

North Central Association Pastoral Search
Financial Planning Resources
(updated December 2023)

Consult the NAB website: <https://nabconference.org/resources/downloadable-resources/> for helpful guidance for both churches and pastors on salary, benefits and tax issues.

Clergy Housing Allowance

To comply with the Internal Revenue Service requirements, it is required that a church officially designate a portion of the compensation package of any pastor who is licensed or ordained AND has been credentialed by the North American Baptist Conference. The portion of that designated amount that is actually used may be excluded from taxable income. The pastor must keep a record of actual housing expenses accompanied by proof of payment. Unused amounts must be included as income. Note that if a parsonage is provided, the fair market rental value (along with utilities) is not subject to federal tax, but is considered Self-Employment income (SECA) and must be listed accordingly. Appropriate house furnishings can also be included in a Housing Allowance (furniture, rugs and mats, light bulbs, renter's insurance, etc.). For specific IRS regulations, access <https://www.irs.gov/pub/irs-pdf/p517.pdf>. An example of a housing expense form is provided in Appendix A.

Benefits

Pension Plan Payments

The church is encouraged to contribute toward the pastor's pension. It is advisable to consider basing the amount on a matching contribution of an equal amount by the pastor up to a stated percentage. As a starting point, calculate up to 5% of Adjusted Minimum Salary (Step 6) and deduct an equal percentage from the pastor's salary for a total of up to 10%. Contact North American Baptist Conference (916-797-6222) to enroll. This contribution may be made to the NAB Pastor's Group 403b with Aspire. If a minimum of \$600.00 is contributed in a given calendar year to the NAB Pastor's Group 403b, the North American Baptist Conference will contribute an additional \$300.00.

Health Insurance

The amount provided by a church for health insurance can be excludable from taxable income only if the church carries a group health insurance plan. Since this is impossible (or at least improbable) for a one-employee church, most pastors will be able to deduct their health insurance premium cost, but not exclude it. This also applies to pastors receiving insurance via the Affordable Healthcare Act. **It is necessary for church leaders and pastors to receive accurate and official information from a tax consultant.**

It is also important for the church to provide health insurance for the pastor and family. While the cost of insurance is high, the potential cost of inadequate or no health insurance can be catastrophic. Typical annual costs for family health insurance plans (not counting major medical plans) range upwards of \$20,000 annually. The reality is that fewer NCA pastors have health

insurance provided by their church. Those who do not have coverage through their church are using a number of options, including: care through a spouse's policy, VA benefits, purchase through <https://healthcare.gov> or using a health care share plan like Samaritan Ministries or Christian Healthcare Ministries. The health care share plans are NOT insurance, but may be options. Read and check these types of plans carefully to determine which expenses are covered and how they handle pre-existing conditions.

NOTE: A Health Reimbursements Arrangement (HRA) may help you reduce your taxable liability on dollars spent on medical insurance and out-of-pocket expenses. Check carefully with a tax consultant regarding the rules on restrictions before subscribing to one.

Sick Leave

As a guideline, allow for 1.5 days paid sick leave per month to a total of 18 days/year. To provide for their pastor in the event of an extended illness a church is encouraged to adopt a sick leave policy. It is advisable for the church to provide, as a part of the pastor's benefit plan, a disability insurance policy.

Holidays/Days Off

Allowance for rest and time to take care of personal affairs is particularly important if pastors are to maintain long-term effectiveness and insight. Thus, churches should encourage pastors to take at least 1.5 days off/week, with additional allowances for holidays.

Vacation

The church is encouraged to provide vacation each year based on a pastor's cumulative years of service as a Pastor and/or other ministry experience. The following guide for vacation is recommended: 1-5 years: 3 weeks; 6-15 years: 4 weeks; 16+ years: 5 weeks. Vacation should be pro-rated for the first year. While outstanding vacation pay is due upon termination, the church may place a limit on how much may be accrued. Pastors should be encouraged to use the bulk of their vacation annually.

Sabbatical Leave

See <https://npregion.org/wp-content/uploads/2015/02/NCA-Pastoral-Sabbatical-guidelines.pdf>. North Central Association guidelines suggest two to four consecutive months following six full-time years of continuous ministry in a local church.

Ministry Expenses

Certain expenses are incurred in effectively conducting the ministry of the church. The pastor should not pay such costs, nor should these costs be viewed as part of the compensation package *per se*.

Communication Assistance

An office telephone shall be provided. If the office is in the home, then a telephone may be provided without reduction from the benefit package. If a cell phone is used for ministry purposes, a portion of the monthly costs may be paid by the church for that use.

Hospitality Expenses

Many churches are recognizing the increased cost of a pastor for entertaining guests of the church (e.g. in home or restaurants) and we suggest the church attempt to offset these costs for the pastor. This may be provided as an additional portion of salary or by securing church credit card(s) for the pastor(s) to use for such expenditures. A careful accounting of actual expenses must be kept in view of potential IRS audits.

Professional Development-Continuing Education

Setting aside a period of time annually for the pastor's continuing education benefits both the pastor and the church. Consider allocating up to ten days annually. (Typical intensive seminary/graduate classes last two weeks.) Time set aside for study may be cumulative, to 20 days in two years. The church should make available, annually, at least \$1,000 for continuing education and book allowance, cumulative up to at least \$2,000 in two years. Another option would be to allocate 2% of salary for this purpose. Consideration should be given for the pastor and spouse to attend an annual pastors' conference to be chosen in cooperation with church leadership. If the pastor chooses to pursue advanced education, NCA Scholarships may provide assistance. Consult the NCA Resources on the <https://npregion.org> website.

Denominational Responsibilities

The church should reimburse the costs associated with the pastor and spouse attending and representing the church at association and triennial conferences. This includes registration, travel, lodging and meals.

Transportation Costs

The Internal Revenue Service will allow the church as an employer to reimburse the pastor for auto expenses up to 65.5 cents/mile (2024 rates) while driving in the service of the church. A church may pay travel costs under this rate. However, if the church pays less than the IRS suggested amount, the difference between any reimbursement and that amount will constitute an income tax deduction for the pastor. The amount agreed upon by the church and the pastor should reflect the true costs of operating the vehicle, including insurance, depreciation, interest costs, fuel, maintenance, etc. The pastor must maintain a detailed log of miles traveled and the purpose of each trip. It is ultimately advantageous for the church to pay the full amount, as it constitutes an income advantage to the pastor equal to the income tax rate.

Insurances (other than medical)

Several types of insurance are recommended. The pastor and church leaders should confirm that the following items are covered:

- Personal library books
- Computer and other electronic equipment
- Liability connected with pastoral counseling

Some of these may already be covered in personal or church insurance. Generally, a special rider is required for pastoral liability. Additionally, the church may provide a \$50,000 life insurance policy for the pastor as a benefit that is not taxable.

Clergy Tax Issues

Clergy tax laws are different from those for most other occupations. While a pastor is considered self-employed, there are significant IRS regulations specifically designed for this occupation. The resources suggested at the beginning of this article can provide significant assistance. For specific technical information regarding clergy tax laws, access current IRS documents or talk with your tax consultant. The following statements are unqualified observations and should be confirmed or adjusted in consultation with a qualified clergy tax consultant.

Some items to consider when forming the pastor's compensation package are:

*Since the pastor is considered self-employed with regard to Social Security taxes (SECA), he is liable for the full amount, in contrast to most employment situations where the employer is required to pay one-half of the tax. Churches may elect to reimburse the pastor for portions of the Social Security tax. Under some circumstances a clergy tax expert should be consulted to determine proper procedure and implications.

*Housing allowance used is excludable for income tax purposes, **but NOT for Social Security purposes. Also, the fair rental value of a parsonage provided by the church must be added to the total Social Security taxable income**, as stated earlier. Projected personal pastoral Ministry Expenses can be withheld from the salary at the pastor's request in a specified church account. However, any unused Ministry Expense money CANNOT be returned to the pastor at the end of the year, necessitating good planning and under-estimating.

*An Auto Expense Reimbursement Policy should be strongly considered for church-related driving, especially in the case of significant mileage for hospital or shut-in visitation, approved conference or association activities, visitation of active church attendees who live a significant distance for the church facility or in the case of travel between churches that share a pastor. This is a hard expense and should be considered church expense NOT a part of the pastor's salary.

Consideration for Smaller Churches

In this time of decline in rural communities, it is important to address pastoral employment issues. When unable to meet minimum compensation recommendation levels, a church may consider the following suggestions:

*Calculate the percentage of the recommended compensation package that the church can provide, defining the pastoral position by that percentage. For instance, if the recommendation is \$58,440 for salary and housing (2024 suggested minimum), and the church can only supply \$44,000, the position should be described as $\frac{3}{4}$ time.

*When a church cannot supply full compensation, the following reasonable remedies may be considered:

- Clearly communicate in writing the level of employment and resulting adjusted job description expectations when hiring a pastor or planning for the next compensation period.
- Clearly communicate in writing the expectations and guidelines for the pastor to supplement or compensate (additional job, extra time off, etc.) for a position less than full-time.
- Clearly communicate in writing any expectation that the pastor's spouse finds employment.
- To expand hiring or retention possibilities, strongly consider sharing the pastor with another congregation. The following should be considered:

- A clear, written definition of the division of time and financial responsibilities.
- Regular (at least quarterly) meetings between key church leaders to maintain the inter-church relationship.
- Three-, six- and 12-month pastoral performance and inter-church relationship evaluations in the first year, with annual evaluations thereafter.
- Discussion of the possibility of merging church organizations in order to streamline administration and decision-making (maintenance of more than one worship facility may continue to be an option).

NOTE: While the above suggestions may seem drastic, present trends indicate that a growing number of smaller rural churches are unable to sustain a full-time pastor. Such churches often under-pay pastors, often resulting in stress and short tenures. A growing number turn to Sunday-only pulpit supply, losing pastoral presence and care, while experiencing further decline. The above items are suggestions. The church may design other creative approaches, especially in areas where ministry opportunities remain, but financial capacity limits pastoral compensation. Please contact the Regional Minister for consultation in these matters. The most important focus must be that of making disciples for Jesus Christ.

Appendix A

20__ Housing Allowance Form

Date:

Church Name:

Church Address:

RE: Annual Housing Allowance

Church Board:

I have thoroughly reviewed past amounts expended for rent and/or other costs of providing a home. During _____ (year) I expect to spend the following amounts:

1. Rent or house payments
(Principal and interest) \$ _____
2. Property taxes on home
(Includes personal property tax) \$ _____
3. Special Assessments
(I.e. water, sewer, etc. not included above) \$ _____
4. Insurance on home \$ _____
5. Utilities \$ _____

6. Repairs and maintenance on home \$ _____

7. Other expense (detail on separate page) \$ _____

The total is equal to the fair annual rental value of my home, including furnishings and appurtenances plus cost of utilities. I respectfully request the church board take formal action to designate the amount indicated above as my "Housing Allowance" for _____ (year).

I was ordained/licensed as a Minister of the Gospel on _____, _____ at _____ Church located in _____. Rev. _____ was the host pastor at the ordination service. I was credentialed by the North American Baptist Conference on _____, _____, such records held at North American Baptist Conference, 1219 Pleasant Grove Blvd., Roseville, CA 95678.

Respectfully yours,

Printed Name

Date

Signature