

The Bivocational Pastor's Compensation

Many bivocational 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 much more in taxes. Here are 4 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. Note: An accountable reimbursement plan cannot be funded through salary reduction.
2. **Provide benefits.** The church could provide term life insurance, 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. GuideStone Financial Resources provides such insurance products.
3. **Retirement through GuideStone is a wonderful way to provide for your minister's future.** Bivocational ministers should participate even if they have retirement through their other employment. 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. If the church budget offerings are less than \$75,000, the minister may apply for the Mission/Church Assistance Program which could result in an additional \$50 per month in the minister's retirement account for up to 5 years. Also, amounts the minister sets aside for retirement through a salary reduction agreement may qualify for a retirement savings contribution credit on Federal taxes.
4. **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 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. Many bivocational pastors could request up to 100% of their income as housing. It is recommended that even if that is reasonable, the pastor request less than 100% so that he can participate in the Church Retirement Plan through GuideStone Financial Resources.

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