

Guidelines for Housing Allowance, Pastoral Taxes, Paid Time Off, Compensatory Time, Outside Speaking, and Sabbaticals

I. Housing Allowance

A significant tax benefit exists for ministers who own or rent their home in what is known as a housing allowance. The amount of a minister's compensation that the church designates in advance as a housing allowance is exempt from federal income tax. (Note: the amount designated as housing allowance is still subject to self-employment tax.) It is of utmost importance that the church articulate the amount designated as housing allowance in a contract, the church budget, or an official minute of the governing body of the congregation prior to paying the minister as the housing allowance cannot be claimed retroactively. Current IRS rules (Publication 517) stipulate that the lowest of the following three factors is what should be claimed as housing allowance on a minister's tax return:

- 1) the amount designated as housing allowance by the church
- 2) the amount actually used for housing and related costs (mortgage or rental payments, utilities, maintenance and repairs, furnishings, insurance, property tax)
- 3) the fair market rental value (furnished, plus utilities) for equivalent housing in the community

II. Pastoral Taxes

New pastors are encouraged to seek quality tax planning advice, since the IRS handles income and fringe benefits differently for the lay church employee and the pastor. Recommended books include the following and can be found on Amazon:

Worth, Beverly. *Worth's Income Tax Guide for Ministers*, 20__ Edition, Worth Publishing. This book comes out each year with the latest tax law changes. Written by the wife of a minister, this is most factual, readable, and dependable resource available for ministers who are navigating the complexities of tax laws.

Rainer, Art. *The Minister's Salary and other Challenges of Ministry Finance*, Rainer Publishing, 20__. This annually updated book is simple, clear, and gives an overview of church finances, especially related to ministerial finances.

III. Paid Time Off (PTO)

The purpose of PTO is to provide ministers with flexibility for needs such as vacation, personal or family illness, doctors' appointments, school, volunteerism, snow emergencies that prohibit travel, jury duty, and other activities of the pastor's choice.

The amount of PTO is based on the number of years the minister has served with the church. The church may, but is not obligated, to credit years of experience from other churches.

Under 1 year: 10 days (80 hours)

1-6 years: 15 days (120 hours)

7-19 years: 20 days (160 hours)

20+ years: 25 days (200 hours)

Pastors may carry over a maximum of 5 days (40 hours) of unused PTO into the next calendar year. Any PTO in excess of 40 hours that is not used by the end of the calendar year will be forfeited. PTO should not be used for Annual Conference or Pastors' Conference participation.

Holidays normally observed by society should be considered additional paid time off with compensatory time given for those that are also religious holidays that call for pastoral duty. There should also be provision for regular days and evenings when the pastor is free of pastoral responsibilities.

IV. Compensatory Time

A full-time pastor is normally expected to work approximately 45-50 hours per week. This is based on a normal 40-hour workweek plus 5-10 hours (the amount of time a committed member gives to the church). According to a national survey, 50 hours is very close to the median workweek of all pastors. Of course, attendance at church events on Sunday and during the week is included in the calculation of time.

How should a pastor track time? Obviously, the number of hours that pastors work varies from week to week and month to month. Some seasons are busier than others. If the pastor tracks time on an hourly basis, the pastor will often accumulate a surplus of hours during one season or run a deficit in another.

It is expected that a busy week/month in the life of a pastor will be followed by a lighter week/month. Over the course of the year, the pastor should attempt to make up any deficits as soon as possible, but also try to keep from accumulating a large surplus. At the end of the year, any remaining compensatory hours, but no more than 40 hours, is permitted to be rolled over into the next year. And, when the pastor retires or terminates, the church is not obligated to pay pastors for unused compensatory time.

Instead of tracking hours, some pastors prefer to track time using units or blocks of time (about 4 hours per unit). For example, a morning is one unit, an afternoon is a unit, and an evening is a unit. Each week has 21 units. In a typical 9-to-5, 40-hour job, work would consume 10 of the 21 periods. Acknowledging that pastors often work when others don't, a rule of thumb for a pastor's normal week would be to work no more than 12 of the 21 periods. If circumstances require the pastor to work 14 of the 21 units in a given week, they should take off an extra two units the next week to keep the average at 12.

Part-time pastors can pro-rate the above time tracking options by the percentage of time they are employed by the church.

V. Outside Speaking Engagements/Honoraria

Before accepting outside speaking assignments, full-time pastors should review invitations for outside assignments with their leadership team or chairperson. Hopefully the leadership team will see the value of sharing their pastor's gifts with the broader church. If the leadership team responds positively to the pastor accepting outside speaking assignments, it is suggested that pastors be granted up to five days per year to serve on church time as resource speakers at ministry-related events that may fall outside of their position descriptions. Any preparation and travel time logged as church hours should be counted as part of this five-day maximum. Of course, any honoraria received (after accounting for travel expenses) should be turned over to their home church.

Pastors should also have the choice of serving as resource speakers at outside events on their own time (this includes preparation, travel, etc.). In such cases, the pastor may keep the honorarium, but should be aware that they are also responsible to cover any expenses. Ministers should be aware that the IRS considers any honorarium amount that exceeds expenses to be taxable income.

VI. Sabbaticals

In recognition of the high demands of pastoral ministry today (a 24/7 commitment in which the work is never done and high burnout rates), and in order to encourage growth in ministry and the likelihood of longer pastoral tenure, the congregation is encouraged to establish a sabbatical policy. During a sabbatical, the pastor is relieved of all routine and emergency duties. Normally, the other church leaders handle routine and emergency matters. During the sabbatical, the pastor should receive full salary and benefits. The following policy is one option to consider.

For every two years of completed service to this congregation (other than the year in which a sabbatical leave is received), one month of sabbatical leave may be granted. The first leave is not to be used until the seventh year of ministry in that location. Subsequent sabbatical leaves would occur during the 14th and 21st, etc., years of ministry. Sabbatical plans, submitted by the pastor, should be approved by the church leadership team. The plans should include the following components: purpose, duration, its relevance to current responsibilities, and a plan for covering work responsibilities in their absence.

While a sabbatical may include some elements of a vacation, it is intended to be a time of planned activities related to the enhancement of performance and/or job and leadership skills. Possible sabbatical activities include, but are not limited to, service assignments, writing projects, graduate study, interim assignments with another church/agency, travel with a purpose, or independent study.

Following a sabbatical, the pastor agrees to provide a minimum of one year of service to the congregation with the understanding that repayment of sabbatical salary and benefits will be made for failure to do so. Accumulated sabbatical time is not transferable from prior congregational locations, nor is a terminal sabbatical normally acceptable. Congregations should consider budgeting for sabbatical support every year to help provide for pastoral leadership during the time when the pastor is actually gone on sabbatical.