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# WHY IT'S IMPORTANT

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## 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 Timothy 5:18 (NKJV)

- *"Even so the Lord has commanded that those who preach the gospel should live from the gospel."*

1 Corinthians 9:14 (NKJV)

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## 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



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## WHO IS RESPONSIBLE?



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## WHO IS RESPONSIBLE?

- Church treasurer
- Personnel committee
- Ministers
- Church employees



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## THREE THINGS YOU NEED TO KNOW BEFORE YOU BEGIN



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THREE THINGS YOU NEED TO KNOW

**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**



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THREE THINGS YOU NEED TO KNOW

**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



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THREE THINGS YOU NEED TO KNOW

**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



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THREE THINGS YOU NEED TO KNOW

**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



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THREE THINGS YOU NEED TO KNOW  
**BEFORE YOU BEGIN**

(Page 2)

### **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



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## **Creating A COMPENSATION PLAN**



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## CREATING A COMPENSATION PLAN

### SIX ESSENTIAL STEPS:

#### Step 1 Determine the needs



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## STEP 1: DETERMINE THE NEEDS

(Pages 4–5)

### Compensation Plan Review

- Ministry-related expenses
- Employee Benefits
- Personal income

#### SECTION 1: MINISTRY-RELATED EXPENSES (see page 7 for examples)

Personal Vehicle Expenses		
Description	Minister/employee estimate	Amount budgeted to reimburse expense
Estimated business mileage	(mile)	N/A
Multiply mileage by the IRS standard rate to determine cost for vehicle's business use; visit <a href="https://www.irs.gov/irs-professionals/standard-mileage-rate">IRS.gov/irs-professionals/standard-mileage-rate</a>	\$	\$
Travel Expenses		
Description	Minister/employee estimate	Amount budgeted to reimburse expense
Estimated travel expenses for work-related events (food, lodging, etc.)	\$	\$
Ministry Expenses		
Description	Minister/employee estimate	Amount budgeted to reimburse expense
Estimated expense on materials for sermon preparation, studies or church functions	\$	\$
Hospitality Expenses		
Description	Minister/employee estimate	Amount budgeted to reimburse expense
Estimated expense for hosting church groups, speakers, etc., in a home or at a restaurant	\$	\$
Professional Development Expenses		
Description	Minister/employee estimate	Amount budgeted to reimburse expense
Estimated amount for continuing education, workshops or learning conferences	\$	\$



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## CREATING A COMPENSATION PLAN

### SIX ESSENTIAL STEPS:



Step 1 Determine the needs

Step 2 **Establish written policies**



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## STEP 2: ESTABLISH WRITTEN POLICIES

*(Page 6)*

### Policies should cover four major areas:

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



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## CREATING A COMPENSATION PLAN

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### SIX ESSENTIAL STEPS:



Step 1 Determine the needs

Step 2 Establish written policies

**Step 3 Provide for ministry-related expenses**



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## STEP 3: PROVIDE FOR MINISTRY-RELATED EXPENSES

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(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



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### STEP 3: PROVIDE FOR MINISTRY-RELATED EXPENSES

(Page 7)

#### Requirements for an ARP

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



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### 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
- (See page 9 of workbook for sample ARP)



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## STEP 3: PROVIDE FOR MINISTRY-RELATED EXPENSES

(Page 8)

### Create an ARP in three easy steps:

1. Determine covered expenses and create a plan
2. Require expense reports to be submitted within 60 days of incurring expenses
3. Reimburse approved expenses at least once a month

#### SAMPLE: EXPENSE REPORT

Employee name: Rev. John Smith			
For the month of: January			
Date	Description of Expense	Business Purpose	Amount
January 17-18	Mileage to conference	Mileage (457 x .58)*	\$255.92
January 17	Meals at conference	Meals	\$ 53.25
January 17-18	Hotel	Lodging	\$ 120.00
January 17	Sunday school teacher's guide	Ministry expense/books	\$ 53.00
		<b>Subtotal</b>	<b>\$482.17</b>
		Minus advance	\$200.00
		<b>Total reimbursement due</b>	<b>\$282.17</b>

\*This figure is subject to change on an annual basis. For the latest update, visit [IRS.gov/irb/professionals/standard-mileage-rates](https://www.irs.gov/irb/professionals/standard-mileage-rates).



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## CREATING A 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**



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## STEP 4: PROVIDE EMPLOYEE BENEFITS

(Pages 10-11)

### A strong benefit plan:

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



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## STEP 4: PROVIDE EMPLOYEE BENEFITS

(Page 10)

### Insurance coverage can include:

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



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## STEP 4: PROVIDE EMPLOYEE BENEFITS

(Page 11)

### A retirement plan:

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



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## STEP 4: PROVIDE EMPLOYEE BENEFITS

(Pages 11-12)

### A GuideStone retirement plan features:

- Tax-sheltered contributions
- Designed exclusively for ministries
- No SECA taxes for eligible ministers
- Housing allowance benefit
- Roth contributions (not available in all plans)



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## STEP 4: PROVIDE EMPLOYEE BENEFITS

(Page 12)

### The Church Retirement Plan for SBC churches

- Potential benefits
  - Disability income
  - Survivor protection
  - Discretionary retirement contribution



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## CREATING A 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**



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## STEP 5: DETERMINE PERSONAL INCOME

### Factors for determining personal income:

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



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## STEP 5: DETERMINE PERSONAL INCOME

(Page 13)

### 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	
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:	\$
	\$
	\$
<b>TOTAL EXPENSES</b>	<b>\$</b>

Minister's signature: \_\_\_\_\_  
 Date: \_\_\_\_ / \_\_\_\_ / \_\_\_\_



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## STEP 5: DETERMINE PERSONAL INCOME

(Page 13)

### Use the SBC Compensation Study

- See compensation trends for ministers and staff at like-sized SBC churches in your region
- Help determine adequate compensation packages for your church



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## CREATING A 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)	\$



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# NEXT STEPS



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## 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



**VISIT** [GuideStone.org/CompensationPlanning](https://GuideStone.org/CompensationPlanning)  
to get your digital copy and access other helpful resources.



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