

Is It Taxable 2021?

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Do not ordain for tax reasons!

Ordination is about calling

- ▶ Non ordained youth minister, married
- ▶ \$45,000
- ▶ Less \$25,000 Standard deduction
- ▶ Fed Tax on \$20=\$2k
- ▶ His portion of FICA = \$3442
- ▶ Total tax \$5442

Non Ordained

- ▶ Ordained youth minister, married
- ▶ \$45,000
- ▶ Requests \$15,000 housing allowance
- ▶ Less \$25000 Standard Deduction
- ▶ Fed Tax on \$5k =\$500
- ▶ SE Tax =\$6358
- ▶ Total Tax \$6858

Ordained

Is It Taxable?

- ▶ *“Everything is taxable unless the Internal Revenue Code says that it isn’t.”*
 - Frank Sommerville
 - Financial Issues Book 2021, page 17

Medical – is it taxable?

- ▶ ***Medical expenses and tax treatment***
- ▶ The basic principle is that payment for a group healthcare plan is a non-taxable benefit; the payment or reimbursement of individual insurance is not allowed, and any money is taxable income. There are some exceptions:
- ▶ **The Individual Mandate Tax Penalty of \$695 is gone, but most provisions of the Affordable Care Act remain.**

2021 Medical – is it taxable?

Type of Insurance	Tax Treatment	Notes
Group Health Insurance Plan	Non-taxable	
GuideStone insurance	Non-taxable	Even if only one employee; group plan of Southern Baptists
Medicare Parts B, D and supplement	Non-taxable if part of a group health plan or group fewer than 2. An expert is needed.	If not part of a group plan, then taxable.
Payment of individual plan	taxable	
Payment of individual plan with only one FT employee	Not taxable	IRS notes exceptions of groups less than two
Qualified Small Employer HRA for the purchase of individual plan up to \$5300 or \$10700 family	Non-taxable	Numerous rules to follow. See notes.
Reimbursement of individual plan through the govt. exchange	Likely Taxable. May be non-taxable but reduces the premium subsidy	Tax credit and/or subsidies are received from the government when signing up
Health Reimbursement Arrangement	Non-taxable	Can only be offered in conjunction with a group plan; never as a stand-alone, except QSE HRA or ICHRA

QSE HRA

Qualified Small Employer HRA

1. The arrangement is funded solely by an eligible employer, and **no salary reduction** contributions may be made under the arrangement.
2. The arrangement provides, after the employee provides proof of coverage for the payment to, or reimbursement of, an eligible employee for medical care expenses incurred by the employee or the employee's family members
3. The amount of annual payments and reimbursements do not exceed \$5,300 (\$10,700 for family)

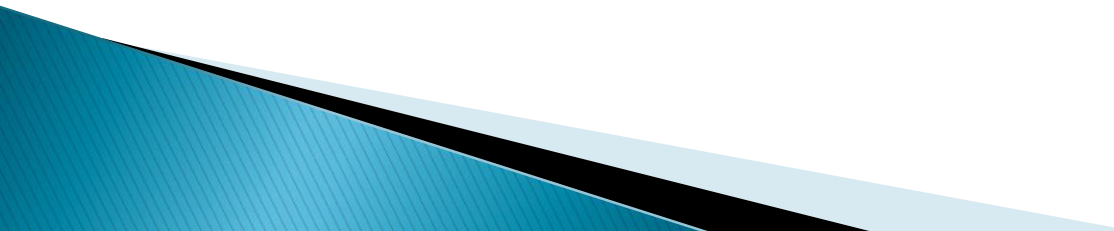
QSE HRA

A QSE HRA is an arrangement offered by an eligible employer that meets the following criteria:

4. The arrangement is provided on the same terms to all eligible employees of the eligible employer.
5. To be an eligible employer that may offer a QSE HRA, the employer may not be an applicable large employer (ALE) and may not offer a group health plan to any of its employees.
6. Written plan and 90-day notice required.

Another new HRA – ICHRA

An Individual Coverage HRA has more flexibility than a QSEHRA.

- ▶ It may cover individual insurance premiums and out of pocket costs. QSEHRA is only for insurance premium.
 - ▶ It may cover different classes of people – salaried, hourly, full time, part time
 - ▶ Generally tax free except to pay for a Christian sharing ministry plan.
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QSEHRA vs ICHRA

Business size	Fewer than 50 full-time	Any business of any size
Can it be offered with a group plan?	No	Yes, but not both the group policy and the HRA to the same class.
Is there a maximum contribution amount?	2021 \$5,300 for single & \$10,700 for family	ICHRA's don't cap out their annual allowance amounts.
Can amounts vary per employee?	Employer can vary allowance amounts by family status, age, and family size, but not based on classes.	can adjust allowance amounts according to different employee classes, as well as age & family size.
Who is eligible?	All full-time employees are eligible. May include part-time but must be on the same terms.	The HRA must be offered on the same terms to all employees in each class.

QSEHRA vs ICHRA

Works with premium tax credits?	can still receive premium tax credits, but the HRA amount is reduced	Employees participating in the ICHRA plan aren't eligible for premium tax credits.
Works with premium tax credits?	can still receive premium tax credits, but the HRA amount is reduced	Employees participating in the ICHRA plan aren't eligible for premium tax credits.
Requires individual health insurance	Yes, meeting MEC requirements	Doesn't require MEC
Can be used for	Individual Health Insurance	Health insurance and other medical expenses

Is It Taxable?

Type	Taxable ?	Limited \$?	Written Plan Required?	Comments
Salary	Yes			
Love offerings & bonus	Yes			
Severance	Yes			
Social Security Offset	Yes			
Gift Cards	Yes			
Payment of personal expenses	Yes			
Forgiveness of debt	Yes			
Imputed interest of below market loan	Yes			Yes, if loan is more than \$10,000. Note: Alabama law forbids loans to officers

Is It Taxable?

Type	Taxable ?	Limited \$?	Written Plan Required?	Comments
Club dues	Yes			
Professional organization dues	No			
Pastor discretionary fund	Yes			Taxable unless completely accountable
Housing Allowance (for Minister)	No		Documentation required	Is taxable for Self Employment Tax

Reimbursements

Type	Taxable ?	Limited \$?	Written Plan Required?	Comments
Non-accountable car allowance	Yes			
Reimbursements of business expense from salary reduction	Yes			
Accountable Reimbursement Plan	No		No, but recommended	Must follow IRS rules, See Compensation Planning Guide
Spouse Travel	Yes			Taxable unless spouse has business purpose
Cell phone	No			Primarily business use

Unreimbursed Business Expense

- ▶ **Employee Unreimbursed Business Expense deduction is gone!**
- ▶ On Schedule A, Itemized Deductions, the Employee Unreimbursed Business Expense deduction is gone!
- ▶ Minister serving a church can no longer write off business expenses related to his church on his taxes.
- ▶ Many ministers do not have an Accountable Reimbursement Plan from the church for their business expenses. Many ministers do not want an Accountable Reimbursement Plan thinking it is too much trouble.
- ▶ the amount of Unreimbursed Employee Business Expenses one will be able to write off will be \$0!!!

Tuition & Continuing Education

Type	Taxable ?	Limited \$?	Written Plan Required?	Comments
Tuition assistance plan	No	Yes	Yes	Must be equally available to all employees
Tuition assistance to one employee for bachelors	Yes			
Continuing education reimbursed as business expense	No			
Graduate level education as accountable reimbursement of business expense	No			

Moving Expenses

- ▶ Moving expenses are not tax deductible.
- ▶ Moving expenses paid by the employer are taxable income reported on the W-2.
- ▶ The only exception is the military

Benefits

Type	Taxable ?	Limited \$?	Written Plan Required?	Comments
Group Health Insurance or group fewer than 2	No		Written statement recommended to avoid “package”	Must be employer benefit, not part of package approach
Health Reimbursements	No		Yes	Must be available to all employees working 30 hrs
Reimburse individual insurance	Yes			Unless QSEHRA or ICHRA
Group term life insurance	No	Yes		
Disability Insurance	No			As an employer benefit
Dental/Vision Insurance	No			

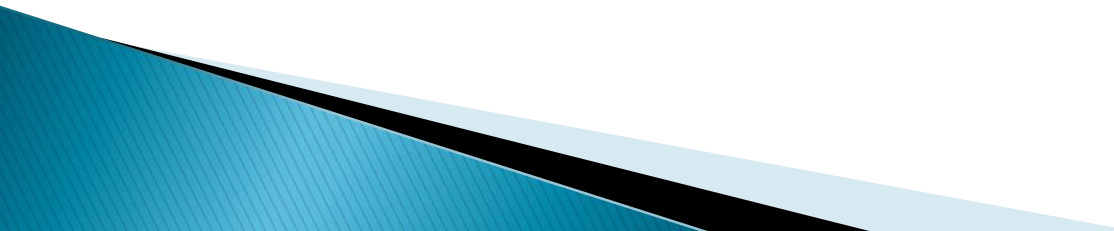
Retirement

Type	Taxable ?	Limited \$?	Written Plan Required?	Comments
Employer contributions to retirement plan	No	Yes		Cannot exceed taxable income or \$58k whichever is less
Employee contributions to retirement plan	No	Yes. \$19,500, \$26,000 over 50		Not taxable unless Roth. Non minister contributions subject to FICA
IRA	Yes			Taxable, then deductible as employee completes IRS 1040

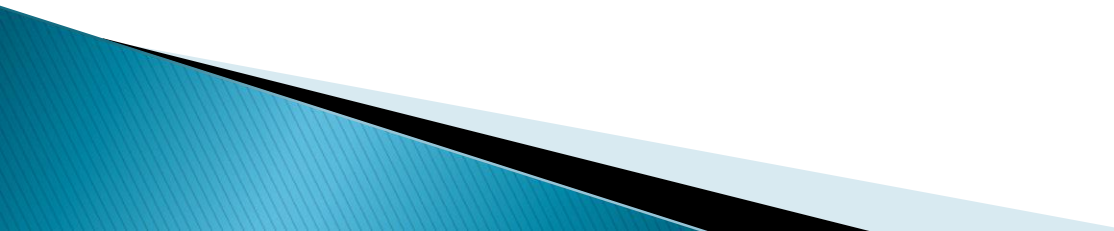
Other Employee Benefits

Type	Taxable ?	Limited \$?	Written Plan Required?	Comments
Dependent Care assistance	No	Yes	Yes	Must be equally available to all employees
Adoption Assistance	No	Yes	Yes	Must be equally available to all employees
Tuition reduction at church school	No		Yes	Only available to church school employees

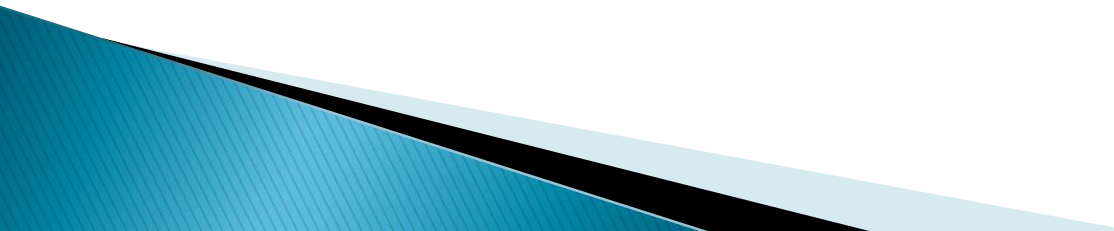
Cash in lieu of benefits

- ▶ If an employee may elect to receive cash or benefits, then it is taxable either way.
 - ▶ The lump sum or package approach does this.
 - ▶ This applies to any benefit
 - ▶ Also, reimbursement of business expenses from salary reduction is not an accountable plan.
- 

Cash in lieu of benefits

- ▶ Therefore, the church needs written policies about the benefits provided and about reimbursement of business expenses
 - ▶ If the church operates under the package approach, the only thing the minister can do is request a housing allowance and a salary reduction agreement for the Church Retirement Plan. Everything else is taxable.
- 


Pastor Jones

- ▶ Pastor Jones is the minister of First Baptist Church, Anytown, Alabama. He has a salary of \$25,000 of which he has requested \$15,000 in housing allowance and has signed a \$2,000 salary reduction agreement for GuideStone church retirement plan contributions.
 - ▶ The church provides health insurance as a benefit for Rev. Jones and \$1000 contribution to Church Retirement Plan
- 

Pastor Jones group term insurance

- ▶ The church provides \$60,000 in term life insurance through GuideStone
- ▶ Looking at the table in IRS Publication 15-B, page 11, the taxable amount will be \$12
- ▶ Note: The IRS only allows Group Term Life and has a 10 Employee Rule. There are exceptions to the 10 Employee Rule. GuideStone Term Life is group term even if fewer employees than 10. See IRS Pub 15-B

Pastor Jones W-2, see page 19, 21

a Employee's social security number		Safe, accurate, FAST! Use		 Visit the IRS website at www.irs.gov/efile .	
b Employer identification number (EIN)		1 Wages, tips, other compensation \$8012.00		2 Federal income tax withheld	
c Employer's name, address, and city and state		3 Social security wages		4 Social security tax withheld	
First Baptist 101 Main Anytown, AL		5 Medicare wages and tips		6 Medicare tax withheld	
<div style="background-color: yellow; padding: 5px;"> Note that boxes 3,4,5,6 are blank </div>		7 Social security tips		8 Allocated tips	
d Control number		9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial		11 Nonqualified plans		12a See instructions for box 12	
Last name		13 Statutory employee Retirement plan Third-party sick pay		E \$2000.00 C \$ 12.00 DD \$5000.00	
Pastor Jones 301 Broad Street Anytown, AL		<div style="background-color: yellow; padding: 5px;"> Note that placing Health Insurance in Box 12 is optional for employers less than 250. Most will not do it. </div>		12d	
f Employee's address and ZIP code					
15 State	Employer's state ID number	16 State wages, tips, etc. \$8012.00	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

W-2 Wage and Tax Statement

Department of the Treasury—Internal Revenue Service

Form **W-2**
Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.



Compensation Planning Guide

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A. Why It's Important

Honors God's Word

- For the Scripture says, *"You shall not muzzle an ox while it treads out the grain,"* and, *"The laborer is worthy of his wages"* (1 Tim. 5:18 NKJV).
- *"Even so the Lord has commanded that those who preach the gospel should live from the gospel"* (1 Cor. 9:14 NKJV).

A. Why It's Important

Provides structure and protection:

- Ensures appropriate spending
- Clarifies personal income
- Extends employee tenure
- Protects minister and church
- Enhances clarity and stability
- Helps church comply with tax regulations

C. Before You Begin (Page 2)

1. Benefits of a compensation plan:

- It reduces confusion
- It ensures funds are spent appropriately
- It lets ministers and staff know you value them

C. Before You Begin (Page 2)

1. Benefits of a compensation plan
2. Dangers of lump sum or package approach:
 - Often *causes ministers to pay higher taxes*
 - May lead to a financial hardship for the church
 - Distorts minister's amount of actual income

Dangers of the package or “lump sum”

- There is a concept called “cash in lieu of benefits.” If the employee is allowed to take the cash instead of the benefits, then it is taxable either way.
- So if the church uses the package approach, everything is taxable except
 1. The minister could request housing allowance
 2. The minister could make contributions to the church retirement account

C. Before You Begin (Page 2)

1. Benefits of a compensation plan
2. Dangers of lump sum or package approach
3. **Eligibility requirements of a Minister for Tax Purposes:**
 - Ordained, licensed or commissioned
 - Administers ordinances
 - Conducts worship
 - Management responsibilities
 - Religious leader

C. Before You Begin (Page 2)

3. Ministers for Tax Purposes — dual tax status:

- **Employee** for income tax purposes
- **Self-employed** for Social Security purposes

C. Before You Begin

3. Ministers for Tax Purposes:

- Exempt from mandatory federal income tax withholding
- Eligible for church-designated housing allowance
- Must pay SECA taxes for Social Security coverage

Step 2:

Establish Written Policies (Page 6)

Policies should cover four major areas:

- Ministry-related expenses
- Employee benefits
- Personal income
- Personnel policies

Create Your Compensation Plan

Six essential steps:

Step 1. Determine the needs

Step 2. Establish written policies

Step 3. Provide for ministry-related expenses

Step 3:

Provide for Ministry-Related Expenses (Page 7)

Address these expenses with an Accountable Reimbursement Plan (ARP)

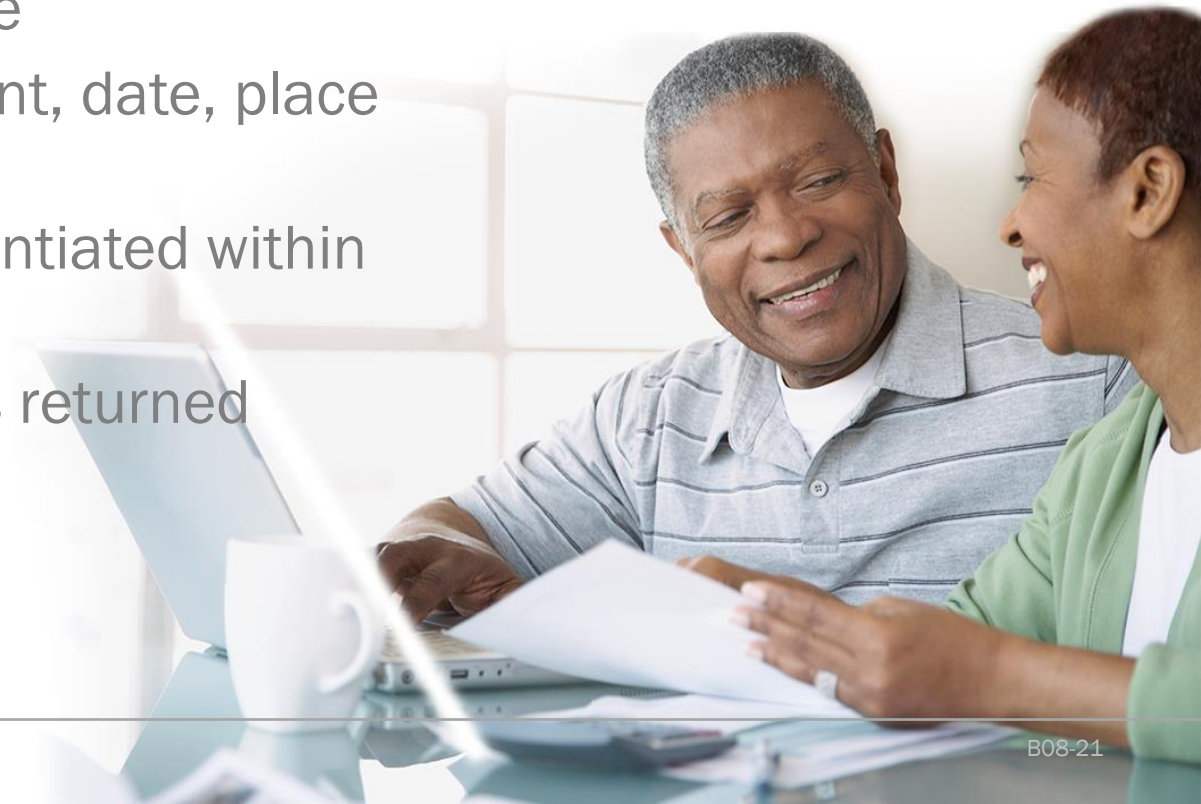
- Vehicle use for business purposes
- Meetings, workshops and conferences
- Books, periodicals, software, etc.
- Continuing education opportunities
- Provisions for ministry-related hospitality

Step 3:

Provide for Ministry-Related Expenses

Requirements for an ARP

- Expenses must have a business purpose
- Document amount, date, place and purpose
- Expenses substantiated within 60 days
- Excess advances returned within 120 days



Step 3:

Provide for Ministry-Related Expenses, page 7

Requirements for an ARP

- IRS-approved standard rate for transportation (mileage rate), meals and lodging
- Unused ARP money should **not** be given as a bonus or additional income

Warning, page 7: Not from Salary Reduction

- Concerning business expenses, the IRS states that if done from salary reduction, then it is a non-accountable plan and therefore taxable
- The IRS Audit Technique Guide instructs agents to inquire about business expenses from salary reduction
- Would result in additional tax and penalty

Trying to write off business expenses on tax forms

- The minister is an employee of the church in every way except Social Security. Tax experts call this a “Dual Tax Status.”
- The 2018 tax changes removed the deduction for Employee Unreimbursed Business Expenses completely.
- This means that if the church does not reimburse the business expenses, the pastor has no means to write them off.

Create Your Compensation Plan

Six essential steps:

Step 1. Determine the needs

Step 2. Establish written policies

Step 3. Provide for ministry-related expenses

Step 4. Provide employee benefits

Step 4:

Provide Employee Benefits (Page 10)

A strong benefit plan

- Has tax advantages
- Offers insurance coverage benefits
 - Protects church
 - Provides appropriate coverage for staff
- Includes retirement contributions

Step 4:

Provide Employee Benefits

Insurance coverage can include:

- Term life
- Employee accident
- Medical
- Disability
- Dental

Step 4:

Provide Employee Benefits (Page 11)

A retirement plan

- Paid service ends: income needs do not
- Employer contributions
- Employee contributions

Step 4:

Provide Employee Benefits (Page 11)

The Church Retirement Plan for SBC churches

- Potential benefits
 - Disability income
 - Survivor protection
 - Matching contribution
- Mission Church Assistance Fund (MCAF)

Create Your Compensation Plan

Six essential steps:

Step 1. Determine the needs

Step 2. Establish written policies

Step 3. Provide for ministry-related expenses

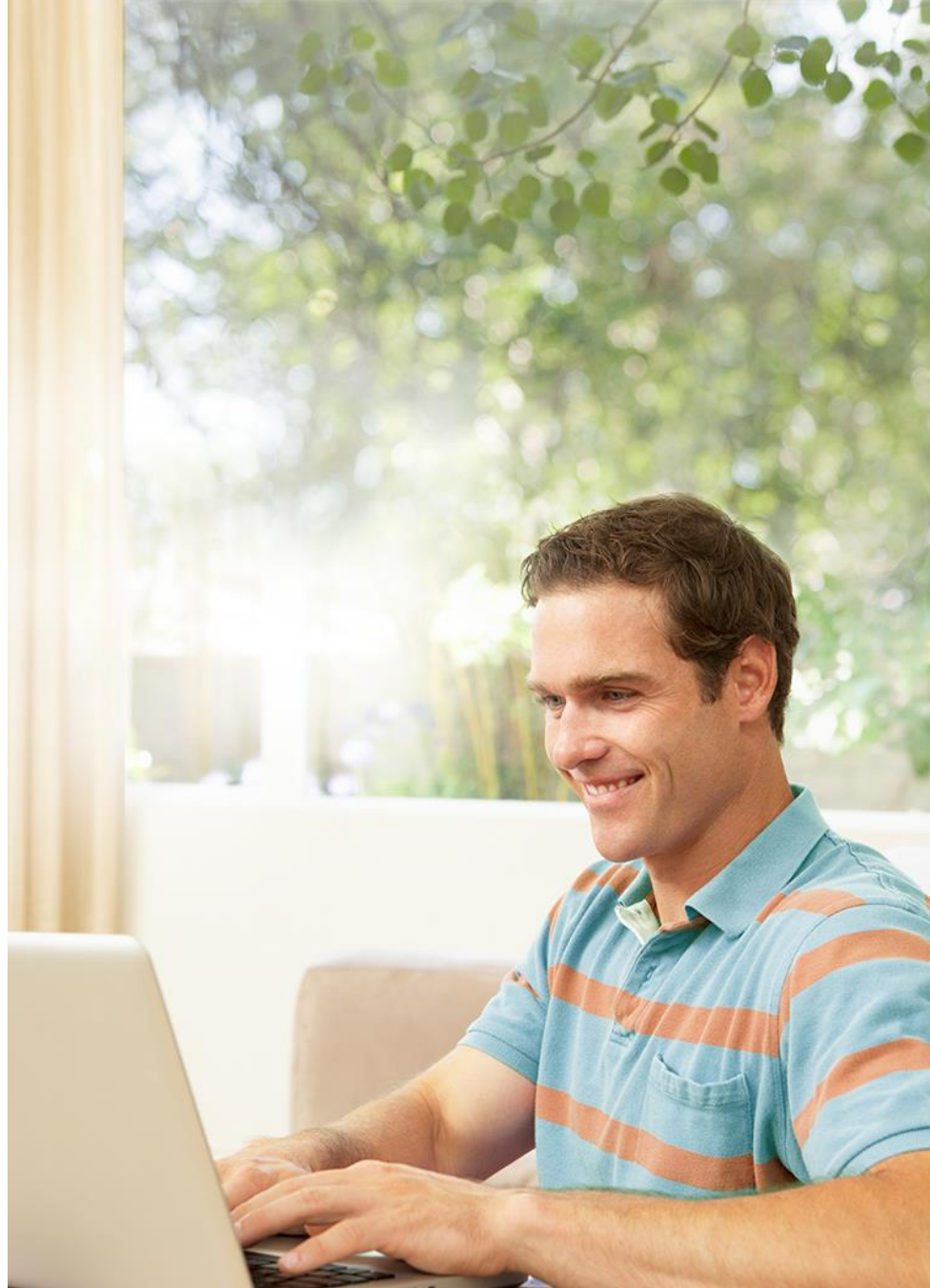
Step 4. Provide employee benefits

Step 5. Determine personal income

Step 5: Determine Personal Income (Page 13)

Factors for determining personal income:

- Responsibilities and experience
- Inflation
- Social Security
- Minister's housing allowance



Step 5:

Determine Personal Income (Page 13-15)

How to designate a housing allowance:

- Minister's responsibility
 - Present an estimate of housing expenses
- Church's responsibility
 - Designate amount prior to paying minister
 - Review annually
 - Record it as set until changed by official decision
 - Remember housing allowance limits

Sample: Minister's Estimate of Housing Expenses Form

To (church): _____

From (minister): _____

Housing allowance for (year): _____

Item	Amount
1. Down payment on a home	\$
2. Mortgage payments on a loan to purchase or improve your home (include both principal and interest)	\$
3. Real estate taxes	\$
4. Property insurance	\$
5. Utilities (electricity, gas, water, trash pickup, local telephone charges)	\$
6. Furnishings and appliances (purchase and repair)	\$
7. Structural repairs and remodeling	\$
8. Yard maintenance and improvements	\$
9. Maintenance items (pest control, etc.)	\$
10. Homeowners association dues	\$
11. Miscellaneous:	\$
	\$
	\$
TOTAL EXPENSES	\$

Minister's signature: _____

Date: ____/____/____

Step 5: Determine Personal Income

Use the SBC Compensation Study

- See compensation trends for ministers and staff at like-sized SBC churches in your region
- Help determine adequate compensation for your church staff
- www.alsbom.org/ccs

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CompensationPlanning](http://www.GuideStone.org/CompensationPlanning)*

to view this material online
along with our other
helpful resources.

Create Your Compensation Plan

Six essential steps:

Step 1. Determine the needs

Step 2. Establish written policies

Step 3. Provide for ministry-related expenses

Step 4. Provide employee benefits

Step 5. Determine personal income

**Step 6. Complete a compensation
planning summary**

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Step 6:

Complete a Compensation Planning Summary (Page 16)

About the summary

- Develops plan for new budget year
- Categories are not to be added together
- Be mindful of federal reporting requirements for churches (see our *Ministers' Tax Guide*)

Ministry-related expenses (not income)		
1. Automobile		\$
2. Conventions/conferences		\$
3. Books, periodicals, software		\$
4. Continuing education		\$
5. Hospitality		\$
Employee benefits (not income)		
1. Life and Health Coverage		\$
a. Medical		\$
b. Disability		\$
c. Term Life		\$
d. Personal Accident		\$
e. Dental		\$
2. 403(b)(9) retirement plan contribution		\$
Personal income		
1. Personal salary		\$
2. Housing allowance		\$
3. Social Security offset	(taxable)	\$

Next Steps

Church reviews and implements the six steps:

1. Determine the needs
2. Establish written compensation policies
3. Provide for ministry-related expenses
4. Provide employee benefits
5. Determine personal income
6. Complete a compensation planning summary

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along with our other
helpful resources.

Contact GuideStone with Any Questions

- **1-888-98-GUIDE** (1-888-984-8433)
 - 7 a.m. to 6 p.m. CST, Monday through Friday
- *Info@GuideStone.org*

GUIDESTONE IS READY TO HELP

View our **Compensation Planning Guide** workbook and access other valuable resources at ***www.GuideStone.org/CompensationPlanning***.



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Financial Resources

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What's New 2021?

Financial Issues Book, pages 70–74

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Alabama Baptist State Board of Missions

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Resources added, page 117

1. **Alabama Baptist State Board of Missions, Church Compensation Services, LeaderCare & Church Health, Lee Wright** 800-264-1225 ext 241, cell 334-549-1383, or direct line 334-613-2241, lwright@alsbom.org
2. **Church Compensation Services** – www.alsbom.org/ccs
Laymans Salary Study, events, blogs
3. **One Great Sunday** – www.onegreatsunday.org – Click on Archive, then 2018, then Finance.
4. **Follow the State Board of Missions on Facebook** or Twitter for news, events, etc.
5. **GuideStone** – www.guidestone.org
6. GuideStone financial resources - www.guidestone.org/compensationplanning

IRS Mileage Rates for 2021

- ▶ Business – 56 cents per mile
- ▶ Medical – 16 cents per mile
- ▶ Charitable – 14 cents per mile

3 New IRS Forms

1. W-4 New Form to work with standard deduction, child credit and lack of deductions for most Americans
2. 941. Added lines for new FMLA, Credits for keeping employees on the job, etc.
3. 1099 NEC – Non Employee Compensation.
Do not use 1099-MISC

Contract Worker-Form 1099-NEC

☐ VOID ☐ CORRECTED

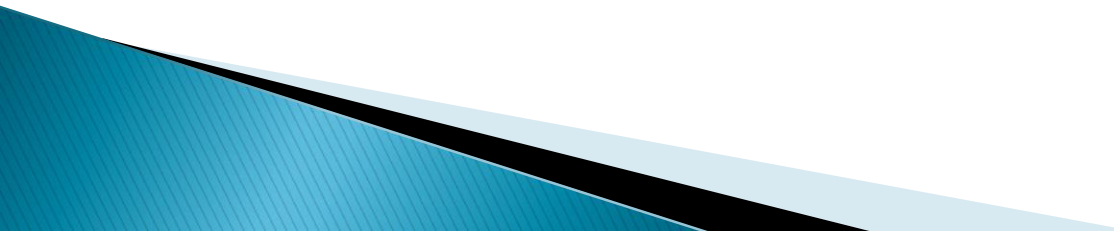
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116 2021 Form 1099-NEC		Nonemployee Compensation
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation \$		
RECIPIENT'S name		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>		
Street address (including apt. no.)		3		
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$		
Account number (see instructions)	5 State tax withheld \$	6 State/Payer's state no.	7 State income \$	

Form **1099-NEC**

www.irs.gov/Form1099NEC

Department of the Treasury - Internal Revenue Service

New 1099-NEC for 2020

- ▶ There is a new 1099 for 2020
 - ▶ 1099 NEC for Non-Employee Compensation.
 - ▶ For 2020 reporting, it will be the form churches will use to be given in January 2021
 - ▶ Do not use 1099 MISC!
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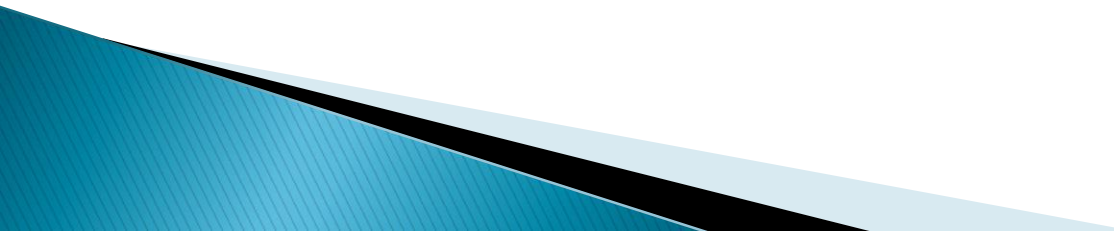
Always obtain a W-9 before payment

- ▶ Be sure to obtain a W-9 on any contract worker you will pay.
- ▶ This will let you know whether the person is incorporated or not
- ▶ Will provide for you Tax ID number or SS number
- ▶ If you do not have a SS number, you still must provide a 1099. Your church will be penalized for providing a 1099 without a SS number
- ▶ You are required to do backup withholding of 28% if you have no SS number.

Family Medical Leave Act 2020

- ▶ The Family Medical Leave Act 2020 has expired. In 2020 employers under 500 employees required to pay when employee
 1. is subject to quarantine or isolation order related to COVID-19;
 2. has been advised by a health care provider to self-quarantine
 3. is experiencing symptoms of COVID-19 and seeking a medical diagnosis;
 4. is caring for an individual who (a) is subject to a quarantine order related to COVID-19; or (b) has been advised by a health care provider to self-quarantine
 5. is caring for a son or daughter of such employee if the school or place of care of the son or daughter has been closed, or the childcare provider of such child is unavailable, due to COVID-19 precautions
- ▶ Employers received a credit on the IRS 941 for FMLA 2020 payments.
- ▶ For 2021 you may do it voluntarily if you wish and apply a credit on the 941 form

New Stimulus December 2020

- ▶ \$600 stimulus check per adult to persons up to \$75,000 income or \$150,000 per couple
 - ▶ New unemployment benefits – extra \$300 per week for 11 weeks
 - ▶ New round of PPP Loans to small businesses. Churches do qualify. Can qualify for loan forgiveness.
- 

Important 2018 Tax Changes

1. Most Americans will no longer be able to itemize deductions since Congress doubled the Standard Deduction.
2. Congress eliminated Employee Unreimbursed Business Expenses. Ministers serving a church will no longer be able to write off business expenses which points to the need for the church to provide an Accountable Reimbursement Plan.
3. Moving expenses were eliminated as tax free