

UUA MINISTRY and PROFESSIONAL LEADERSHIP

OFFICE OF CHURCH STAFF FINANCES

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COMPENSATION MANAGEMENT FOR UU ORGANIZATIONS

Introduction

Because they are engaged in religious rather than commercial activities, congregations and other religious bodies often don't think of themselves as true employers. However, religious organizations are customarily subject to the same laws and regulations that govern other employers, with a few unique exceptions where their employees are ordained, licensed, or commissioned to perform sacerdotal rites or services of worship.

Religious organizations are permitted to consider an applicant's religion in the process of hiring, but they must generally observe the anti-discrimination laws applicable to other employers with the same number of employees.

This paper is meant as a brief summary of sound compensation management practices. Local congregations are urged to consult their attorney or tax professional in any complicated matters.

Worker classification: employee or independent contractor

An employee is a person who is hired for wages, whose performance is supervised by the employer, and whose employment can be ended at any time. In the US, the wages and taxes withheld of all employees must be reported to the Internal Revenue Service on form W-2, with copies given to the employees. Several classifications of employees are "temporary", "probationary", "regular", "exempt", and "non-exempt." In addition, there are persons hired for work who may not technically be considered employees, and these generally fall in the classifications of either "extra and casual labor" or "independent contractors."

"Temporary" employees are persons engaged for a limited period of time. Most temporary employees today work for agencies and are provided for short-term work or to fill in for vacancies. Such "temps" are actually employees of the agency rather than of the organization that pays for their services.

Some other workers without employee status are considered "extra and casual labor." These are persons engaged for a brief period of non-professional work that is often of a physical nature. Teenagers who mow lawns or provide baby-sitting often fall in this category.

"Probationary" employees are usually persons in the first 30 to 90 days of service during which their suitability for ongoing employment is under review. "Regular" employees are persons who have moved through the probationary period and whose future employment is open-ended at the discretion of the employer and their own willingness to continue in the job. It is incorrect to refer to regular employees as "permanent" employees unless there is a contract that guarantees them continued employment up to a specified date, subject to dismissal for reason agreed upon in advance.

"Exempt" employees are persons in management, supervisory, or administrative positions who are paid a salary and who often work more than 40 hours per week to complete their duties. "Exempt" employees are exempt from the fair labor practices regulations in the US. "Non-exempt" employees are persons who are not managers, supervisors, or administrators. Whether they are paid hourly wages or a monthly salary, their employment is regulated by law.

“Part-time” and “full-time” employment designations refer to the number of hours worked in a typical week. US federal law sets 40 hours of work per week as “full-time,” although employers are free to set the number for full-time at less than 40. Many employers consider a “9 to 5” day with 35 working hours as full-time. Federal law also requires that non-exempt employees be paid 150 percent of their hourly base pay for any hours worked in excess of 40 hours per week, even if such workers are salaried. Many employers seek to avoid overtime pay by providing compensatory time off within the same or next pay period. Increasingly employers are permitting “flex time” schedules for the convenience of the employee and employer, and to build employee morale. It is common for employers to pay benefits for regular employees who work half-time or more.

Independent contractors are persons who are self-employed professionals engaged for a specific service, who do not require supervision or instruction, and for whom benefits are not paid. In typical church situations, a secretary, sexton, or administrator is usually an employee; an accountant or consultant is usually an independent contractor. Music Directors are frequently treated as independent contractors however they are technically employees. The earnings of independent contractors are reported to the IRS on Form 1099.

All of this is complicated by the fact that ordained clergy are considered by the IRS as having dual tax status: they are employees for purposes of income tax, and self-employed for purposes of social security.

It is often difficult to measure the hours per week of staff who often work outside the church office, such as ministers and religious educators. With other denominations, the UUA recommends that 12 units of service per week be considered full-time. A unit of service is defined as one morning, afternoon, or evening devoted to service for their employer-congregations. Many churches and synagogues encourage their professionals not to work more than six units consecutively.

Taxes

Like other employers, congregations are required to report the earnings of their employees on W-2 forms to the Internal Revenue Service. The same applies to wages paid to ministers, except that congregations are exempt from the requirement of withholding income tax on ordained, licensed, or commissioned clergy.

Congregations are responsible for the timely withholding and payment of income and social security taxes on all their non-ordained employees, and they can be penalized for non-compliance. Information must be obtained on a W-4 form at the beginning of employment indicating the number of exemptions to which an employee is entitled.

Ordained clergy ordinarily pay their own estimated income and self-employment (social security) taxes quarterly using form 1040ES. If a congregation is withholding taxes for other employees, a minister may exercise the option of having income tax withheld and submitted for him or her too. This may save the minister the burden of filing quarterly estimated taxes, but it does not reduce the amount of taxes ultimately due on April 15th. Tax rates for ministers are the same as for all other taxpayers.

By law, social security taxes are shared equally between employers and employees, with each party responsible for contributing 7.65 percent of the salary or wages paid, up to a set limit. This is true for all of a congregation’s non-ordained employees. Since ministers are considered self-employed for purposes of social security, clergy pay the full 15.3 percent self-employment tax (SECA) quarterly using form 1040ES.

Where a minister chooses to have the congregation withhold and submit income tax as a voluntary option, the amount withheld and paid should be sufficient to cover the SECA tax as well.

Realizing that clergy income is usually less than that of true self-employed professionals, many congregations pay their ministers an adjustment of 7.65 percent of the salary and housing allowance “in lieu of employer’s FICA.” These dollars are also subject to both social security and income tax. Like many Protestant denominations, the UUA urges its member societies to provide this “in lieu of FICA” equivalent to their ordained ministers and to report these dollars on the minister’s W-2 form.

Benefits

The UUA urges its member congregations to implement the salary and benefits Guidelines adopted by the General Assembly in 1995. Most employers of professional persons offer health insurance, vacation, sick leave, and other employer-paid benefits for their full-time employees, and these are pro-rated for persons who work between half-time and full-time. Benefits coverage should be determined in advance of salaries and clergy housing allowance, and should not be the subject of bargaining about compensation.

Through the Office of Church Staff Finances, the UUA offers three insurance policies through the MetLife Insurance Company. Individuals may be enrolled by their employers within the first 30 days of employment; enrollment later requires evidence of insurability.

Group Dental Insurance coverage is available for employees of UU organizations who work half-time or more. The policy provides preventive exams and partial payment for major dental work up to a limit of \$1,000 per person per year.

Group Term Life Insurance is available to persons employed by UU organizations and community based ministers under most circumstances. The face value is equal to 200% of the employee’s salary, plus housing allowance for ministers, up to a maximum of \$150,000. Benefits are reduced beginning at age 65.

Long Term Disability Insurance provides income protection equal to 60 percent of salary (plus clergy housing allowance) after 90 days of disability up to age 65. The monthly premium cost is 1.2 percent of the amount insured and is available to those employed by UU organizations and community based ministers under most circumstances.

Benefits received under a long-term disability insurance policy are exempt from income tax if the employee has paid the premium from after-tax income. Thus it may be beneficial for the employee to pay the premiums directly, or reimburse the employer for that amount, or for the employer to include the amount of the LTD premiums in the wages reported on form W-2. Most congregations self-insure the salary, housing allowance, and benefits of religious professionals for the first 90 days of disability until LTD benefits begin.

In 1998, the Association’s health insurance policies for staff of local congregations were canceled by Blue Cross Blue Shield. Health insurance for church employees is no longer available through the UUA.

Paid leave

Congregations usually provide one month of vacation for full-time ministers, and this is extended to religious professionals on a pro-rated basis. Ministers commonly receive an additional month of “on call” or study leave, during which they are relieved from regular duties but are expected to respond to emergencies.

Realizing that some amount of illness is almost inevitable, paid “sick days” are often accrued at a rate of one day per month of employment, up to a maximum of 12 days; again, pro-rated for part-time personnel. Many employers permit some unpaid personal leave, maternity leave, paternity leave, etc., for regular employees. Pension, vacation, and other benefits usually do not accrue during days of personal leave.

Realizing that most parish ministers usually work six days a week and frequently have their vacations interrupted, UU congregations traditionally provide a paid sabbatical study leave for ministers who have served five to seven years, with one month of leave for each month of service. It is expected that sabbatical study will refresh the minister's energy and enthusiasm for his or her position. Ministers are required to serve at least one year following return from a sabbatical leave.

The UU Organizations Retirement Plan

The UUA sponsors a 401(a) qualified defined contribution retirement plan through which congregations may contribute on behalf of employees age 21 and over who work 1,000 hours or more per year, and who have been employed one year. Participants are fully vested with assets in individual accounts. The basic contributions are made by the employer-organizations. The UUA recommends that persons save 14 percent of salary, plus clergy housing allowance in the case of ministers, for retirement. Staffs of congregations that contribute 10 percent may make additional voluntary contributions on a salary reduction basis.

Contributions to the retirement plan are taxable when withdrawn upon retirement. Funds can also be withdrawn or rolled over to an IRA when an employee resigns, upon total disability, or by a beneficiary following a participant's death. Loans are permitted only for reasons of medical emergency or for the purchase of a primary residence.

The Fidelity Investment Tax-Exempt Services Co. was selected in April 1999 to be the new record-keeper, administrator, and to manage invested funds. FITSCO is the largest provider of retirement plan services to religious organizations and administers hundreds of plans sponsored by non-profit organizations. Contact Joyce Stewart, the UUA's Retirement Plans Specialist at 617/948-6421 or jstewart@uua.org.

Professional Expenses

Professional expenses for clergy include travel, equipment, books, periodicals, robes, plus the cost of business meetings and meals, conference expenses, professional dues - in short, the costs of "doing business." Employees are not expected to pay costs connected with their employment in most commercial, corporate, or academic environments. The same applies to professionals serving religious societies as ministers, educators, musicians, and administrators. Congregations should itemize professional expenses so that they are not confused with salary.

Professionals commonly advance their own funds for these expenses, and then submit a monthly request for reimbursement, which is paid in a separate check. This is called an Accountable Reimbursement System. Some professionals use a separate credit card exclusively for these expenses, however receipts or other documentation should also be available. IRS rules require receipts for expenses over \$75.

Initial travel from home to one's employer-church is commuting, and is not allowed as a professional expense. Other travel to meetings, hospitals or members' homes is allowable if necessary for one's duties. Tax law suggests keeping a daily log of all auto travel in order to claim reimbursement or to list it as an itemized deduction.

Meals or lodging are a professional expense only when away from home overnight, but meals that are part of meetings or entertainment of someone connected with one's work are a professional expense. Thus entertainment of members of the congregation, either at home or elsewhere, is reimbursable.

A home office may be hard to claim as a reimbursable professional expense if an office is provided at the church. However, the supplies and equipment used in such an office may be taken as a professional expense, including office equipment such as personal computers.

It is wise to anticipate as accurately as possible the amount necessary for professional expenses. If, at the end of the organization's fiscal year, the employer is agreeable to reallocating unspent funds designated for expenses, this may be done, but dollars shifted from professional expenses to salary must be reported as wages on the W-2 form, and the employee is responsible for income tax and social security tax on these funds.

It is important that employers not treat professional expenses as a "salary reduction scheme" in order to help an employee avoid income taxes. It is not permissible for an employee to receive a fixed amount per month for professional expenses in addition to his or her salary and make no accounting to the employer for this amount. Such pseudo-professional expense allowances must be reported as taxable earnings.

Clergy Housing Allowance

Ordained clergy and persons in military service receive what amounts to two kinds of salary: a cash salary and a housing allowance, with the latter exempt from income tax. The housing allowance for clergy is subject to a minister's self-employment tax and should be designated in advance and referenced in the minutes of the governing body or congregation. The housing allowance should be shown on a specific line item in the annual church budget and paid to the minister in a separate check in order not to confuse it with salary.

The maximum amount claimed as a housing allowance is the lesser of the fair market rental value of the residence, plus all ancillary costs of furnishings and expenses, or the amount actually spent, including furnishings and all expenses. A fair rental value can often be obtained from local realtor. There is no established percentage of compensation or salary that is appropriate for a clergy housing allowance; the amount is determined by the formula above. This can include rent or mortgage payments, utilities (including telephone and cable TV), repairs, furniture and furnishings, household supplies, property taxes, and all other costs of rental or home ownership, except food and domestic help.

When a minister is called to a congregation, the amount of the allowance should be stated in the original Letter of Agreement, but it is permissible to set the amount for a six-month trial period until the actual costs will be better known. If circumstances change, the allowance may be increased, but not retroactively.

Should the actual housing expenses exceed the amount designated in advance, the discrepancy cannot be corrected after-the-fact. If the amount actually spent is less than the amount received, any overage constitutes taxable income and must be reported to the IRS by the minister as "unexpended housing allowance."

Retired clergy, like employed clergy, are entitled to a clergy housing allowance, and the portion of a church sponsored pension distribution used to provide a residence is exempt from income tax. It is very advantageous for clergy of any denomination to use the retirement plan sponsored by their denomination as their primary savings for retirement.

Parsonage Allowance

If the employer/congregation provides a church-owned parsonage for the minister to live in, the fair market value of the residence constitutes an "imputed income" on which the minister must pay social security tax. The congregation is responsible for insurance protection, just as for other church-owned property. The cost of utilities, heat, repairs, maintenance, etc. are paid by the congregation from an expense item in the church budget. In some cases, the minister manages and pays for these expenses and is then reimbursed, with such reimbursement not considered part of the minister's salary.

Non-ordained religious professionals

Directors of religious education, administrators, music directors, and other religious professionals who are not ordained should be accorded the same status as professionals in other business, corporate, or academic

organizations. Their work is critical to the health of the congregation, and they make vital contributions to worship, lifespan religious education, and the financial well-being of the society.

These professionals are entitled to full or pro-rated benefits, depending on the percentage of time worked. They are increasingly afforded expense allowances covering travel, professional society dues, continuing education, and other costs in connection with the performance of their duties.

Many churches have underpaid religious educators by not compensating them for the number of hours actually worked. Many educators have been paid half-time wages when their real service has been at the three-quarter level - or higher. Educators and other religious professionals have also been denied insurance, vacation, and other benefits on the basis that "they work only part-time." This may help explain why there has been such a high turnover in these positions.

Since 1995, there has been a growing sentiment in UU congregations that educators and other professionals must be fairly compensated for their work. This is understood as an important social justice issue in our movement. Guidelines for salaries and benefits are available on the website www.uua.org/programs/ministry/finance. The District Compensation Consultant Project administered by the Office of Church Staff Finances can provide trained compensation consultants to visit with local congregations about this issue. Matching grants from the UU Congregation at Shelter Rock to other churches are administered by the Liberal Religious Educators Association to help congregations bring the compensation of their educators up to recommended levels.

UU Music Directors often belong to the UU Musicians Network. Many Administrators of UU congregations join the Association of UU Administrators. Both organizations are currently developing continuing education programs for their members leading to certification.

Benefits, professional expenses, and retirement contributions should be included in every employer-congregation's budget and should be clearly identified. Contributions to the retirement plan and premiums for group health and life insurance should be paid directly by the society's treasurer. Premiums for long-term disability insurance should be treated as described above.

For further information

IRS publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*, is available via www.irs.gov or 703/321-8020. Also recommended is IRS Publication 1828, *Tax Guide for Churches and Other Religious Organizations*.

The annual *Church and Clergy Tax Guide* by Richard Hammar, CPA, is considered an authoritative guide by many religious groups. It may be purchased from Christian Ministry Resources, PO Box 2301, Matthews, NC 28106, 800/222-1840. \$17.95 plus \$4.00 for shipping.