

THE PRESBYTERY OF ELIZABETH
 Compensation Committee of the Committee on Ministry
 Recommendations regarding Compensation for 2012

September 27, 2011 - FIRST READING
November 22, 2011 - SECOND and FINAL READING

Congregations support their pastor to free them from secular employment to allow them to devote full time to ministry. Some churches call a pastor on a part-time basis, recognizing that such arrangements allow the pastor to pursue other activities. Churches are reminded that when a pastor is called, the congregation commits to provide a fair compensation package including recognizing a fair minimum and regular increases reflective of the pastors experience and increases in living expenses. With that in mind the following is offered.

Pastors are considered church employees by IRS regulations, but congregations should bear in mind that in reality they are not a church's employee in the corporate sense. Pastors serve their church in accordance with a three way contract between the pastor, the congregation and the presbytery. Also, congregations do not pay their pastor a salary in the corporate sense.

I. MINIMUM TERMS OF CALL FOR FULL TIME ORDAINED PERSONNEL

The Committee on Ministry, through its compensation committee, recommends the following minimum terms of call for ordained personnel. Continuing the practice that began January 1, 2011, the minimum terms of call take into consideration the years of relevant experience. The Committee recommends that churches consider higher levels of minimum compensation for pastors that come to a particular church with relevant experience, and for pastors that have served at a particular church for a period of time. These minimum terms of call will be updated from time to time as appropriate.

EXPERIENCE/ YEARS IN POSITION	Mandatory	Recommended						
	0 to 1	2	3	4	5	10	15	20+
A. EFFECTIVE SALARY/PENSION BASE	52,800	53,600	54,400	55,200	56,000	58,600	61,500	64,600
B. PENSION/MEDICAL (32.25% OF A)	17,028	17,286	17,544	17,802	18,060	18,899	19,834	20,834
C. TRAVEL/PROF. REIMBURSEMENT	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
D. PAID VACATION	1 MONTH	1 MONTH	1 MONTH	1 MONTH	1 MONTH	1 MONTH	1 MONTH	1 MONTH
E. CONT. ED. LEAVE	2 WEEKS	2 WEEKS	2 WEEKS	2 WEEKS	2 WEEKS	2 WEEKS	2 WEEKS	2 WEEKS
F. CONT. ED. ALLOW.	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
TOTAL:	74,628	75,686	74,944	77,802	78,860	82,299	86,134	90,234

MINIMUM TERMS OF CALL FOR 2010, 2011 and 2012 (for reference).

	<u>2010</u>	<u>2011</u>	<u>2012</u>
A. EFFECTIVE SALARY/PENSION BASE	\$ 51,251	\$ 52,000	\$52,800
B. PENSION/MEDICAL (31½% or 32¼% of A)	16,144	16,380	17,028
C. TRAVEL/PROF. REIMBURSEMENT	3,000	3,000	3,000
D. PAID VACATION	one month	one month	one month
E. CONTINUING EDUCATION LEAVE	two weeks	two weeks	two weeks
F. CONTINUING EDUCATION ALLOW.	1,800	1,800	1,800
	-----	-----	-----
TOTAL:	\$ 72,195	\$ 73,180	\$74,628

ELEMENTS OF CALL:

A. EFFECTIVE SALARY/PENSION BASE

1. Effective salary/pension base includes cash salary plus housing plus utilities. Housing is either the fair rental value of a Manse owned by the church or a cash housing allowance negotiated between the pastor and the congregation. In no case shall the housing allowance be less than 33% of the cash salary. In order to allow for flexibility, no minimum is suggested for utilities but the total of cash salary plus housing plus utilities must equal or exceed the Effective Salary/Pension Base. The Effective Salary/Pension Base is the number used to calculate the pension dues payable to the Board of Pensions. Any increase in cash salary should be reflective of the Effective Salary/Pension Base regardless of whether the minister is paid a cash housing allowance or is provided a Manse.
2. A pastor living in a church owned Manse should have a minimum cash salary in 2012 of:

	Mandatory	Recommended						
EXPERIENCE/ YEARS IN POSITION	0 to 1	2	3	4	5	10	15	20+
A. CASH SALARY WITH A MANSE	35,600	36,400	37,200	38,000	38,800	41,400	44,300	47,400

plus full utilities.

3. Utilities (heat, electric, gas, water, sewer and trash disposal) may be paid by the pastor directly or by the church directly. If paid by the pastor the church shall provide a cash utility allowance that will meet or exceed the actual cost.
4. Pastors residing in a church owned Manse may benefit by designating a portion of their cash salary as a "Housing expense allowance". This has no effect on a pastor's Total Effective Salary but will allow a pastor to exclude from income tax (but not from self-employment tax) specific housing expenses (furnishings, appliances and more) up to the amount of the allowance. This designation must be approved by Session. This is a very simple way that a Session can help a pastor reduce their taxes while costing the church nothing.
5. Housing must be determined prior to approval of the call by the Committee on Ministry.
6. Other financial benefits may be added and may or may not be included in pension calculations.
7. Deferred compensation held in the name of the church is not included in pension calculations.
8. Terms of call for Interim Pastors should be at least 90% of the prior pastor's terms of call provided they have comparable experience.

B. PENSION/MEDICAL

1. The Board of Pensions has increased the pension portion of the dues by $\frac{3}{4}\%$ and will increase the pension portion of the dues an additional $\frac{3}{4}\%$ for 2013. Therefore, the calculation of pension dues at a total of $32\frac{1}{4}\%$ of the Effective Salary/Pension Base. This is comprised of 11% for pension, $20\frac{1}{4}\%$ for medical coverage and 1% for death and disability. These percentages are subject to change by the Board of Pensions. (Note the percentage will increase to 33% for 2013.)

C. TRAVEL/PROFESSIONAL REIMBURSEMENT

1. The Travel/Professional Reimbursement covers professional expenses paid by the church. Churches should adopt an *Accountable Reimbursement Plan* whereby the minister is reimbursed for properly documented professional expenses. An *Accountable Reimbursement Plan* describes a plan that reimburses the employee (pastor) for expenses incurred in the performance of his/her duties. The plan must be administered by the church. The pastor should submit receipts and/or contemporaneous records (mileage log) to the church's treasurer/bookkeeper for reimbursement. Professional travel (air/train fare, hotel and meals when out of town overnight) should be documented and reimbursed in a similar manner. IRS guidelines must be complied with. If in doubt consult a competent professional.
2. Reimbursement to the pastor for business use of a personal vehicle can be done by using the IRS standard mileage rate ($55\frac{1}{2}\text{¢/mile}$ beginning July 1, 2011) or by reimbursing actual vehicle expenses. In the *Accountable Reimbursement Plan* it is best to refer to the "standard IRS mileage rate" as this rate is changed periodically. If the church chooses to reimburse based on actual expenses they should consult a competent professional as substantial additional record keeping is required.
3. An income tax deduction may be possible for any documented unreimbursed travel/professional expenses incurred by the pastor. In this circumstance the pastor should consult their own tax advisor.
4. If the church does not adopt an *Accountable Reimbursement Plan* and chooses to instead pay the pastor \$250/month (or other set, agreed to allowance) and does not require the pastor to provide documentation to the church, by default, has adopted an *Unaccountable Plan* and must include these payments on the pastor's annual Form W-2.

D. PAID VACATION

1. One month vacation consists of thirty-one calendar days and includes five Sundays.

E. CONTINUING EDUCATION LEAVE

1. Two weeks Continuing Education Leave consists of fourteen calendar days and may include two Sundays.
2. Continuing Education Leave may be accumulated for multiple years for later use with approval by Session.
3. Continuing Education Leave is paid for as part of salary and does not extend or augment a call.

F. CONTINUING EDUCATION ALLOWANCE

1. The Continuing Education Allowance should be paid by the church in compliance with an adopted *Accountable Reimbursement Plan*. Reimbursable expenses incurred by the minister include tuition and fees for relevant continuing professional education, air/train fare and lodging and meals when necessarily away from home overnight.

2. Continuing Education Allowance may be accumulated for multiple years for later use with approval by Session.
3. If the church does not adopt an *Accountable Reimbursement Plan* and chooses to instead pay the pastor the budgeted amount (or other set, agreed to allowance) and does not require the pastor to provide documentation the church, by default, has adopted an *Unaccountable Plan* and must include these payments on the pastor's annual Form W-2.

G. SABBATICAL LEAVE

1. A Sabbatical Leave is separate and distinct from paid vacation or continuing education leave. See the *Guidelines for Sabbatical Leave*.
2. Though a Sabbatical Leave is separate from paid vacation or continuing education leave, they may be combined.
3. Travel/Professional expense allowance and Continuing Education may be provided during a pastor's Sabbatical Leave, but is not required.

II. ADDITIONAL ELEMENTS OF THE TERMS OF CALL (OPTIONAL)

A. SOCIAL SECURITY OFFSET

1. Ministers are required to pay self-employment tax. This tax is assessed at a rate of 15.3% of their ministerial income including utilities and the cash housing allowance or fair rental value of a manse. To assist the pastor in paying this substantial tax many churches include in the terms of call a Social Security Offset. This is generally calculated as 7.15% of the pastor's cash salary, utilities and cash housing allowance or fair rental value of a manse. The social security offset is NOT included in the pension dues calculation but it IS included on the pastor's annual Form W-2. See Section IV for guidance on filing out the minister's annual Form W-2.

B. SUPPLEMENTAL RETIREMENT

1. Pastors can enter into a salary reduction agreement (a 403B plan) with their church to withhold a portion of their salary that is invested until their retirement. The church can also make contributions to this plan. There are limits on how much the pastor and the church can contribute. The church should consult with a competent professional and/or the Board of Pensions when considering this type of arrangement.
2. Other types of deferred compensation agreements have been considered and implemented by other congregations. The church should consult with a competent professional to explore the options available.

C. SEMINARY DEBT ASSISTANCE

1. Seminary Debt Assistance for a minister is available under specific circumstances. The congregation must have fewer than 150 members, a budget of less than \$150,000, with the pastor in the first seven years of their call to a full-time position. The pastor may be eligible to receive a grant of up to \$1,500/year for four years. Funds are provided by the Board of Pensions and are limited. Application is made through the Presbytery.

D. SUPPLEMENTAL MEDICAL COVERAGE

1. Several options are available to provide a pastor with supplemental medical coverage. Examples include self-insurance, Medical Savings account, Flexible Spending account, Cafeteria Plan, Section 105 Plan, etc. Each of these possibilities has tax implications, may impact other church staff and must be implemented in compliance with regulations that are often complex. A competent professional should be consulted when implementing any of these plans.

E. MORTGAGE ASSISTANCE

1. Mortgage assistance has been provided by some churches for pastors that do not reside in a church owned Manse. Churches may also consider equity arrangements where pastors share ownership of a newly purchased property or a manse. These often times creative arrangements have implications with respect to the pastor's personal tax return and Effective Salary/Pension Base used in calculating pension dues by the Board of Pensions. Churches considering such creative mortgage assistance should consult with a competent professional.

The Mission Investment Fund of the Presbytery of Elizabeth may be able to provide bridge loans for ministers needing assistance in obtaining housing or for congregations assisting ministers obtain housing.

The Trustees of the Presbytery of Elizabeth should be consulted when considering such arrangements.

F. DEPENDENT CARE BENEFITS

1. A pastor can elect to withhold from their cash salary to pay for dependent care expenses. Circumstances that will allow this arrangement should be thoroughly understood prior to implementation. The church should consult a competent professional.

III. PULPIT SUPPLY/MODERATOR

- A. The suggested fee for Pulpit Supply is \$200 for one service and an additional \$50 for a second service on the same day.
- B. The suggested fee for a minister or elder assigned or invited in accordance with the Book of Order, section G-10.0103 to moderate a Session Meeting or Congregation Meeting in the absence of the pastor shall be \$100 for each meeting.

IV. GUIDANCE IN FILLING OUT FORM W-2 FOR A MINISTER

- A. Generally ministers are an employee of the church and their compensation is properly reported to tax authorities on a Form W-2.
- B. Withholding of Social Security Taxes and Medicare Taxes from a minister's salary is prohibited.
- C. Ministers are NOT subject to NJ unemployment taxes or disability taxes and these should not be withheld from a minister's salary.
- D. Federal and NJ Income Taxes may be withheld from a minister's salary but is not required. It is the minister's option to have taxes withheld from their paycheck or to be personally responsible for making estimated tax payments. If the minister chooses to have the taxes withheld they may want to consult with a competent professional to determine the appropriate amount to withhold. Reliance on the charts in IRS Circular E will almost always result in under withholding.

E. FORM W-2

Box 1 – include cash salary + social security offset + any payments paid under an unaccountable plan less any amount withheld in accordance with a 403B plan.

Box 2 – Federal income taxes withheld if any. If no taxes were withheld, leave blank.

Box 3 – leave blank

Box 4 – leave blank

Box 5 – leave blank

Box 6 – leave blank

- Box 7 – leave blank
- Box 8 – leave blank
- Box 9 – leave blank
- Box 10 – include any dependent care benefits withheld from the cash salary
- Box 11 – leave blank
- Box 12a – code C – value of term life insurance > \$50,000. This number can be obtained from the Board of Pensions.
- Box 12b – code E – amount withheld in accordance with a 403B plan
- Box 12c – code DD – cost of employer sponsored health coverage (the medical portion of the pension dues)
- Box 12d – leave blank
- Box 13 – check “Retirement Plan” box
 - Fair Rental Value of the Manse
 - Cash housing allowance
 - Cash utility allowance
 - Actual amount paid for the minister’s utilities
- Box 16 – include cash salary + social security offset + any payments paid under an unaccountable plan.
Do NOT subtract 403B contributions withheld.
- Box 17 – NJ income taxes withheld if any. If no NJ taxes were withheld, leave blank.
- Box 18 – leave blank
- Box 19 – leave blank
- Box 20 – leave blank

a Employee's social security number		OMB No. 1545-0008				
b Employer identification number (EIN)		1 Wages, tips, other compensation	2 Federal income tax withheld			
c Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld			
		5 Medicare wages and tips	6 Medicare tax withheld			
		7 Social security tips	8 Allocated tips			
d Control number		9	10 Dependent care benefits			
e Employee's first name and initial Last name Suff.		11 Nonqualified plans		12a		
		13 <input type="checkbox"/> Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay	12b			
		14 Other		12c		
				12d		
f Employee's address and ZIP code						
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement **2011** Department of the Treasury—Internal Revenue Service
 Copy 2—To Be Filed With Employee's State, City, or Local Income Tax Return.

This W-2 form is provided for INFORMATIONAL PURPOSES ONLY. DO NOT FILE THIS COPY. To order official IRS forms, call 1-800-TAX-FORM (1-800-829-3676).

- F. The above guidance is general and should not be considered applicable to every church’s particular circumstances. Competent professional guidance should be sought when appropriate.
- G. FORM 1099MISC
 - 1. IRS regulations require a payer to issue a Form 1099MISC to report payments in excess of \$600 in a calendar year to non-corporate payees. This would include pulpit supply, temporary supply and others. Churches may want to consult a competent professional.

First Reading: September 27, 2011
Second Reading: November 22, 2011

Compensation Committee of the Committee on Ministry
 Jon K. Finne – jkf.cpa@verizon.net or 908-232-5101
 Alan Ford – a.ford@embargmail.com or 908-735-6635
 Rev. Vicky Ney – revvicky@hotmail.com or 973-232-6877