussion and the entertainment activity.
<b>Gifts</b>	Cost of the gift.	Date of the gift.	Description of the gift.	<u>Relationship</u> : Occupations or other information (such as names, titles, or other designations) about the recipients that shows their business relationship to you. For entertainment, you must also prove that you or your employee was present if the entertainment was a business meal.
<b>Transportation (car)</b>	Cost of each separate expense. For car expenses, the cost of the car and any improvements, the date you started using it for business, the mileage for each business use, and the total miles for the year.	Date of the expense. For car expenses, the date of the use of the car.	Your business destination (name of city or other destination).	<u>Purpose</u> : Business purpose for the expense.  <u>Relationship</u> : Not applicable.

For a full treatment of these, and many other financial issues, the Church & Clergy Tax Guide is highly recommended. Contact at [www.ChurchLawToday.com](http://www.ChurchLawToday.com) or call at 1-800-222-1840. *In providing this information to your church the Detroit Annual Conference is not engaged in rendering legal, accounting, or other professional advice. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.*

<sup>11</sup> Ibid, 238.

## Social Security Coverage

The services performed in the exercise of ministry by all United Methodist clergy are covered by social security and Medicare under SECA. Earnings for these services are subject to self-employment tax (SE tax) unless the minister has obtained an exemption from SE tax from the Internal Revenue Service and the IRS has approved the request.

The tax court case *Weber vs Commissioner of IRS, August 1994*, made a determination that United Methodist ministers are to be treated as employees for federal income tax purposes. They are to receive a W-2 from their salary-paying unit. However, rules governing Social Security are the responsibility of Congress, and that law was not addressed by the tax court.

Since ministers are considered self-employed for social security tax purposes, tax rules pertaining to SECA must be followed. Under no circumstances should the minister's salary be reported by the church treasurer as "subject to FICA". The church does not pay the matching "employer's share" of FICA tax. There is no withholding for FICA tax, and nothing reported in boxes 3, 4, 5, and 6 on the W-2 form given at year-end.

The minister pays both the "employer" and "employee" share, or 15.3% of gross salary in SECA taxes. For churches that elect to help the pastor by providing the employer's share, or an amount that would be approximately the employer's share, that allowance can be given to the pastor as part of the pastor's taxable wages. The pastor should receive those funds as part of salary.

It is the pastor's responsibility to make quarterly estimated tax payments as required by the IRS. Clergy are exempt from withholding requirements. A pastor may request withholding (using a W-4 for income tax withholding), in which event a church may withhold income taxes from the pastor's compensation.

If a local church has been filing quarterly Form 941 information returns for other church employees, then it must include the pastor's income on this form. The pastor's taxable salary is included on the line entitled "Total wages and tips, plus other compensation". Any withholding for income tax from the pastor's taxable salary is included with other employees on the line entitled "Total income tax withheld from wages, tips, and sick pay". (The pastor must indicate on a W-4 form the total dollar amount to be withheld in this category.) The pastor's taxable income is excluded from the total shown on the lines entitled "Taxable social security wages" and "Taxable Medicare wages and tips". By excluding the pastor's salary from these lines, no FICA withholding or employer's share of FICA tax will be calculated in the total that will be used to reconcile with the monthly remittance to the IRS. If a local church has no one else on its payroll, it is not required to start filing Form 941 just for the pastor.

For a complete explanation, see Publication 517 Social Security and Other Information for Members of the Clergy and Religious Workers, Department of the Treasury, Internal Revenue Service. Internet: [www.irs.gov](http://www.irs.gov) Fax: 703-368-9694 (from your fax machine)

## 2009 Minimum Base Compensation Schedule

The Minimum Base Compensation Schedule for the Detroit Annual Conference as of January 1, 2009, by action of the Annual Conference shall be established in the following amounts:

Completed Years of Service	Local Pastor			Associate Member			Probationary Member			Full Member		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
Year 1	\$29,793	\$30,687	\$31,659	*	*	*	\$33,297	\$34,266	\$35,329	***	***	***
Year 2	30,091	30,994	31,976	*	*	*	33,620	34,599	35,682	***	***	***
Year 3	30,389	31,301	32,293	*	*	*	33,943	34,932	36,035	***	***	***
Year 4	30,687	31,608	32,610	*	*	*	34,266	35,265	36,388	\$35,544	\$36,580	\$38,082
Year 5	30,985	31,915	32,927	\$32,052	\$33,014	\$34,412	34,589	35,598	36,741	35,889	36,936	38,463
Year 6	31,283	32,222	33,244	32,373	33,344	34,754	34,912	35,931	37,094	36,234	37,292	39,185
Year 7	31,581	32,529	33,561	32,694	33,674	35,096	35,235	36,264	37,447	36,579	37,648	39,185
Year 8	31,879	32,836	33,878	33,015	34,004	36,958	35,558	36,597	37,800	36,924	38,004	39,606
Year 9	32,177	33,143	34,195	33,336	34,334	36,958	**	**	**38,153	37,269	38,360	39,987
Year 10	32,475	33,450	34,512	33,657	34,664	36,958	**	**	**38,506	37,314	38,716	40,368

\* Associate Members shall have "served four years as a full-time local pastor" (paragraph 322.1, 2004 *Discipline*).

\*\* "...no candidate shall be continued on probation beyond the eighth regular conference session following their admission to probationary membership..." (Paragraph 327, 2004 *Discipline*). Figures appearing in years 9 & 10 for 2009 are to accommodate changes to calculations of years of service for this category.

\*\*\* Full Members shall have "...served full time under episcopal appointment for at least three full annual conference years..." (Paragraph 335, 2004 *Discipline*).

The charts reflect minimums, not maximums which pastors can be paid. Congregations are requested to pay their pastors an increase of at least 1% of the tenth year compensation for each year of additional service. For example: A Local Pastor with 15 years of service should be paid \$34,512 for their ten years of service, plus an additional \$1,725 for the five years beyond the schedule, or a minimum of \$36,237. An Associate Member with 15 years of service should be paid a minimum of \$38,428. A Full Member with 15 years of service should be paid a minimum of \$42,388.