

Help Your Pastor Pay Less in Taxes

It is tax time again! We are in the middle of tax season and the April 15th deadline is about 6 weeks away! The median family income in Alabama is approximately \$51,000. A typical Alabama family will pay between \$4000 and \$5000 in Federal Income Tax, approximately \$4000 in Social Security taxes, between \$1500 and \$1700 in state income tax and between \$1500 and \$3000 in other taxes including sales tax, property tax, fuel taxes, etc. This is based on an average family size of 2.5 according to the U.S. Census Bureau. Many Alabama families will pay much more in taxes.*

Pastors and other ministers also pay a lot in taxes and often more than they should. Many churches still operate under the old “lump sum” or “package approach.” “We will pay you \$X.XX and you divide it any way you wish.” This can cause the minister to pay several thousand dollars more in taxes. Here are 5 easy ways to help your minister save on taxes, avoid confusion, help keep good church employees and honor the Lord in our stewardship:

1. **Adopt an accountable reimbursement plan.** The old car allowance method is taxable income, goes on the W-2 and the minister will pay taxes on money which is not income – it is a business expense of the church. Under an accountable plan, the church establishes a budget and the minister provides a report each month of mileage showing the date, location, purpose and business miles. The report also includes receipts for other business expenses such as attending a workshop or convention, books or tapes used in ministry, continuing education and hospitality. The minister could, for example, take a prospective family out to lunch to tell them more about the church, ascertain their spiritual needs, answer their questions, etc. This would be a legitimate business expense.
2. **Provide health benefits.** The church should provide health insurance, disability insurance and may offer other benefits such as dental and vision. These benefits protect the minister’s family and also protect the church as well from the potential of a catastrophic expense. A written church policy is needed, but may be quite simple. A church desiring greater flexibility concerning health needs may adopt a Health Reimbursement Arrangement. An HRA document tailored to your church could be obtained from a CPA or attorney. The cost might be \$200 - \$300, a small price to pay considering potentially saving thousands of dollars each year. Other churches may consider other plans such as a FSA or HSA tied to certain high deductible insurance coverage. GuideStone provides such insurance.
3. **Provide life insurance.** Most financial experts recommend that families have between 4 and 10 times annual income in group term insurance. The first \$50,000 in employer provided term life insurance is tax free as well as dependent coverage of \$2,000.
4. **Retirement through GuideStone is a wonderful way to provide for your minister’s future.** Normal retirement savings are tax deferred. In addition, there are potentially three additional benefits for ministers of Southern Baptist churches including a Survivor benefit of up to \$100,000, a Disability benefit of up to \$500 per month, and up to an additional \$17.50 going into the minister’s account each month. These additional benefits are provided through the State Board of Missions and your Cooperative Program gifts. Also, amounts the minister sets aside for retirement through a salary reduction agreement may qualify for a retirement savings contribution credit on Federal taxes.
5. **Provide a housing allowance.** The housing allowance may include the payment (principal, interest, taxes and insurance), utilities, upkeep, maintenance, and improvements, furnishings, pest control, cleaning supplies for the home, home owners association dues and

*Sources: The U. S. Census Bureau, U.S. Department of Housing and Urban Development, The Alabama Department of Revenue Annual Report 2006, the Federal Tax Tables, the Alabama tax tables,

down payment. The housing allowance is requested by the minister and approved by the church. The church's role is to determine that the request is reasonable and approve it. Then it is the responsibility of the minister to keep detailed records and receipts to be ready to prove the exclusion. A minister may exclude from federal income tax and state income tax the smallest of three numbers – (1) the amount designated by the church, (2) the actual expenses and (3) the fair market rental value of the home furnished plus utilities. If the exclusion is less than the allowance designated, the minister must report the excess as taxable income. **A minister in a parsonage** may also have a housing allowance to cover expenses he may be responsible for such as utilities, content insurance, furnishings, cleaning supplies for the home, pest control, etc. Many churches do not provide a housing allowance for a minister living in a parsonage. Also many churches put unreasonable limits on the housing allowance. These practices cost your minister additional taxes.

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