

Treasurers' Training

2025 NEW ORLEANS KALEIDOSCOPE



Diane Case

rdtkcase@gmail.com

(408) 202-0126

Edd Breeden

eddbreeden@gmail.com

(831) 239-6817

Presbytery of San Jose, CA

Who's in the Room

- 1. Pastors?**
- 2. Treasurers?**
- 3. Finance Committee?**
- 4. Stewardship Committee?**
- 5. Denominational Staff**

- 6. Did you come to:
 Help yourself as a pastor or
 help your pastor as a Treasurer**

Do you Have Specific Questions?



CLERGY COMPENSATION

Mark 12:14-17

- One day the religious leaders asked Jesus, **“Do we have to pay taxes to the King? Why shouldn’t we just not pay the taxes?”** But Jesus knew what they were thinking and could discern their hypocrisy. He said, **“You are trying to tempt Me. Bring me a coin so I can look at it.”** When they brought the coin, He said, **“Whose picture is this?”** They said, **“Caesar’s.”** So He said, **“Then give to Caesar what is his, and also, give to God what rightfully belongs to Him?”** And they just marveled at His wisdom.

IRS Qualified Charity

501(c)(3)

**Tax exempt
nonprofit**

Exemption

- **Church operates as a corporation first, Church second. Not the other way around.**
 - The US and the State graciously give us exemption.
- Exemption is a privilege not a right, if the organization looks exempt but does not act exempt it is not exempt.

What is a church? (IRS)

- The IRS uses this list of characteristics, together with other facts and circumstances, to determine whether an organization is considered **a church for federal tax purposes**.
- Church does not mean Christian. It is a kind of “religious” organization in the eyes of the IRS.
- Recognized creed, doctrine, worship, and discipline.
- Distinct religious history.
- Distinct membership.
- Ordained ministers or leaders.
- Ordained ministers completing prescribed courses of study.
- Literature of its own.
- Established places of worship.
- Regular congregations.
- Regular religious services.
- Religious instruction of the young.
- Education for the preparation of its members.

Tax Issues

One single substantial nonexempt purpose or activity can destroy exemption.

Unrelated business income: If it is more than \$1000 a form 990 T needs to be filed.

Any outside use to a for profit organization can cause possible loss of tax-exempt status for local property tax. At least for the percentage of the property use.

Upon the dissolution of the church the assets must go to another church, not a person or the people.

Exemption – Keep in mind

- 1. Not how you use the money, how you raise the money.**
- 2. By-laws are the basis of the corporation**
 - 1. Follow them or change them.**
 1. If you don't follow them, you could lose you 501c3
 - 2. Review them every five years.**
 1. Make necessary changes.
 2. Either change the way you are doing things.
 3. Or change the by-laws to match what you are doing.

Exemption – What does it mean?

1. Employment Taxes

1. Clergy exempt from payroll withholding
 1. Both Income taxes and Social Security/Medicare

2. Property Taxes

1. Churches are exempt from property taxes
2. But not from assessments

3. Violations of payroll system can result in both penalties and loss of 501c3 exemption

4. Churches are exempt from FUTA

1. Might be exempt from SUTA, check your State

Exemption from withholding

1. FICA tax Federal Insurance Contributions Act

1. For employees. (W-2)
 1. 7.65% paid by the employee.
 2. 7.65% paid by the employer.

2. SECA tax Self Employed Contributions Act

1. For Independent Workers. (1099)
 1. 15.30% paid by the worker.

3. Clergy are an anomaly,

1. Not considered an employee,
2. But paid with a W-2

3. *No withholding*

Exemption from withholding

1. Income, Social Security, Medicare.

1. Not an option. *Do not withhold taxes.*

2. Clergy required to pay Estimated Taxes. (1040-ES)

1. *Quarterly payments, Clergy's responsibility.*
2. They determine the amount of SS, MC, and Income Tax when filing annual Fed (1040) and State tax return.

3. Church can withhold per paycheck if :

1. Clergy files a W-4 and
2. specifies the amount of *“additional withholding.”*

4. *How much would clergy withhold?*

1. What was your total tax bill last year?
2. *Subtract* your spouses withholding, 2nd job withholding,
3. *Divide the remainder by number of paychecks.*

Opt out of Social Security

1. **Some clergy have chosen to opt out of Social Security.**
2. **They must do this *within the first two years of first ordination, commission, or license***
3. ***File Form 4361* and have it approved by 2yr.**
4. **Have to claim that you are opposed to public insurance based on sincerely held religious beliefs.**
 1. Not “SS won’t be around.”
 2. Not, “I can save better than SS.”

Worker's Compensation

- 1. Depends on your state laws.**
- 2. Most states require for all employees.**
- 3. W-2 employees, full or part time.**
- 4. Clergy,
 - 1. W-2 employee??****
- 5. See you local State rules.**

IRS defines Clergy

1. Ordained, commissioned, licensed (needed)

1. Some other help to determine

1. Administer the Sacraments
2. Conduct worship
3. Management responsibilities
4. Considered a religious leader

Goal of Today

Minimize taxes,

Maximize Take home

Clergy Compensation Basics

1. Salary

2. Housing/Manse Allowance

3. Accountable Reimbursable Allowances

Auto, Professional Expenses, Study,

4. NON-Accountable Allowances

These are lumped with salary for tax purposes
includes Social Security Allowance

5. Benefits,

Pension, medical, insurance

Clergy Compensation Basics

- | | |
|----------------------------|-------------------|
| 1. Salary | <i>IT, SS, MC</i> |
| 2. Housing/Manse Allowance | <i>SS, MC</i> |
| 3. Accountable | NOT TAXED |
| 4. Non-Accountable | <i>IT, SS, MC</i> |
| 5. Benefits, | NOT TAXED |

IT = Income Tax, SS = Social Security, MC= Medicare

What constitutes SALARY?

- **What does the payroll dept lump together into Box 1 of your W-2 form?**
 - **Your salary**
 - Any bonuses
 - The cost of sending you to the Holy Land
 - Christmas and **special offerings** for the pastor
 - Gifts at retirement paid by a church
 - Personal use of a church-owned vehicle
 - Purchases of church property for less than fair market value
 - **Business expense reimbursements under a non-accountable plan**

What constitutes SALARY? Page two

- **What does the payroll dept lump together into Box 1 of your W-2 form?**
 - Imputed cost of group term life insurance coverage exceeding \$50,000
 - Church reimbursements of your spouse's travel expenses incurred while accompanying you
 - **“Imputed interest” from “below-market interest loans”** by your church to you
 - **Cancellation of your debt to the church**, housing loan
 - Any severance pay
 - Payment of any of your personal expenses
 - **“Love gifts”** (given through the church)

What constitutes SALARY? Page Three

- **GIFTS** to you from a member are not included, **unless the member wants a tax deduction receipt**, then it becomes income to you.
- Even if the Benevolence committee gives you money to help you, you have to pay tax on it because you are an employee.
- If you receive anything from the church except legal benefits, it is considered compensation.

Clergy Compensation

BONUSES

Bonuses of any kind received by the church and given to the Pastor are considered wages.

- They must be included on the W-2 form as wages.
- They must be communicated to the Board of Pensions. The Board of Pensions will adjust the dues accordingly.

Gifts given directly to the Pastor are not considered wages and are not reportable.

- If a person in the church wants to give a gift to the pastor directly, they may do so but cannot receive a **receipt from the church for the contribution.**

Minimize Taxes, Maximize Take Home

Since Salary and non-accountable spending have the greatest amount of tax consequences, *(i.e. IT, SS, & MC)* we minimize taxes by rightly using the other options whenever possible. *(Housing, Accountable, and Benefits)*

Assuming the church offers you a total amount of compensation, **then it is up to you to best distribute that for tax benefits and take home pay?**

The church will not do this for you, you must request it.

How Housing Allowance works

- **Reported in (Box 14 of W2)**

- A portion of compensation can be designated as housing allowance for the clergy.
 - Housing allowance is *not subject to income tax* if all is used for approved housing expenses.
 - HA is, however, *subject to Soc Sec and Medicare. (SS&MC)*
 - *Should be voted by board*, preferably each December for the coming year.
 - *Can be adjusted mid-year, yet not retroactive.*
 - Documentation needed; either board minutes, budget, check stubs, accounting, contracts, etc.

Maximum Deduction for Housing Allowance

- **HA - Lessor of the following three options:**
 - Amount allocated by the church, approved by session
 - Total amount utilized, amount clergy spent
 - Fair rental value of furnished residence
- **Manse:**
 - Fair rental value of furnished residence is added to salary before Social Security and Medicare tax is calculated on the 1040 sch SE
- **Manse Allowance:**
 - Applicable if residing in a Manse
 - An allowance for incurred household expenses that you pay for.

What qualifies as Housing Allowance?

**Down
payment**

**Mortgage
payments
(P&I)**

**Home
equity loan?**

Rent paid

**Taxes and
Insurance**

**Content and
Liability
Insurance**

Utilities

**Furniture
and more**

**Repairs &
Remodeling**

**Yard and
Pool**

**Pest
Control,
Cleaning**

HOA Fees

Minimize Taxes, Maximize Take Home

- **Set HA as High possible**, anything unused will become taxable income, anything used is free from income tax.
- Adjust in the middle of the year if you know your expenses will go over set amount.
- Many churches may/will want to increase ministers' compensation to offset the adverse financial impact of paying **SECA tax** at 15.3% of HA. Usually $\frac{1}{2}$ of SECA because employer would pay 7.65 for employee under FICA tax. However, the offset is taxable income added to salary.
- ***Manses – the clergy pays 15.3 on the Fair Rental Value of a furnished house.***

What is an ACCOUNTABLE ALLOWANCE?

Allowances paid for normal “business expenses” **which are properly receipted and accounted for.**

- a. Organization should have a **written policy**
- b. Auto, Professional Expense, Study Leave (Cont. Ed.), Book allowance, etc.
- c. Business related expenses (IRS rules)
- d. **Receipts within 60 days**
 - a. **Receipt includes purpose, names, etc.**
- e. If prepaid, any unused is returned within 120 days

What is an ACCOUNTABLE ALLOWANCE?

- “Discretionary funds” or the like – whatever the **title** - established by a church for clergy to spend on current needs, giving to others in need, *to use at their discretion.*
- *Should be treated as an accountable plan and require receipts and documentation from the clergy.*
- —**if** the clergy is allowed to distribute funds for his or her personal benefit or does not have to account for the funds in an arrangement similar to an accountable expense reimbursement plan it should be considered salary and added to box 1 of W-2.

Romans 13:1-2

Our God establishes all governments in this world. Without His consent, they would not exist. For that reason, we who follow Jesus' teaching, should obey the laws of the government we are under. Otherwise, we will be resisting the authority given to them by God and we should expect to be punished by that government according to their rules.

- This is a hard concept for most people. We see an evil government in the world and wonder how God can still be in control and allow the evil to continue. But keep in mind that God's purposes and plans are different and greater than ours. Whatever government we have to live under, our focus is not so much on making our government different or better but focusing our attention on God and the things of His kingdom.

Non-Accountable Allowances

- **An allowance paid without requiring documentation to account for the expenses.**
- **Considered taxable income and should be added to the salary amount in box 1 of W-2.**
- Any money paid to the clergy for purposes that do not fit the IRS definition of business expense.
- Any money paid to the clergy for business expenses for which the clergy does not show valid receipts or other documentation within 60 days of the expense.
- Any money given to the clergy to use at their discretion without documentation or disclosure.

BENEFITS

- a. **Benefits are not taxable: if paid directly by the church to the provider. Taxable if paid to the clergy and not accounted for.**
 - a. **Medical insurance** for clergy and/or family is considered a non-taxable benefit.
 - b. **Pension deposits**, either formal pension program or paid into 403b plan, either with approved provider or adopted by church.
 - c. **Life insurance** costs up to \$50,000 for each clergy as a benefit.

Other Benefits – Non Taxable (usually)

- a. Disability Insurance
- b. Dental or Vision Insurance
- c. 125 Cafeteria plan (HSA, FSA)
- d. PTO, Vacation (wks/ dys)
- e. Study Leave, Cont. Ed (wks/ dys)
- f. Other:
 - a. Dependent Care
 - b. Teaching time,
 - c. Time for other job, writing, etc.

125 Cafeteria, HSA, FSA plans

Cafeteria 125 –

An Umbrella Type plan funded with pre-tax \$\$\$
Must be a written plan adopted by employer.

Advise using a third party to administer.

For all employees including clergy.

- Medical/ Health Insurance

- Dental and Vision

- Flexible Spending Accounts (FSA)

- Health Savings Accounts (HSA)

- Dependent Care

Funds not investable.

125 Cafeteria, **HSA plans**, FSA plans

a. **Health Savings Accounts (HSA)**

- a. Funded by payroll deduction as Pre-tax dollars.
- b. Must have High-deductible Insurance.
- c. Funds roll over.
- d. Investing options available. (IRA like)
- e. *Cannot contribute once on Medicare.***
- f. Contribution limits.
- g. Funds are investable.
- h. Considered employee owned.

125 Cafeteria, HSA, FSA plans

a. Flexible Spending Accounts (FSA)

- a. Funded by payroll deduction as Pre-tax dollars.
- b. Must be offered by employer.
- c. Typically expire at year's end or 1 yr later.
- d. Dependent care, Healthcare.
- e. Contributions limit.
- f. Funds Not investable.
- g. Considered Employer owned.

125 Cafeteria, HSA, FSA plans

a. Third Party Providers

- a. Search on google for third party (cafeteria, hsa, fsa) plans
- b. Board of Pensions
- c. Fidelity

b. Health Cost-Sharing Plans

- a. IRS rulings on these are changing
- b. Medi-share, and others.

Titus 3:1

- *Also, let people know that it is right to obey all of our leaders, and those in authority over us, including those in the government of our city and country. When the authorities see us complying with their wishes and supporting good causes in the community, then we will have the freedom to share the good news of Jesus with others as well.*

Benefits of a 403b plan

- **Annuity may include life insurance, portion taxable**
 - 1. 403b benefits, no current tax**, like an IRA or 401K
 - 1. ROTH VERSIONS AVAILABLE**, yet pay taxes
 - 2. 403 (b) (9) Authorized to be paid out at retirement as housing allowance**,
 - 1. Limit on deferrals, limit on total employer and employee contributions**
 - 2. Total, not per account**
 - 3. Must come direct from the church to the plan, not to you in between**
 - 4. Direct contributions to student loans may apply**

Benefits of a 403b plan

- Tax savings annuity publication 571
- **Only the organization can set up the 403b**
- **Salary Reduction**
 - Included on the w-2
- **Employer Contribution**
 - Not included on the w-2
 - Not subject to SS or MC tax
- **MAC Maximum Amount Contributable**
 - Changes from year to year,
 - Check with your provider or your tax preparer

Caution – downsides of 403 b

403b plan can be rolled over into an IRA upon leaving your current employer, HOWEVER,

If you're a pastor, **DON'T DO IT!**

That's right, **DON'T DO IT!!!**

- No matter what your advisor says, keep the money in your church's retirement plan. At least enough to cover your housing expenses for the rest of your life. If you roll your money out of your church plan and into an IRA in retirement, it will no longer be eligible for the housing allowance. Also, if you roll the money from your church plan into a secular 401(k) or 403(b) it will become ineligible for the housing allowance.

The Downside of our GOAL

- 1. Changes to your compensation structure may cause changes to your pension calculations and cause the church to pay more.**
- 2. When you lower your taxable income to take more money home now,**
- 3. You have less money building up in your social security account and possibly in your retirement accounts.**
- 4. You have to choose to put more money aside for your future.**

Clergy Compensation Basics

- Refresh your memory???

- | | |
|----------------------------|------------|
| 1. Salary | IT, SS, MC |
| 2. Housing/Manse Allowance | SS, MC |
| 3. Accountable | NOT TAXED |
| 4. Non-Accountable | IT, SS, MC |
| 5. Benefits, | NOT TAXED |

IT = Income Tax, SS = Social Security, MC= Medicare

Matthew 17:24-27

When Jesus and His students arrived back in Capernaum, Peter was confronted by collectors asking for the two-drachma Poll-tax. They said, “Does your teacher pay the required tax of the Temple?” He responded, “Yes!” Afterward Peter entered the house where Jesus and His students were staying. Before he could say anything about the encounter, Jesus said, “Simon. When the kings of the earth collect taxes, do they collect them from their children or from strangers?” Peter said, “From strangers.” Jesus said, “Are the sons exempt? Yes, they are. But we do not wish to give the world any reason to be offended by us. If you go down to the sea and take the first fish you catch, you will find a coin worth 1/6th of a day’s wages in its mouth. Give that to the tax collectors who confronted you, for you and for Me.

The coin was a “stater” frequently used in this area of Israel at the time. It was equivalent to 1/6th of a day’s wages and it would be enough to pay the annual Temple tax of two adult males.

- *(Matthew 17:24-27)*

The Clergy W-2 Form

- Include in box 1 – wages
 - Salary given, no housing, all other income
 - Include any social security reimbursement
 - Include any non-accountable allowances paid
- There is no Social Security Income (box 3-6)
 - Pastor pays tax on return as Self-Employed taxes (SECA not FICA)
- If requested the church can make payments of fed & state taxes for the clergy estimated payments – put amount withheld in box 2
- Include in box 14 – other
 - “housing allowance” and amount paid

Clergy -W-2 FORM

22222		Void <input type="checkbox"/>		a Employee's social security number 123-45-6789		For Official Use Only ▶ OMB No. 1545-0008	
b Employer identification number (EIN) 12-345678				1 Wages, tips, other compensation 30,000		2 Federal income tax withheld estimated taxes paid	
c Employer's name, address, and ZIP code First Church 123 Main St Anytown, CA 12345				3 Social security wages Leave boxes 3,4,5,6 blank		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 Our		Last name Pastor		Suff.		11 Nonqualified plans	
123 Home Street Anytown, Ohio 12345				13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12a Instructions for box 12	
				14 Other Housing allowance 40,000		12b Do not include info on Pension Plan, do include info on employer 403b contributions	
						12c	
f Employee's address and ZIP code						12d	
15 State Employer's state ID number		16 State wages, tips, etc.		17 State income tax estimated taxes paid		18 Local wages, tips, etc.	
STATE your State number		equal to box 1				19 Local income tax	
						20 Locality name	

Form **W-2** Wage and Tax Statement

2023

Copy A For Social Security Administration — Send this entire page and Form W-3 to the Social Security Administration; photocopies are not acceptable.

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 10134D

Do Not Cut, Fold, or Staple Forms on This Page

Reporting requirements

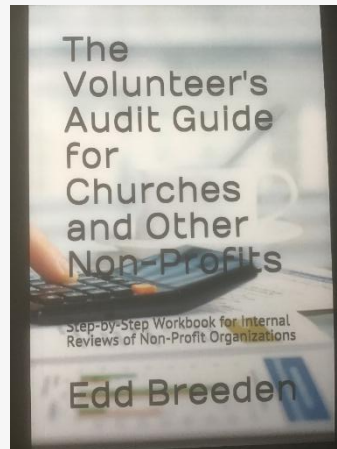
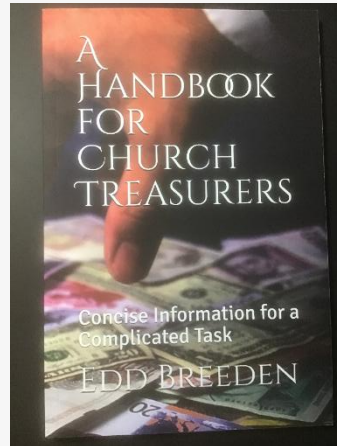
1. Form 941

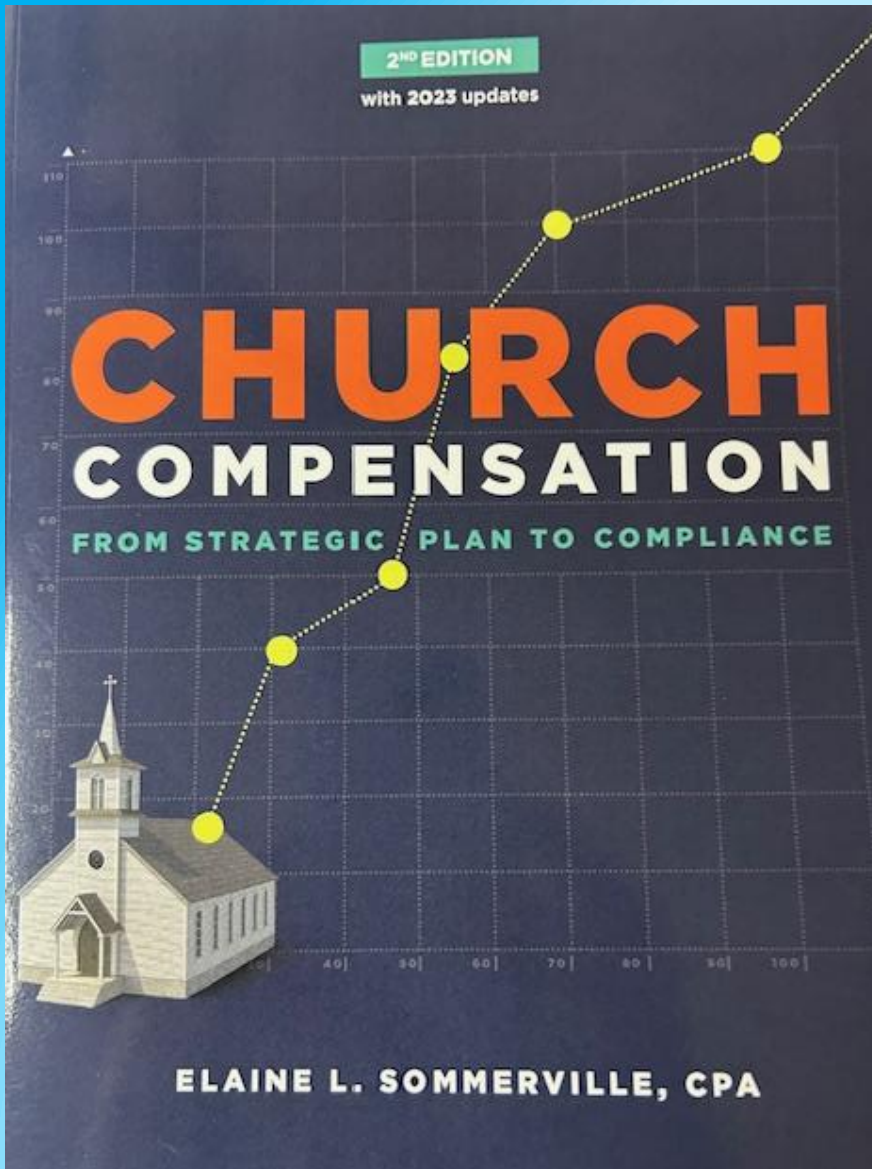
- 1. Report all wages, clergy and non-clergy**
- 2. Clergy wages are exempt wages**
- 3. Do not pay social security and medicare for clergy**

1 Peter 2:13-14, 17

Anyone in this world who rules over us, we should respect their role as leader and be obedient to them. God has set up rulers for the punishment of those who do evil, and they will have to, at some point, acknowledge those who do good. This is the will of God; by our good deeds, those around us will have nothing evil to say about us other than they do not like what we believe.

*We are free to do what needs to be done, but we should not let our freedom become a license to do evil. Instead, we can choose to be a servant of Jesus, acting as He acted. Honor all people, deeply love those who believe in our Lord. In all our ways, let's serve our God with proper reverence, and give respect to the ruler or authority wherever we live. Take on the position of a servant to all, and especially listen to and be helpful to our masters. It does not matter if they are good or evil masters. Our task is to be helpful to them.*⁴⁹





For more information
purchase this book on
Amazon.com.

Contact Information

- Edd – eddbreeden@gmail.com
- Mailing Address
 - 493 Silver Lake Dr.
 - Danville, CA 94526
 - (831) 239-6817

Contact Information

- Diane – rdtkcase@gmail.com
- Mailing Address (effective Oct.)
 - 106 Sweetgrass Grove,
 - Madison, AL 35756
 - (408) 202-0126

Stewardship Kaleidoscope

- Happening next year in
- September, 2026
- s Hotel

- Our Presbytery (San Jose) has encouraged many people to go by covering their registration, leaving hotel and travel for them to cover.
- Visit www.stewardshipkaleidoscope.org

