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***Pastor's Compensation Package,  
Information Relating to Gifts and  
Employee Business Expenses***

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***Prepared 5/1/21***

***“Service with Excellence”***

# **INFORMATION FOR PASTOR'S COMPENSATION AND EXPENSES**

**PREPARED 5/1/21**

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# Minister's Compensation Worksheet

	<u>This Year</u>	<u>Next Year</u>
<b>Salary and Equivalent Compensation:</b>		
A. Cash salary, less designated housing/furnishings allowance	\$ _____	\$ _____
B. If parsonage owned by church, fair rental value including utilities and any housing/furnishings allowance	_____	_____
C. If parsonage not owned by church, cash housing allowance provided (plus utilities, maintenance, or any other housing expenses paid directly by church)	_____	_____
D. Tax-deferred payments (TSA/403[b], 401[k], IRA)	_____	_____
E. Cash bonus	_____	_____
F. Social security reimbursement (in excess of 50% of SECA)	_____	_____
G. Other	_____	_____
<b>Total Salary</b>	<b>\$ _____</b>	<b>\$ _____</b>
<b>Fringe Benefits:</b>		
A. Denominational pension fund	\$ _____	\$ _____
B. Social security reimbursement (up to 50% of SECA)	_____	_____
C. Health reimbursement arrangement	_____	_____
D. Insurance premiums paid or reimbursed by church		
1. Health	_____	_____
2. Disability	_____	_____
3. Long-term care	_____	_____
4. Group-term life	_____	_____
5. Dental/vision	_____	_____
6. Professional liability	_____	_____
7. Malpractice	_____	_____
E. Other	_____	_____
<b>Total Fringe Benefits</b>	<b>\$ _____</b>	<b>\$ _____</b>
<b>Professional Expense Reimbursements:</b>		
(limited to ordinary, necessary, and actual expenses)		
A. Auto/travel	\$ _____	\$ _____
B. Books/subscriptions/tapes	_____	_____
C. Continuing education	_____	_____
D. Conventions/conferences	_____	_____
E. Professional dues	_____	_____
F. Church-related entertainment	_____	_____
G. Other	_____	_____
<b>Total Professional Expense Reimbursements</b>	<b>\$ _____</b>	<b>\$ _____</b>

Tax-deferred payments are shown under the salary category on this form. This presentation seems to be appropriate because it is often an option of the minister to receive the funds as salary or have them paid into a deferred plan.

**SAMPLE REQUEST FOR HOUSING ALLOWANCE-TAX YEAR 2021**

To: Board of Directors/Trustees  
 From: Pastor Housing Allowance  
 Date: December 12, 2020

Please accept this as our request for a Housing Allowance of \$ 31,860 this year. This is made pursuant to Internal Revenue Code Section 107, and I represent that I am a Qualified, Ordained, Licensed or Commissioned Minister of the Gospel, pursuant to Internal Revenue Code 107 and the regulations set forth in the Internal Revenue Code.

I am completely qualified to receive the above based upon the qualifications of an Ordained, Minister of the Gospel, and I certify that I have performed the sacerdotal functions of an Ordained or Licensed Minister for the previous year.

	<b>Monthly Amount</b>
1 Down Payment on Personal Residence.....	
2 House Payment (Principal & Interest) or Rent (\$1,700/mo).....	\$ 1,650
3 Real Estate Taxes.....	included above
4 Insurance (Contents).....	\$ 95
5 Insurance (Structure, fire or liability).....	\$ 50
6 Repairs & Upkeep (the reasonable cost of repairs or..... maintaining a home in the condition it was in when purchased).....	\$ 200
7 Utilities (Heat, electric, gas & water).....	\$ 450
8 Garbage Service/Pest Control.....	
9 Alarm/Cable TV.....	\$ 60
10 Lawn Care.....	\$ 150
11 Sewage.....	
12 Furniture Acquired.....	
<b>A) equals</b> <b>sum of</b> <b>itmes 1-12 Total Monthly.....</b>	<b>\$ 2,655</b>
<b>B) equals</b> <b>A times 12 Total Annually.....</b>	<b>\$31,860</b>
<b>C) equals</b> <b>A divided</b> <b>by 52 Total Weekly.....</b>	<b>\$ 613</b>

Date 12/12/2020

Signature

This request should be in your corporate records and must become a part of your permanent documents.

**SAMPLE REQUEST FOR HOUSING ALLOWANCE**

To: Board of Directors/Trustees

From: \_\_\_\_\_

Date: \_\_\_\_\_

Please accept this as our request for a Housing Allowance of \_\_\_\_\_ this year. This is made pursuant to Internal Revenue Code Section 107, and I represent that I am a Qualified, Ordained, Licensed or Commissioned Minister of the Gospel, pursuant to Internal Revenue Code 107 and the regulations set forth in the Internal Revenue Code.

I am completely qualified to receive the above based upon the qualifications of an Ordained, Minister of the Gospel, and I certify that I have performed the sacerdotal functions of an Ordained or Licensed Minister for the previous year.

**Monthly Amount**

1	Down Payment on Personal Residence.....	_____
2	House Payment (Principal & Interest) or Rent (\$1,700/mo).....	_____
3	Real Estate Taxes.....	_____
4	Insurance (Contents).....	_____
5	Insurance (Structure, fire or liability).....	_____
6	Repairs & Upkeep (the reasonable cost of repairs or..... maintaining a home in the condition it was in when purchased).....	_____
7	Utilities (Heat, electric, gas & water).....	_____
8	Garbage Service/Pest Control.....	_____
9	Alarm/Cable TV.....	_____
10	Lawn Care.....	_____
11	Sewage.....	_____
12	Furniture Acquired.....	_____

**A) equals sum of items 1-12 Total Monthly.....** \$ -

**B) equals A times 12 Total Annually.....** \$ -

**C) equals A divided by 52 Total Weekly.....** \_\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_\_

This request should be in your corporate records and must become a part of your permanent documents.



# Topic No. 417 Earnings for Clergy

A licensed, commissioned, or ordained minister is generally the common law employee of the church, denomination, sect, or organization that employs him or her to provide ministerial services. However, there are some exceptions, such as traveling evangelists who are independent contractors (self-employed) under the common law. Regardless of whether you're a minister performing ministerial services as an employee or a self-employed person, all of your earnings, including wages, offerings, and fees you receive for performing marriages, baptisms, funerals, etc., are subject to income tax. However, the way you treat expenses related to those earnings differs if you earn the income as an employee or as a self-employed person.

## Employee or Self-Employed

For income tax purposes, facts and circumstances determine whether you're considered an employee or a self-employed person under common-law rules. Generally, you're an employee if the church or organization you perform services for has the legal right to control both what you do and how you do it, even if you have considerable discretion and freedom of action. For more information about the common-law rules, see Publication 15-A, Employer's Supplemental Tax Guide. If a congregation employs you for a salary, you're generally a common-law employee of the congregation and your salary is considered wages for income tax withholding purposes. However, amounts you receive directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services, are generally earnings from self-employment for income tax purposes. Both the salary you receive from the congregation and fees you receive from members of the congregation may be included for social security coverage purposes and subject to self-employment tax (see below).

If you're an independent contractor, the offerings or fees you receive for performing marriages, baptisms, funerals, etc. are self-employment income. Use Schedule C (Form 1040), Profit or Loss From Business (Sole Proprietorship) to report these earnings and related expenses.

## Housing Allowance

A licensed, commissioned, or ordained minister who performs ministerial services as an employee may be able to exclude from gross income the fair rental value of a home provided as part of compensation (a parsonage) or a housing allowance provided as compensation if it is used to rent or otherwise provide a home. A minister who is furnished a parsonage may exclude from gross income the fair rental value of the parsonage, including utilities. However, the amount excluded can't be more than reasonable compensation for the minister's services.

A minister who receives a housing allowance may exclude the allowance from gross income to the extent it's used to pay expenses in providing a home. Generally, those expenses include rent, mortgage interest, utilities, and other expenses directly relating to providing a home. The amount excluded can't be more than reasonable

compensation for the minister's services.

If you own your home, you may still claim deductions for mortgage interest and real property taxes. If your housing allowance exceeds the lesser of your reasonable compensation, the fair rental value of the home, or your actual expenses directly relating to providing the home, you must include the amount of the excess in income.

In order to be able to exclude the housing allowance from income, the minister's employing organization must officially designate the housing allowance as such before paying it to the minister.

The fair rental value of a parsonage or the housing allowance is excludable only for income tax purposes. The minister must include the amount of the fair rental value of a parsonage or the housing allowance for social security coverage purposes.

## **Social Security Coverage**

The services you perform in the exercise of your ministry are generally covered by social security and Medicare under the self-employment tax system, regardless of your status under the common law. This means that your salary on Form W-2, Wage and Tax Statement, the net profit on Schedule C, and your housing allowance less pertinent deductible expenses are subject to self-employment tax on Schedule SE (Form 1040), Self-Employment Tax.

See Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers for limited exceptions from self-employment tax.

## **Exemption from Self-Employment Tax**

You can request an exemption from self-employment tax for your ministerial earnings, if you're opposed to certain public insurance for religious or conscientious reasons. You can't request exemption for economic reasons. To request the exemption, file Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners with the IRS. You must file it by the due date of your income tax return (including extensions) for the second tax year in which you have net earnings from self-employment of at least \$400. This rule applies if any part of your net earnings from each of the two years came from the performance of ministerial services. The two years don't have to be consecutive. The exemption is granted if IRS approves your application. Once granted, the exemption is irrevocable.

## **Additional Information**

For more information, refer to Publication 517, Social Security and Other Information for Members of the Clergy and Religious Workers and Do I Have Income Subject to Self-Employment Tax?

*Page Last Reviewed or Updated: 09-Mar-2021*

## When do payments to clergy move from gifts to remuneration?

A Tax Court decision should prompt CPAs with clients who are clergy to ask a few more questions.

By Linda Franks, CPA

October 24, 2019

Are gifts to clergy taxable income for federal income tax purposes? The answer involves a careful consideration of the surrounding circumstances. In its recent opinion, *Brown*, T.C. Memo. 2019-69, the Tax Court considered whether amounts a clergyman and his wife nontaxable gifts, or whether they crossed the line to taxable income. The court's decision in this case could be very informative for CPAs with tax clients who are members of the clergy.

In an audit of the 2007, 2008, and 2009 returns of Mikel A. Brown Sr., a church pastor, and his wife, Debra A. Brown, the IRS used the bank deposit method to reconstruct their taxable income. The IRS auditor analyzed the taxpayers' bank statements and records to identify total deposits, and asked the taxpayers where the deposits came from. Deposits for which the taxpayers could not identify the source were classified as taxable by the auditor. Using this method, the IRS asserted unreported income in each of the three years under audit. The taxpayers asserted that the unreported amounts represented nontaxable gifts from church members.

**Gifts:** Citing a Fifth Circuit opinion, *Bass v. Hawley*, 62 F.2d 721 (5th Cir. 1933), which found that gifts arise from "personal affection or regard or pity," the court focused on four criteria used in prior case law to examine payments to clergy and differentiate between payments that are nontaxable and those that are taxable:

1. Were the payments an exchange for services? For example, did they compensate for a lower salary, or were they offered in an effort to retain the clergy's services? The court cited the size of the gifts as an indication that the payments were made to encourage Brown to remain in his position.
2. Were the payments requested by the clergy or other officials of the religious group? In this case, the court noted the use of a single envelope giving system, rather than an envelope for church contributions and an envelope for gifts to the pastor. In addition, church members gave more heavily on two specific days of the year chosen to honor the pastor, which the court found indicative that church members had been requested to give at those specified times.
3. Were the payments part of a routine, structured program? The court found that the church had a bookkeeping system that routinely collected and remitted payments to Brown. The court viewed this routine as supporting the characterization of the payments as income rather than gifts.



4. How did the amount of salary compare to the amount of the unreported payments? The unreported payments were comparable to, and in one year exceeded, the amount of salary, which the court determined supported the position that they were income, rather than gifts.

The court found the payments qualified as income rather than gifts under all four criteria, and consequently concluded that the unreported payments were taxable income.

**Accuracy-related penalties:** The Browns argued that the Sec. 6662(a) accuracy-related penalties the IRS imposed against them should not apply because they had relied on tax professionals to prepare their returns. Although neither of the two tax preparers who prepared returns for the Browns during the audit period had asked the Browns whether they had received any gifts, the court came to different conclusions about whether the Brown's reliance on them was reasonable.

The court found that the preparer of the couple's 2007 return had no knowledge of the gifts, so the Browns' did not rely on him with reasonable cause and in good faith, and the accuracy-related penalty applied for 2007. However, the CPA who prepared the couple's 2008 and 2009 returns had done some accounting for the church. The court determined that it was reasonable for the Browns to believe that the preparer was aware of the existence of the gifts and would report them correctly. Therefore, the court found that the taxpayers acted with reasonable cause and in good faith in relying of the preparer and consequently were not liable for an accuracy-related penalty for 2008 or 2009.

All tax practitioners should be aware that according to IRS Circular 230, Section 10.34(d), they need not verify client information, but they are required to inquire of the client in cases where information appears to be incorrect, inconsistent with an important fact or another factual assumption, or incomplete. As it is typical for clergy to receive gifts from congregants, CPAs should ask about this issue when preparing tax returns for clients who are members of the clergy.

*Linda Franks, CPA, is controller at B&Z Manufacturing Company Inc. in San José, Calif. To comment on this article or suggest an idea for another article, contact Sally Schreiber, senior editor, at [Sally.Schreiber@aicpa-cima.com](mailto:Sally.Schreiber@aicpa-cima.com) (<mailto:Sally.Schreiber@aicpa-cima.com>).*



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# EXPENSE REIMBURSEMENT - ACCOUNTABLE VS. NON-ACCOUNTABLE PLAN

Kent (/) / Tax And Treasury Services (/Taxtreasury) / Expense Reimbursement - Accountable Vs. Non-Accountable Plan

## Methods of Reimbursing Employees for Expenses

### ACCOUNTABLE PLANS

A plan under which an employee is reimbursed for expenses or receives an allowance to cover expenses is an *accountable* plan **only** if the following conditions are satisfied:

- 1 there must be a business condition for the expenses;
  - the expense must be in connection with performance of services as an employee
  - the reimbursement must be for an expense the employee could deduct on his/her tax return
- 2 the employee must either substantiate or be deemed to have substantiated the expenses;
  - Generally substantiation consists of receipts and/or cancelled checks and invoices that show the nature and amount of the expenditure
  - Expenses deemed to have been substantiated are such things as using the mileage allowance rate (50 cents per mile) rather than actual expenses for operating a vehicle or use of a per diem rate for overnight travel rather than requiring receipts for meals
- 3 the employee must return to the employer amounts in excess of the substantiated (or deemed substantiated) expenses within a reasonable time

There are 2 methods of determining a reasonable time:

#### Periodic Statement

a statement from the employer is given to the employee **at least** quarterly setting forth the amounts paid under the plan in excess of the substantiated amount and requesting the employee either substantiate or return excess amounts within 120 days of the statement date

#### Fixed Date

Advance Payments – 30 days before the reasonably anticipated expenses are paid or incurred

Substantiation – 60 days after expenses are paid or incurred

Return of excess amounts – 120 days after expenses are paid or incurred

Amounts paid under accountable plans are not income to the employee and are not shown on Form W-2.

***Remember that all of the requirements must be met in order for it to be an accountable plan!***

## **NON-ACCOUNTABLE PLAN**

A non-accountable plan is a reimbursement plan or policy which does not meet all the requirements for an accountable plan. Amounts paid under a non-accountable plan are income to the employee and must be included in wages with appropriate tax withholdings. An employer can have an accountable plan for some items, and a non-accountable plan for others.

**[ABOUT US \(/TAX/ABOUT-US\)](#)**

**[TAX SERVICES \(/TAX\)](#)**

**[TREASURY SERVICES \(/TREASURY\)](#)**

**[INFO FOR UNIVERSITY DEPARTMENTS \(/TAX/INFO-UNIVERSITY-DEPARTMENTS\)](#)**

**[RESOURCES FOR STUDENTS AND EMPLOYEES \(/TAX/RESOURCES\)](#)**

**[KSU OHIO BLANKET EXEMPTION CERTIFICATE \(/OHIO%20EXEMPTION%20CERTIFICATE\)](#)**

**[W-9 REQUEST FOR KENT STATE UNIVERSITY TAXPAYER ID NUMBER \(/W9KENTSTATE\)](#)**

## **Payment of Employee Business Expenses**

A church or religious organization is treated like any other employer as far as the tax rules on employee business expenses. The rules differ depending upon whether the expenses are paid through an accountable or non-accountable plan, and these plans determine whether the payment for these expenses is included in the employee's income.

### **Accountable Reimbursement Plan**

An arrangement that an employer establishes to reimburse or advance employee business expenses will be an accountable plan if it: (1) involves a business connection, (2) requires the employee to substantiate expenses incurred and (3) requires the employee to return any excess amounts.

Employees must provide the organization with sufficient information to identify the specific business nature of each expense and to substantiate each element of an expenditure. It isn't sufficient for an employee to aggregate expenses into broad categories such as travel or to report expenses through the use of non-descriptive terms such as miscellaneous business expenses. Both the substantiation and the return of excess amounts must occur within a reasonable time.

Employee business expenses reimbursed under an accountable plan are: (a) excluded from an employee's gross income, (b) not required to be reported on the employee's IRS Form W-2, *Wage and Tax Statement*, and (c) exempt from the withholding and payment of wages subject to FICA taxes and income tax withholdings.

### **Non-accountable Reimbursement Plan**

If the church or religious organization reimburses or advances the employee for business expenses, but the arrangement does not satisfy the three requirements of an accountable plan, the amounts paid to the employees are considered wages subject to FICA taxes and income tax withholding, if applicable, and are reportable on Form W-2. (Amounts paid to employee ministers are treated as wages reportable on Form W-2, but are not subject to FICA taxes or income tax withholding.)

For example, if a church or religious organization pays its secretary a \$200 per month allowance to reimburse monthly business expenses the secretary incurs while conducting church or religious organization business, and the secretary is not required to substantiate the expenses or return any excess, then the entire \$200 must be reported on Form W-2 as wages subject to FICA taxes and income tax withholding. In the same situation involving an employee-minister, the allowance must be reported on the minister's Form W-2, but no FICA or income tax withholding is required. For further information see IRS [Publication 463, \*Travel, Entertainment, Gift, and Car Expenses\*](#).