

**PEACE RIVER PRESBYTERY**  
**Compensation Guidelines/Terms of Call**

**6.1350 Compensation Guidelines/Terms of Call**

These compensation guidelines should not be interpreted as tax advice. For answers to specific tax questions, please seek the advice of a competent tax advisor. Please refer to the Internal Revenue Code Regulations (especially IRS Publication 517). For questions concerning the Benefits Plan, please contact the Board of Pensions directly (see especially the Board of Pensions **Benefits Administrative Handbook** and **Understanding Effective Salary**). An excellent book on the subject of how taxes influence clergy compensation is **Church & Clergy Tax Guide** by Richard R. Hammar (Attorney and Certified Public Accountant).

**DIRECT COMPENSATION**

**Line 1: Annual cash salary** refers to cash compensation (payroll) paid directly to the minister on a regular basis (monthly or weekly), salary supplements, and severance payments. Each year the Presbytery issues minimum compensation guidelines that apply to all pastoral positions. Annually market conditions are reviewed to identify qualifying markets that can be guided by an alternate minimum compensation at 20% less than the standard minimum. To qualify the market must fall in the lowest quartile of Peace River Presbytery markets in two of the following three criteria: 1) per capita income, 2) cost of living and 3) median home price. Churches wishing to offer terms of call under the alternate minimum compensation guidelines shall disclose their financial condition to the Committee on Ministry with justification for using the alternate minimum.

**Line 2: Housing allowance** refers to the amount designated annually by the session or employing organization in advance of payment. It includes the actual costs of housing for a minister. Expenses that can be tax sheltered include: utilities, maintenance expenses, household furnishings, cleaning and repair supplies. For those not living in a manse, the following can also be included: mortgage principal and interest, real estate taxes, house and flood insurance. Utility expenses should be included in the housing allowance and are used to cover the cost of utilities for a manse, as well as a home being rented or purchased by the minister. However, if the manse utilities are in the name of the church and paid directly by the church, they are NOT included on this line. The housing allowance is based on anticipated housing expenses, not based on a percentage of salary. For IRS purposes, the amount considered as housing allowance must be designated by the session in advance of payment. The minister must keep strict records to show it was all used for housing. Only that portion actually spent for housing expenses may be claimed.

According to the IRS clarification to questions regarding Ministers' Compensation and Housing Allowance: *"If you receive as part of your salary (for services as a minister) an amount officially designated (in advance of payment) as a housing allowance, and the amount isn't more than reasonable pay for your services, you can exclude from gross income the lesser of the following amounts:*

- *the amount officially designated (in advance of payment) as a housing allowance;*
- *the amount actually used to provide or rent a home; or*
- *the fair market rental value of the home (including furnishings, utilities, garage, etc.).*

*If your congregation furnishes housing in kind as pay for your services as a minister instead of a housing allowance, you may exclude the fair market rental value of the housing from income, but you must include*

*the fair market rental value of the housing in net earnings from self-employment for self-employment tax purposes.” Response to Publication 517 question, Help and Resources Study 1545-1432. **Should the church provide a manse, please see the footnote at the end of this section and consult with COM.***

If the housing allowance is overestimated at the beginning of the year, it can be adjusted downward when the minister files a Form 1040 at the end of the tax year. But, it cannot be adjusted upward if it was underestimated at the beginning of the tax year. Any unused portion is subject to income tax. Therefore, it is better to slightly overestimate the portion of compensation designated as Housing Allowance on this form. Housing allowances are subject to SECA Taxes.

**FOOTNOTE:** Fair rental value of a manse is defined as what the open market would charge for rent in similar accommodations. The church should pay all manse utilities (reported under housing allowance on Line 2 unless the manse utilities are in the name of the church and paid directly by the church). For Board of Pensions purposes, the fair rental value of the manse should be at least 30% of Lines 1-5.

**Line 3: Deferred income** includes tax-sheltered annuities, IRS 403(b) Plans, Keogh and Retirement Savings Plans, housing equity allowances for ministers living in manses, and other forms of funded or unfunded arrangements. The Presbytery recommends that churches set a housing equity allowance for those ministers living in a manse. Churches should consult with the Board of Pensions concerning the legal requirements of setting up a housing equity allowance.

**Line 4: Special Income** refers to Board of Pensions optional dental or life insurance, supplemental medical or disability insurance (in addition to the Benefits Plan of the Board of Pensions). This line also refers to unvouchered or lump sum allowances which are not paid through an IRS Accountable Reimbursement Plan (such as unvouchered or lump sum book, auto, study or professional expense allowances), a down payment grant for the purchase of a house, savings from low-interest or no-interest loans (not principals), student loan repayments, year-end and other bonuses, any other gift from the church (not gifts from private donors or honoraria), personal auto insurance, and insurance premiums for any other additional insurance coverage provided for individuals (premiums for group coverage are not included).

**Line 5: Other Income** includes all forms of direct compensation not otherwise covered on Lines 1-4, including salary reduction contributions to IRS Section 125 Flexible Spending Plans (“Cafeteria” plans), medical deductibles and coinsurance payments not paid through a group benefit plan (such as an IRS Section 105 Medical Reimbursement Plan). If an allowance is provided to reimburse Social Security tax obligations, any amount in excess of 50% of the minister’s SECA tax obligation (the “second half” of SECA tax) must be included on this line (see Line 8 below).

**If a decision is made to pay auto allowance as a lump sum rather than through an accountable reimbursement plan, then that compensation is subject to Board of Pension dues and is listed on line 5.**

**Line 6: Total Effective Salary** is the sum of Lines 1-5. Total Effective Salary is the amount subject to Board of Pensions dues. Dues are required for all installed positions.

## **BENEFITS**

**Line 7: Board of Pensions Dues** vary according to the situation; installed full-time or part-time, non-retired or honorably retired, or position vacancy. Refer to the Board of Pensions dues calculator to model medical, pension and death and disability dues:

<http://www.pensions.org/AvailableResources/Calculators/Pages/Dues-Calculator.aspx>

Our guidance to churches is that Temporary Pastors are “holding a place” for a called pastor and active pastors should be compensated according to 6.1412, currently 37% of Effective Salary for BOP dues. Should the Temporary Pastor be HR and the BOP dues are 12%, then liaisons should remind churches that the full 37% will again be needed when a pastor is called.

**Line 8: Self-Employment Contributions Act Allowances** may be offered to help offset the SECA tax obligation of the clergy, who are classified by the IRS as “self-employed” for Social Security taxes. The Presbytery recommends up to 50% of the minister’s SECA tax obligation (7.65% of Lines 1+2+4+5). **This is not part of the Total Effective Salary and is not subject to Pension Dues, but it is subject to Federal Income Taxes.** Compensation paid beyond 50% of the minister’s SECA tax obligation should be reported on Line 5 and is subject to Board of Pension Dues. All compensation for this purpose is subject to both income tax and social security tax. For Certified Christian Educators and Associate Certified Christian Educators, the employer’s share of FICA is paid by the church.

**ACCOUNTABLE REIMBURSEMENT PLAN (vouchered expenses):** The IRS allows ministers to establish Accountable Reimbursement Plans with their employing churches which will exclude items from tax consideration which are paid in reimbursement for vouchered expenses. These items are not subject to Board of Pension dues. The items below should be included in an Accountable Reimbursement Plan. See Richard Hammar’s **Church & Clergy Tax Guide** for details on how to establish an Accountable Reimbursement Plan which meets IRS rules. See especially Internal Revenue Code Reg. 1.162-17 and 1.274-5(e)(2).

**Line 9: Automobile** expenses must be either (A) vouchered and reimbursed at the current IRS per mile rate, or (B) a church-owned car with full expenses provided. Line 9 should record the amount budgeted by the church to reimburse the minister or to pay the expenses of operating a church owned vehicle. Accurate records of mileage or auto costs should be kept by the minister and reported to the church treasurer. Minimum automobile allowance is full reimbursement at the current IRS per mile rate, or a car with full expenses provided.

**FOOTNOTE:** The preference of the Committee on Ministry is for options (A) or (B) above. However, some pastors may have been accustomed to receiving automobile allowance as a lump sum paid on a regular basis. If this option is chosen, the church’s budget figure would be reported on line 5 above. The pastor is still responsible for keeping accurate records of mileage and auto cost for IRS purposes.

**Line 10: Continuing Education allowance** includes such items as tuition, room, board, travel to study events, and should be reimbursed as spent by the minister. This cannot be paid on a monthly or lump sum basis. **Minimum continuing education allowance** is \$1,500. Continuing education funds may be accumulated up to three years by prior arrangement.

**Line 11: Book allowance** includes such items as books and subscriptions to magazines.

**Line 12: Professional expense** allowance (optional) includes such items as supplies, business meals, etc.

**Line 13: Medical** “IRS Section 105 Plan reimbursements only” refers to a specific plan in the IRS Code which is an optional benefit allowed by the IRS. This plan provides a method whereby specifically defined category of medical expenses can be paid by the church and excluded from the minister’s Federal Income and Social Security Taxes. These categories could include the medical deductibles and coinsurance payments (medical expenses not covered by the Major Medical Plan of the Board of Pensions), optional dental insurance, eyeglasses and other expenses as defined in the IRS Code. Care should be exercised in order that churches conform to the strict IRS regulations which govern the IRS Section 105 Plan. Further information about how to set up an IRS Section 105 Plan is available from the Presbytery office.

**ALSO PROVIDED**

**Vacation** should be given in terms of **one month** (not four weeks). The time, whether taken together, or broken into smaller segments, must be approved by the session. **Minimum vacation leave is one month per year.**

Minimum **Study leave** is two weeks per year.

**Other** covers such areas as moving expenses (an accountable reimbursable expense) and maternity benefits.

**Maternity Benefits:** Eight weeks leave or its equivalent at full compensation. If further leave beyond eight weeks is required for medical reasons, such leave should be granted on a compensation arrangement worked out between the church professional and the session based on what would be comparable to an employee on extended disability.

**OTHER PERSONNEL ISSUES:**

**Annual Review** of the adequacy of the ministerial compensation package shall be conducted by the session (See G-2.0804). Evaluation resources are available from the Committee on Ministry.

**Parental and Family Leave** Refer to 6.1340.

**Pulpit Supply** for a minister leading worship and preaching for a congregation should ordinarily receive no less than \$175 for one service and \$225 for two services, plus mileage.

**Honoraria:** Session moderators (other than members of the Committee on Ministry) of churches without installed pastors, stated supplies or interim pastors should be paid an honorarium of \$75.00 per meeting of the session plus mileage. Sessions without pastors are reminded that the Form of Government (G-11.0502f and G-14.0513) requires churches to meet with the Committee on Ministry and with its aid, advice and consent secure the services of temporary supplies and interim pastors.

**Pastor Nominating Committee Expenses:** Ministers preaching for a PNC shall have their expenses (travel, lodging, meals, etc.) reimbursed by the PNC, not the “neutral pulpit” church.

**Part-time Positions** are subject to the Presbytery Minimum Compensation Guidelines. All part-time position descriptions will specify what proportion of full-time the position requires. (Example: a half-time position must be compensated at 50% of the full-time minimum.)

**Personnel Committee:** It is strongly recommended that each session have a Personnel Committee to review not only the adequacy of the compensation package but also to conduct a performance review. Resources on personnel policies and committees are available from the Presbytery office.

**Church Educators:** Certified Christian Educators have passed all certification requirements as specified in G-2.1103a and have been certified by the General Assembly Certification Council. Associate Certified Christian Educators have passed requirements at the associate level. Each year the Presbytery issues minimum compensation guidelines that apply to Certified Christian Educators.

**Other considerations for Certified and Associate Christian Educators:** Board of Pension Dues or a mutually accepted agreement between educator and session regarding major medical and pension benefits, Auto Allowance, Continuing Education Allowance and Leave, and Vacation (same as clergy).