Compensation Pointers and Pitfalls
for Administrators and Treasurers

With

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&

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Our Mission

Guided by the values of our faith, we equip congregations for excellence as employers and their staff for financial competence and well-being.
Topics for Today

- UUA Compensation Standards
- Worker Classification
  - Employee or Independent Contractor
  - Exempt or Nonexempt
- Ministerial Payroll and Taxes
- UUA Benefit Plans
- COVID-19 Federal Relief Programs
- UUA Compensation Consultants
UUA Compensation Standards

“Guidelines” (since 1995)

UUA Compensation Guidelines

- Recommended salary levels
- Recommended benefit levels

Congregations could meet our guidelines while ignoring basic payroll laws and benefit plan rules.

“Standards” (as of Feb. 2020)

UUA Compensation Standards

- Legal compliance checklists
  - Pay administration
  - Benefits administration
- Recommended salary levels
- Recommended benefit levels
Resources for UUA Compensation Standards

UUA Compensation Standards on UUA.org

Includes links to resources for:

1. Legal requirements for pay and benefits administration
   - Pay Administration Checklist
   - Benefits Administration Checklist
   - Benefits Tune-up Workbook

2. UUA Salary Recommendations – charts and related resources

3. UUA Benefit Recommendations
   - Benefit Recommendations
   - Compensation Worksheet
   - Benefits Summary Chart
Worker Classification: People You Pay

Businesses

Examples
- Office supply store
- Lawn and landscaping company
- Insurance company

Individuals

Independent Contractors

Employees
- Exempt
- Nonexempt
Most (if not all) paid workers in your congregation are *employees.*
Employee or Independent Contractor

What difference does it make?

1. Hiring, training, and oversight protocol
2. How Social Security/Medicare tax is paid
3. W-2 or 1099
4. Benefits eligibility: *Only employees receive employee benefits*
5. Liability issues
6. Treating staff fairly and legally
Decision Factors

Behavioral control (right to control how work is done)
- Type of instructions
- Degree of instructions

Financial control
- How paid
- Services available to others?

Type of relationship
- Benefits
- Permanency
- Services key to business?
In some states, it is even *harder* to legally classify a worker as an independent contractor.
Misclassification Risk

How is it discovered?
• IRS or Dept of Labor audit
• Worker complaint
• IC files for workers’ comp/disability

What happens?
• Fines
• Tax evasion charges
• Criminal penalties
Upshot: Most Workers are Employees

Generally an employee if:
• Ongoing responsibilities
• Relational responsibilities
• Congregation provides direction on “how”

May be an independent contractor if:
• Providing same service to multiple businesses
• Using their own tools
• Congregation concerned only with results
• Limited interaction with congregants

Employee if listed as staff in newsletter or on website
Employee if job title like "Director"

The word "contract" causes confusion.
"Contract" ministers are employees.
Sometimes employment agreements are called "contracts."
People You Pay

Remember, most (if not all) workers in your congregation are employees.
People You Pay

Each of your employees is either exempt or nonexempt.
Exempt or Nonexempt

What difference does it make?

1. Recordkeeping requirements
2. Pay: how and how much
3. Treating staff fairly and legally
Federal law that protects workers

- Overtime pay
- Minimum wage
- Recordkeeping requirements
- Youth employment restrictions

Most businesses/individuals not protected by FLSA under federal law are still protected under state law.

Related State (and Local) Laws:
Follow whichever is more stringent.
Exempt Staff

- No overtime pay
- Simpler recordkeeping

Think: the employer is exempt from having to follow the rules.

Nonexempt Staff

- Overtime pay (time-and-a-half) for >40 hours in a workweek*
- Must keep records of total daily and weekly hours worked

*California and possibly other states use stricter OT definition.
*Cannot average hours across workweeks.
Nonexempt = the default

Assume an employee is nonexempt unless you can show that an exemption applies.
Exemptions

White-collar Exemptions
- Executive
- Administrative
- Professional

Each exemption has
- Duties tests (specific to each exemption)
- Salary threshold
  - $684/week
  - $35,568 for year-round position

Salary threshold NOT prorated for part-time.
The Ministerial Exception*

- Essential religious duties
- No salary threshold

*Not part of FLSA

"Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof..."
Who has essential religious duties?

- Ministers (serving in ministerial capacity)
- Ministerial interns and student ministers
- Based on our read:
  - Staff who have leadership, authority, and decision-making responsibilities within a religious realm of congregational life
  - Guiding questions
    - Sharing or teaching UUism through their work?
    - Duties tied to a religious/spiritual aspect of the congregation’s mission?
    - Job description (title/responsibilities) supports “essential religious duties”? 

The Ministerial Exception
Related: Salary or Hourly?

Exempt Staff

*Must* be salaried (consistent paycheck, even if hours vary)

Nonexempt Staff

- Legally can be salaried or hourly (hourly is safest)
- Salaried nonexempt is tricky!
  - Must still record daily/weekly hours
  - Ensure minimum wage and overtime pay based on *actual* hours
  - Complications when actual hours don’t match nominal
1. Assume nonexempt unless exemption criteria clearly met.
2. Keep records of daily/weekly hours for nonexempt staff.
5. Ministerial exception based on “essential religious duties.”
   - Use with care
   - No salary threshold
7. Check your state’s wage and hour law.
Resources on Worker Classification

• UUA LeaderLab Articles (see especially the slide sets)
  • Employee or Independent Contractor?
  • Exempt or Nonexempt?
• Your legal and tax professionals*
• Comp@uua.org (generic email for Jan Gartner)

* The staff of the Office of Church Staff Finances are not certified legal or tax professionals.
Ministerial Payroll and Taxes

We tell new ministers:

“Kids, don’t try this at home.”

• UUA resources available
• Make sure your payroll company understands ministerial tax provisions
• Ministers urged to find an accountant who knows ministerial taxes (at least at first)
Payroll & Taxes

Three Special Tax Provisions for Ministers

<table>
<thead>
<tr>
<th>Dual Tax Status</th>
<th>Housing Allowance</th>
<th>Withholding Optional</th>
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</table>
| Minister is an employee for regular income tax purposes *BUT* self-employed for Social Security/Medicare. | Housing-related expenses are excluded from minister’s wages for income tax purposes. | • Minister need not have income taxes withheld from paycheck (but may elect to)  
• Pays taxes **quarterly**  
• Withholding FICA not allowed! |
Payroll & Taxes

Three Special Tax Provisions for Ministers

- Treated as a minister for ALL or NONE.
- Minister for IRS purposes = fellowshipped or ordained
Payroll & Taxes

Minister’s paycheck

Salary
Pay to the order of Happy Pastor

Salary + Housing

Housing Allowance

Payment in lieu of FICA

- Tax withholding optional
- Deductions for employee-paid benefits

Jan calls this the “self-employment tax offset.”

Housing allowance may be paid in a separate check.
Payroll & Taxes

That “dual tax status” thing

A minister is an Employee
For income tax purposes (state and federal)
…and for nearly all other purposes.

BUT...
Self-employed
For Social Security/Medicare tax purposes
…and which is why they pay estimated quarterly taxes.
Payroll & Taxes

Dual Tax Status

Regular Employees

Social Security/Medicare tax = 15.3%

FICA
• Employer pays 7.65%
• Employee pays 7.65% (payroll deduction)

Ministers

Social Security/Medicare tax = 15.3%

SECA
• Minister pays 15.3% (quarterly taxes)
• Applies to Salary + Housing

AND SO...
Congregation pays self-employment tax offset to minister.

- Same $$ amount the congregation *would have remitted* to SS/Medicare for non-ministerial employee at same salary.
- SECA applies to Salary + Housing, so offset applies to Salary + Housing.
Payroll & Taxes

Housing Allowance
Payroll & Taxes

Housing Allowance

- Minister determines expected housing-related expenses (on principal residence).
- Congregation designates housing allowance – usually board resolution.
- HA excluded from federal & state* income tax,
  
  *but minister still pays SECA* (self-employment tax) on it.
- Salary + Housing used for salary-based benefit calculations.

* Housing allowance is taxed at the state level in Pennsylvania, possibly other states.
Housing Allowance

Common allowable expenses

- Rent or mortgage payment
- Real estate taxes
- Renter’s insurance
- Utilities
- Furnishings
- Appliances
- Repairs
- Yard maintenance
Payroll & Taxes

Housing Allowance

When they do their taxes, the minister is responsible for not excluding more than allowed.

- Can’t exclude more than congregation designated.
- Can’t exclude more than actual expenses of maintaining a home.
- Can’t exclude more than Fair Rental Value (including furniture, utilities, garage)
• **Parsonage Exclusion** similar to Housing Allowance, i.e., based on rental value.

• *In addition, Parsonage Allowance* adopted by Board annually: for utilities, minor repairs, and furnishings. (Major repairs are responsibility of congregation.)

• The Minister does NOT pay **income taxes** on these amounts, but must pay the **Self-Employment Tax** (15.3%) on both.
Ministers: Exempt from Withholding

- Minister NOT REQUIRED to have taxes withheld
- May CHOOSE to have taxes withheld
- Taxes withheld are applied to income taxes, not Social Security/Medicare.

Self-employment tax is for Social Security and Medicare: SECA. Ministers must pay SECA through quarterly payments.
## Payroll & Taxes

### Cost to congregation of special ministerial tax provisions

<table>
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<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dual Tax Status</td>
<td>With the self-employment tax offset, cost to congregation is same as for non-clergy staff member at same salary.</td>
</tr>
<tr>
<td>Housing Allowance</td>
<td>No budget impact for congregation.</td>
</tr>
<tr>
<td>Withholdings Optional</td>
<td>No budget impact for congregation.</td>
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</table>
Resource: Ministerial Payroll & Taxes

LeaderLab article: Ministerial Compensation 101
(includes links to further information on each provision)
Benefits

• Health Insurance
  • UUA Health Insurance Plans
  • Other Health Insurance Options

• UUA Group Insurance
  • Dental
  • Long Term Disability
  • Life

• UUA Retirement Plan
Benefits

Words of Wisdom

• Pay Attention to Details (e.g., eligibility, enrollment windows*)

• Treat Staff Equitably (It’s a UU Value)
  – Ministers often negotiate better benefits than staff receive.

* Enrollment windows for UUA insurance plans:
  • 30 days for Health Plan (unless qualifying event)
  • 60 days for Dental, Life, and LTD
Benefits

Eligibility: All UUA Insurance Plans

• All Employees working 750 hours or more annually (about 15 hrs/week, year-round)

➔ If your congregation is in the UUA plan, all eligible must be offered the opportunity to enroll

• Congregation does not have to make the same premium contribution for all employees (but consider economic justice and equity)

• Hours from multiple participating employers additive
Benefits

Health Insurance Options

- **UUA Health Plans (begun in 2007)**
  - 3 Non-Medicare Plans (Gold, Silver, and Bronze) + Medicare Supplement Plan
  - Comprehensive, faith-based (trans, hearing aids, kids w/disabilities)
  - Extensive network and outstanding customer service

- **Other Employer-provided health insurance**

- **ACA/State Exchanges**

Reminder: If the congregation is in the UUA Plan, must make available to all eligible staff.
Benefits

What about Staff Who Have Other Health Insurance?

• Salary adjustment strongly discouraged.
• Reimbursement or adjustment for individual insurance is illegal.
• Reimbursement for another group* plan is allowed/suggested:
  – Differential cost of carrying employee on another plan reimbursable tax-free.
  – See 2nd article in this newsletter: [http://conta.cc/2sirb0I](http://conta.cc/2sirb0I).
  – If you offer this, offer to all eligible staff. (Equity!)

*Most often spouse’s employer plan.
Benefits

UUA Dental Insurance through Guardian

• Annual benefit: Up to $1,750
• Makes economic sense (Dentists charge individuals without insurance more)
• Can retain coverage (if not teeth) in retirement

NOVEMBER: Open Enrollment for Health and Dental Plans (for 2021).

Reminder:
If the congregation is in the UUA Plan, must make available to all eligible staff.
Benefits

UUA Long-Term Disability Insurance thru Guardian

- Benefit: 60% of Salary (and Housing)
- Protects employees AND congregation
- Can continue for 6 months between jobs

**Recommendation:**
Congregation pays but imputes premium on W2 to keep benefit payout nontaxable

**Enroll upon hire!**
- No open enrollment
- No qualifying events

**Reminder:**
If the congregation is in the UUA Plan, must *make available* to all eligible staff.
Benefits

UUA Life Insurance thru Guardian

• Benefit: 2x Salary (and Housing)
• Protects employees AND the congregation

Enroll upon hire!
• No open enrollment
• No qualifying events

Reminder:
If the congregation is in the UUA Plan, must make available to all eligible staff.
Benefits

Insurance Plans: Costly Mistakes

• Life/LTD: congregation MUST offer both, not just one
• Failure to enroll within 60 days (30 days for Health)
• Failure to enroll all eligible employees in disability – and one becomes disabled
• Staff enrolling in a bronze health plan to save money…then discovering high out of pocket expenses
Benefits: Retirement Plan

Basics

• 620 participating congregations/4,100 plan participants
• Recordkeeper: TIAA

Eligibility for Employer Contributions

• Successful completion of a ministerial internship, OR
• Previous qualifying for employer contributions at another participating UU employer, OR
• After 12 months AND 1,000 hours of employment from date of hire or calendar year (*hours from multiple employers additive*)
Benefits: Retirement Plan

Plan Rules to Know and Follow!

1. **ALL EMPLOYEES** may enroll and make **elective** (employee) contributions *from day one of employment*, regardless of hours!

2. Employers MUST make employer contributions to all employees who meet eligibility requirements

3. All (eligible) employees must receive the **same** percentage base employer contribution and match opportunity**

4. Minimum Employer Contribution is 5%; UUA Recommendation = 10%

**In accordance with Employer Participation Agreement on file with our Office.**

Are you telling *every new employee* (and reminding all employees annually) that they can make elective contributions?

Did your new hire previously work for another participating congregation?

Check for immediate eligibility for employer contributions!
Benefits

Resources

- **Benefits Tune-up Workbook** (benefits administration, legal compliance)
- **Benefits, Compensation, and Aid Funds** page
- TIAA Resources
  - Establish online access ([www.uua@tiaa.org](http://www.uua@tiaa.org))
  - Dedicated Phone Number (1-800-842-2829)
  - 60+ Offices
  - Annual Financial Advice for participants (free)
**Benefits Resources**

**Compensation Worksheet**

- Recommended benefit levels
- Calculations
- Auto-sum at bottom

https://www.uua.org/leadership/congregations-as-employers/compensation-benefits

![UUA Compensation Worksheet](image-url)
Families First Coronavirus Response Act: PL 116-127

• Emergency Paid Sick Leave
• Emergency Family and Medical Leave Expansion
• Employer Reimbursement through Tax Credits


• Payroll Protection Program (PPP)
• SBA Economic Injury Disaster Loans and Grants
• Employee Retention Tax Credit
• Payroll Tax Deferral
• Unemployment Insurance
• Paid Family and Medical Leave Benefits Upon Rehiring
• Health Care
• Retirement Provisions
• Education Assistance
• Individual Taxpayer Rebate

Did your employees receive this?

FFCRA Employee Rights Poster

Refer to Federal Policies and Actions Related to COVID-19
https://www.uua.org/leadership/library/federal-policies-pandemic
Emergency Paid Sick Leave (April 1 to December 31, 2020)

- **Mandatory Benefit:** Employers **required** to provide 80 hours of additional sick leave (pro-rata for part-time) to employees who are unable to work due to:
  
  **Group 1**
  1) An order to quarantine;
  2) Advice to self-quarantine;
  3) Experiencing symptoms of COVID-19 and seeking treatment;

  **Group 2**
  1) Caring for an individual subject to a quarantine order/self-quarantine order;
  2) Caring for a child whose school or child care provider is closed; or
  3) Experiencing any other substantially-similar condition specified by HHS

- **Notification:** All employees, full time and part-time, need to be notified of this benefit.
  
Emergency Paid Sick Leave (April 1 to December 31, 2020)

- **Employers Fully Reimbursed**: Employers qualify for dollar-for-dollar reimbursement, up to the salary caps, through tax credits against employee withholding (explained later).

- **Salary Provisions**:
  - **IF Health/Quarantine-Related (Group 1)**: Regular pay rate up to $511/day or $5,110 over two weeks.
  - **IF Child-Care Related and/or Care of an Individual Quarantined or Self-Quarantining (Group 2)**: 2/3rds of the employee’s regular pay rate up to $200/day ($2,000 over two weeks)
  - Employers *may pay more*, but the Federal reimbursement through tax credits will not exceed the maximum salary caps.
Emergency Family and Medical Leave Expansion (April 1 to December 31)

- **Paid FMLA benefit** (generally unrelated to the existing unpaid FMLA law)

- **Mandatory Benefit**: Employers **must provide paid leave**, up to 12 weeks, to employees unable to work, including telework, **due to closure of child’s school/daycare** (pro-rata for part-time)

- **Notification**: All employees, full time and part-time, need to be notified of this benefit.

- **Partial Leave is possible**. Examples: work 3 days/wk and off 2 days, or work 4 hrs daily and off 4 hours.

- **Initial Two Weeks**: Employers are not required to pay for the initial 10 days; employees may substitute the new Paid Sick Leave provision (previous slide) or accrued vacation/personal/sick time as provided by the employer

- **Existing FMLA vs. Emergency FMLA**: This new provision is unrelated to the unpaid FMLA law. However, employers with 25 or fewer employees are not required to restore employee if conditions have changed.

For details, see UUA Families First Fact Sheet
Emergency Family and Medical Leave Expansion (April 1 to December 31)

- **Salary Provision**: Employers must pay at least 2/3 of regular wages (up to $200/day) for up to 10 weeks of family and medical leave under this provision. Maximum, federally reimbursable, salary is $10,000/per individual under the FMLA and $12,000 total (including Paid Sick Leave).

- **Salary Beyond the Cap**: Employers may pay more than the maximum amounts, but the federal reimbursement through payroll tax credits will not exceed the caps.

- **Tax Credit Reimbursement**: Employers qualify for dollar-for-dollar reimbursement through tax credits against employee withholding.

For details, see UUA Families First Fact Sheet [here](https://www.uua.org/sites/live-new.uua.org/files/ocsf_families_first_fact_sheet.pdf)
Employer Reimbursement for Paid Sick and Paid Family Medical Leave through Tax Credits

- Employers are eligible for 100% federal reimbursement of Paid Sick Leave and Paid Federal Family Medical Leave up to specific limits.
  - $5,110/individual for paid Sick Leave for COVID symptoms or quarantine-related compensation
  - $2,000/individual for paid Sick Leave for taking care of a child or individual ordered quantined
  - $12,000/individual for paid FMLA (including $2,000 for Paid Sick Leave if taken)

- Tax credits administered by IRS; Employers are reimbursed by taking a credit against the employer share of social security taxes (6.2%); If amount to be refunded is more than owed, then the excess is refunded to the employer

- Tax credits sunset on December 31, 2020

For details, see UUA Families First Fact Sheet
Employee Retention Credit

Allowances that help employers pay their employees

- **Employers obtaining a PPP loan are not eligible for this credit.**
- **Eligibility:** If Employer fully or partially suspends operations due to a government order, or if revenue declines 50% or more compared to the same calendar quarter in 2019
- **Credit:** The Maximum reimbursement is $5,000/employee. Employers can receive a tax credit equaling 50% of all qualified wages paid to an employee (whether working or not) between March 13 and December 31, 2020 in each calendar quarter, up to a total of $10,000 wages per employee for all.
- Credit is against an employer’s employment taxes for each quarter, with any excess refunded to the employer.
- **Wages paid to Ministers in the exercise of their ministry are excluded under IRS 3121 because their wages are not subject to FICA**
- Employers can’t include payments under the Paid Sick Leave or Paid Family Medical Leave provisions of the CARES Act.

For details, see UUA CARES Fact Sheet
Payroll Tax Deferral/Help in Retaining Staff

• The Act creates a “Payroll Tax Deferral Period” from March 27 through December 31. Employers may defer payment of the “employer share” of Social Security (6.2%)

• 2020 deferred taxes must be paid in the following two years – half by December 31, 2021 and half by December 31, 2022)

• Note: Clergy, who pay self-employment taxes (SECA), can defer 6.2% of their 15.3% tax obligation, but the Medicare portion along with their “employee” share needs to be paid on time.

The above is separate from the August 8 Executive Order providing the option to defer the employee portion of the Social Security Tax.

We do not recommend implementing this deferral.

Compensation Consultants

- Volunteers trained by our Office
- Regionally based
- Help during transitions – or anytime
- No cost!

https://www.uua.org/leadership/library/compensation-consultants
Compensation and Staffing News

- Monthly newsletter (sometimes 2x/month)
- Compensation and personnel matters
- 3 or 4 timely articles
- Links to additional resources

Sign up: https://www.surveymonkey.com/r/compnewssignup

Back issues: https://www.uua.org/offices/staff/mfd/ocsf/publications
Questions and Thanks!

Keep in touch!
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