PayDay

Clergy who are "ordained, commissioned and/or licensed", and who are employed by churches or other religious organizations, are subject to a unique set of tax laws which create tax-savings opportunities for them.

Pastors can save taxes by carefully considering the following factors:

√ Carefully establish their tax-exempt "housing allowance" by estimating next year's housing expenses. It is better to "set" the housing allowance "on the high side" as opposed to setting it too low. The housing allowance should be approved in writing every year by the employer.

√ A pastor should be reimbursed for job-related expenses, such as vehicle business mileage, reference materials, supplies, etc., pursuant to an "accountable expense reimbursement plan". Expenses reimbursed in that manner are not subject to tax, whereas non-accountable "allowances" are fully taxed.

√ Pastors can "opt out" of social security taxation IF they are religiously opposed to a government system of retirement and disability benefits. The election to "opt out" must be made shortly after the pastor is officially ordained or licensed. IF a pastor has opted out of social security, the pastor

should contribute as much as possible to other retirement accounts, including Roth-IRAs or 401k Roths.

√ A church or other religious organization employer is not required to withhold Federal or State income tax from a pastor's wages. HOWEVER, many churches agree to withhold those taxes as an "accommodation" to their pastors so that those pastors need not pay quarterly estimated tax payments.

AccuPay processes payroll for dozens of central Indiana churches, and also works with numerous business owners who hold leadership positions in their local churches. Call us at 885-7600 if you have any questions about payroll for your pastor or church.

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.

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