BUILDING YOUR SALARY PACKAGE


Your salary package is the most important factor in determining your annual tax liability. At year end, you are limited in the number of ways in which you can reduce your taxable income. The best salary package should contain the following non-taxable items: housing or parsonage/manse allowance, professional accountable reimbursement plan, and fringe benefits.

The proper combination of your salary package can often reduce your tax liability with little or no cost to the congregation. This is one area that should never be overlooked.

The best time for tax planning is "now" when you have just finished reviewing the state of your finances in the course of filing your tax return. The best tax-saving strategies are best put into effect early in the year, not at year end.

Ministers are treated differently under the tax code than virtually anybody else in the country. They have advantages and disadvantages that no one else has. The reason for this unique treatment is that their employment situation is very different than most other people. It's very important that the church board cooperates with the minister so he/she can benefit from tax advantages that were designed for him/her.

One of the biggest hurdles that the clergy must often overcome in order to maximize the use of a housing allowance and other deductions is the attitude of some lay leaders who object to the tax exclusion benefits of IRC 107. Some lay leaders believe it to be inappropriate, or even unfair, for clergy to receive such potentially significant tax benefits. Thus, they are often reluctant to arrange the housing allowance or other deductions to maximize the tax benefits available.

As with any other tax planning procedure available to other taxpayers, the attempt is to reduce, not evade the payment of taxes. No person is required to pay more tax then they owe, including clergy. The proper use of the housing allowance and other deductions can help clergy in a dramatic way to reduce taxes legally.

This guide will give you some general information on some key changes and opportunity in the new tax law. It will help you recognize ways to minimize your own tax liability. Please do not view this guide as a substitute for professional advice. The new laws are too complex to allow a casual approach.

We have tried to expand this material for a variety of different situations. Please take this information and rearrange it to fit your needs.
DEFINITION OF COMPENSATION
Parsonage example

Compensation
Report the cash salary in box 1 on form W-2)

Base Salary 28,000
Self-employed Social Security payment allowance 3,351

Parsonage
(Report only the categories below and FRV, in box 14 on form W-2, do not include in box 1)

Parsonage allowance 5,000
Utilities allowance 2,400
Utilities paid by the church
Furnishing allowance
Appurtenance allowance

Fair Rental Value (FRV) 8,400

Professional Accountable Reimbursement Plan (PARP)
(Do not report any amount from an accountable reimbursement plan on form W-2)
(Nonaccountable reimbursement plan must be reported in box 1 on form W-2)

Automobile and travel allowance 55¢ (2,000)
Continuing Education
Professional Expense
Moving

Pension and Other Benefits
(Do not report any qualified fringe benefits on form W-2, except the items listed below)

Pension 10%
(No reporting requirements)
Medical and Dental insurance
Disability insurance
Cafeteria Plan
Dependent care only / Box 10 on form W-2)
Housing Equity Account
Elective Retirement (403B)
(Report in box 13 on form W-2 / “E”- contribution amount)