

# Ministerial Compensation: Unraveling the Complexities for Lay Leaders

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UUA Office of Church Staff Finances

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UNITARIAN  
UNIVERSALIST

# Your Hosts

from the  
**UUA Office of Church Staff Finances**



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# Our Time Together

- Office of Church Staff Finances Mission
- Ministerial Payroll and Taxes
- Benefits
- Contracts
- Questions



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# Office of Church Staff Finances

## Working Mission Statement

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



# Ministerial Payroll & Taxes

## Words of Wisdom

*\*6 Kids, don't try this at home.\**

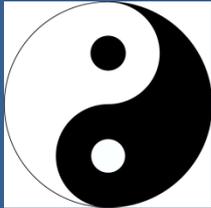
- Help and resources from our Office
- Knowledge from your
  - Bookkeeper\*
  - Payroll service\**\* IF they understand ministerial payroll and tax issues!*
- Sometimes you may need
  - Accountant
  - Lawyer



# Ministerial Payroll & Taxes

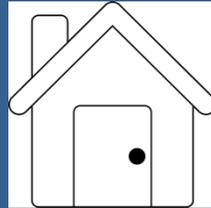
## Three Special Tax Provisions for Ministers

### Dual Tax Status



Minister is an employee for regular income tax purposes, BUT self-employed for Social Security/Medicare.

### Housing Allowance



Housing-related expenses are excluded from minister's wages for income tax purposes.

### Withholding Exemption



Minister need not have income taxes withheld from paycheck (but may elect to); files taxes quarterly.

# Ministerial Payroll & Taxes

What are the parts of the minister's paycheck?

## Salary

Pay to the order of Happy Pastor

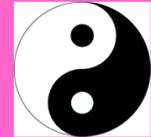
# Salary + Housing

## Housing Allowance



Housing Allowance may be a separate check.

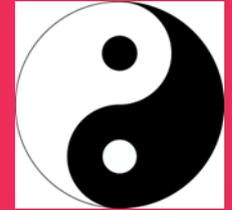
- Withholdings optional
- Deductions for employee-paid benefits



Payment  
in lieu of  
FICA

# Ministerial Payroll & Taxes

That “dual tax status” thing



## Employee

For income tax purposes  
(state and federal)

### **Social Security/Medicare tax = 15.3%**

- For **regular employees**, split between employer and employee (FICA)
- **Self-employed** pays whole thing (SECA)

## Self-employed

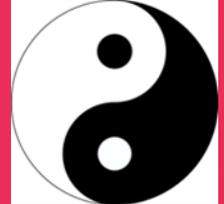
For Social Security/Medicare  
tax purposes

*SECA (15.3%) is based on full S+H.*

*This means that the  
Self-employment tax offset (“in lieu of  
FICA”) is based on full S+H.*

# Self-Employment Tax Offset

## Example



- Minister receives **\$50,000 Salary + Housing**.  
*(This is like “salary” for other staff.)*
- 15.3% = \$7,650 in Soc Sec/Medicare taxes on this amount.  
*(Non-clergy staff only pay 7.65% in FICA taxes while congregation pays the other 7.65%.)*
- Minister gets  $\$50,000 \times 7.65\% = \mathbf{\$3,825}$  added to salary as self-employment tax offset (“in lieu of FICA”).
- The full **\$53,825** is subject to self-employment tax.

This offset is TAXABLE income, effectively salary.

(The minister can take a federal tax deduction for 50% of their self-employment tax.)

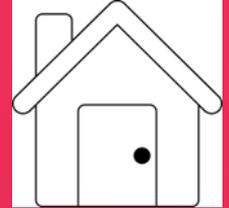
# Ministerial Payroll & Taxes



## Housing Allowance



# Ministerial Payroll & Taxes



## Housing Allowance

- Minister determines expected housing-related expenses
- Congregation designates housing allowance
  - Every calendar year
  - In advance
  - Through an official action (e.g., board resolution)
- Housing allowance is excluded from federal and state\*\* income tax, *but not excluded from self-employment tax.*

**NOT figured as  
% of salary**

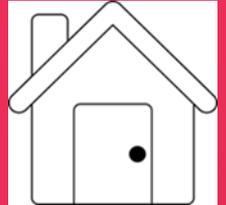
## The amount excluded from taxable wages is the LEAST of:

- Amount designated as housing allowance
- Amount actually used to provide a home (rent, utilities, etc.)
- Fair rental value of home, including furniture, utilities, garage

\*\* Housing allowance is taxed at the state level in Pennsylvania.

# Ministerial Payroll & Taxes

## Housing Allowance



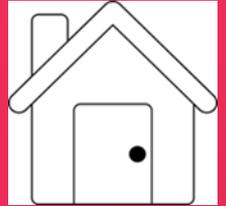
### Common allowable expenses

Rent or mortgage payment, real estate taxes, renter's insurance, utilities, furnishings, appliances, repairs, yard maintenance

### Key points

- Re-designate each calendar year.
- Can adjust mid-year, but new amount only applies going forward.
- If expenses less than designated, minister will report difference as wages.
- HA can be included in paycheck, but separate check often advised.
- HA is NOT included with wages on W-2 form.
- HA can be included on W-2, Box 14 (the “just FYI” box), or congregation can supply a separate letter.

# Housing Allowance



## Example

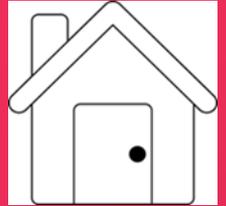
- Minister receives \$50,000 in Salary + Housing.
- Minister anticipates \$2,000 per month in eligible expenses.
- Church designates \$24,000 as housing allowance.

How much can they actually exclude? The LEAST of:

- \$24,000
- Actual expenses
- Fair rental value

If \$24,000 ISN'T the least, the minister must claim the excess as wages.

# Parsonage Exclusion



- Issues similar to Housing Allowance.
- Value of parsonage determined by taking into consideration the Fair Rental Value.
- In addition, a Parsonage Allowance is adopted by the Board annually: used for utilities, minor repairs, and furnishings. (Major repairs are the responsibility of the congregation as property owner.)
- The value of the Parsonage plus Parsonage Allowance should not exceed the Fair Rental Value of the residence plus utilities and furnishings.
- Neither the Parsonage Exclusion nor the Parsonage Allowance are reported on the W2.
- The Minister does NOT pay **income taxes** on these amounts, but must pay the **Self-Employment Tax** (15.3%) on both the Parsonage Exclusion and Parsonage Allowance.

# Ministerial Payroll and Taxes



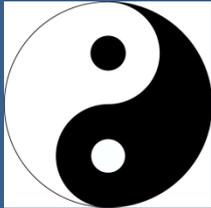
## Exempt from Withholding

- Minister NOT REQUIRED to have taxes withheld.
- May CHOOSE to have taxes withheld.
- Taxes withheld are applied to **income taxes**, not SE tax.
- Minister pays taxes through quarterly filings.

# Ministerial Payroll & Taxes

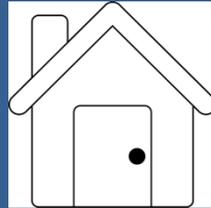
## Cost to church of special tax provisions

### Dual Tax Status



With the self-employment tax offset (payment in lieu of FICA), cost is same as non-clergy staff member.

### Housing Allowance



No budget impact.

### Withholding Exemption



No budget impact.

# Ministerial Compensation

## Additional Budget Items

1. Employer-funded benefits (every year)
2. Moving expenses (first year)
3. Sabbatical fund (accrues over time)
4. Search fund (accrues over time)



# Ministerial Compensation

## Other Common Questions

- **Professional Expenses** (Who owns the item?)
  - Need for an Accountable Reimbursement Plan
- **When is a minister an independent contractor?**
- **Do ministers need to track their hours?**

# Compensation: Payroll & Taxes

## Costly mistakes

- Paying minister's SE tax directly
- Treating the minister as self-employed (1099)

## Reminder

- Resources for setting salaries by geo index and church size on our website (links on next slide)

# Compensation: Payroll & Taxes

## Resources:

- [Fair Compensation page](#) on UUA website
  - [UUA Salary Guidelines](#)
  - [UUA Geo Indices](#) (based on [wages paid](#) in the location)
  - [UUA Fair Compensation Standards](#)
- [Compensation and Payroll page](#)
  - Employee or Independent Contractor?
  - Ministerial Compensation
  - Webinar resources
- [UUA/UUMA Model Contract](#) (*under review*)
- [Bestplaces.net](#) (cost of living/housing and more)
- [UUA Compensation Consultants](#)
- [Church and Clergy Tax Guide](#), by Richard Hammar

# Compensation: Payroll & Taxes

Questions?

# 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 the Details (enrollment, etc)
  - Must enroll within 60 days for Dental, Life, and LTD and 30 days for the UUA Health Plan unless qualifying event
- Treat Staff Equitably (It's a UU Value)
  - Providing Disability Insurance Protects Not Only the Employee, but the Congregation
- Take care of your staff. Besides doing the right thing, you'll benefit in the long run.

# Benefits

## Health Insurance Options

Annual enrollment or upon employment

- **UUA Health Plans (began in 2007)**
  - 3 Non-Medicare Plans (Gold, Silver, and Bronze)
  - Silver/Bronze: High Deductible/Can be coupled with HSAs
  - Comprehensive, faith-based (trans, hearing aids, kids disability)
  - Great network (Blue Cross)/Ability to go out-of-network
  - Outstanding customer service
  - Premiums: Age and Zip-code
- **Reimbursement for Spouse/Partner group insurance**
- **Other Employer-provided health insurance**
- **Affordable Care Act**
  - High Deductibles/Out-of-Pocket Limits
  - Increasingly limited networks
  - Pay attention to benefits (Gold, Silver, Bronze)

Minister already has coverage?  
Situations can change! Always be ready to provide.

# Benefits

## Dental Insurance

Annual enrollment or  
upon employment

- UUA Plan through Guardian
- Annual Benefit: Up to \$1,750
- Carryover Possible to next year
- Makes Economic Sense (Dentists charge individuals without insurance more)
- Can Retain Coverage (if not teeth) in retirement

# Benefits

*Must offer with  
Life Insurance*

## Long-term Disability Insurance

- UUA Plan through Guardian
- Benefit: 2/3<sup>rd</sup> of Salary (and Housing)
- Option: SSDI is NOT a reliable safety-net option
- Cost: 1.2% of Salary/Housing
- Recommendation: Congregation pays, but imputes premium cost on W2. Why? Benefits will be tax-free if paid with post-tax dollars
- LTD protects employees AND the congregation
- All Eligible Employees should be covered
- Can continue LTD coverage for 6 months between jobs

Enroll upon  
employment

# Benefits

## Life Insurance

*Must offer with LTD*

Enroll upon  
employment

- UUA Plan through Guardian
- Benefit: 2x Salary (and Housing); \$5,000 spouse/child
- Cost: \$0.34 per \$1,000 coverage/month
- Recommendation: Congregation Pays
- Life protects employees AND the congregation
- All Eligible Employees should be covered

# Benefits

## Eligibility: All Insurance Plans

- All Employees working 750 Hours or more annually
- If one employee is in the UUA plan, all must be offered the opportunity to enroll
- Employers do not have to make the same premium contribution for all employees (but what does that say about our commitment to economic justice?)
- Health and Dental: annual open enrollment (Nov!)
- Life and LTD: Only upon employment without medical underwriting\*

# Benefits

## Insurance Plans: Costly Mistakes

- **Life/LTD:** congregation **MUST** offer both, not just one
- Failure to enroll within 60 days of employment
- Failure to update staff salaries when they change
- Failing to ensure enrollment in life and disability insurance of all eligible employees and then a beloved employee becomes disabled
- Enrolling employees a bronze health plan may save premiums, but result in substantially higher out-of-pocket expenses.

# Benefits: Retirement Plan

## Basics:

- Type: 401(a)/401(k) Qualified Church Plan
- Oversight: UUA Retirement Committee
- Numbers: 3,634 plan participants/approx \$325 million
- Recordkeeper: TIAA

## Eligibility:

- After 12 months AND 1,000 hours of employment, OR
- Previous qualifying for employer contributions at another UUA-related participating employer, OR
- Successful completion of a ministerial internship
- Can combine hours from 2 or more participating employers

# Benefits: Retirement Plan

## Plan Rules

- 100% fully vested upon employment.
- All employees may enroll and make elective (employee) contributions upon employment
- Employee Contributions MUST be submitted to TIAA within 2 weeks if not before
- Employers MUST make employer contributions to all employees who have met the eligibility requirements for employer contributions
- Once year of eligibility service has been met, the employee is NOT required to re-satisfy the 1,000 hours/12 month rule
- Once receiving employer contributions, always in!!!
- Minimum Employer Contribution is 5%
- Fair Compensation Recommendation is for the Employer Contribution to be 10% or More (86% of congregations do)
- All employees must receive the same percentage employer contribution except if matching contributions has been opted for.
- Participating Employers must submit a new Employer Agreement to the UUA before changing the percentage employer contribution

# Benefits: Retirement Plan

## Not to Overlook:

- Contributions go in tax-free (pre-tax)
- To the extent withdrawals are used for housing in retirement, then they come out tax-free if from a qualified church plan

## Costly Mistakes:

- Experts say that you need a minimum of 14% of your income going into your retirement account each year in order to afford retirement.
- So strive to make elective contributions out of your salary even if its only a small amount. It would add up over time.
- Take advantage of TIAA online resources, and your annual advice session with a TIAA Rep (free)
- Failure to designate a beneficiary

# Benefits

## Resources

- UUA OCSF Staff and Website ([www.uua.org/compensation](http://www.uua.org/compensation))
- TIAA Resources
  - Establish online access ([www.uua@tiaa.org](mailto:www.uua@tiaa.org))
  - Dedicated Phone Number (1-800-842-2829)
  - 60+ Offices
  - Annual Financial Advice (free)

# Benefits

Questions on benefits?

# Contracts

## Words of Wisdom

- There is a reason why the UUA/UUMA has a recommended model contract/agreement
- Variations from the model agreement often are red flags
- Legal language offers protection when an employment relationship goes south. Covenantal language often doesn't.

# Contracts

## General Recommendations:

- Periodically review contracts
- Identify deviations from the UUA/UUMA model
- Make sure the numbers add up. For instance, benefits should total at least 30-40% of salary/housing
- Changes to contract must be mutually negotiated.
- Reach out for advice

# Contracts

## Resources

- **UUA/UUMA Model Agreement**

*We're in the process of updating this. Send us your suggestions.*

# Contracts

Questions on contracts?

# UUA Church Staff Finances Team

- UUA Insurance Plans (Health, Dental, Life, Disability)
  - Jim Sargent, Director ([JSargent@uua.org](mailto:JSargent@uua.org))
  - Patti Angelina, Plans Manager ([Pangelina@uua.org](mailto:Pangelina@uua.org))
  - Rachael Brennan, Insurance Plans Coordinator ([Rbrennan@uua.org](mailto:Rbrennan@uua.org))
    - Enrollment and billing questions
- UUA Retirement Plan
  - Linda Rose ([Lrose@uua.org](mailto:Lrose@uua.org)), Director
  - Joshua Craft ([Assistplan@uua.org](mailto:Assistplan@uua.org))
- UUA Compensation Programs
  - Jan Gartner ([JGartner@uua.org](mailto:JGartner@uua.org))
- OCSF Administrator: Charissa Benak ([Cbenak@uua.org](mailto:Cbenak@uua.org))
- Reverend Richard Nugent, Director ([RNugent@uua.org](mailto:RNugent@uua.org))

# Our thanks and blessings



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