

Episcopal Diocese of East Carolina
How To Correctly Report Clergy Compensation
September 16, 2021
Presented by Teresa Osborne, CPA

CLERGY COMPENSATION RESOURCES:

2021 Federal Reporting Requirements for Episcopal Churches by Church Pension Group – updated each year (can be found under Administrative Resources on Diocesan Website and on Church Pension Group website).

DISCLAIMERS:

The presentation today is focused on full-time Clergy who provide their own housing – there are some specific and different tax guidelines and benefits for Interim Clergy arrangements and Clergy who live in Church provided housing (Rectory).

Please consult your CPA with situations unique to your Church.

CLERGY COMPENSATION ISSUES:

Payroll tax reporting for Clergy is unique and different from regular employees.

Clergy are considered self-employed for Social Security Tax purposes and therefore they calculate and pay their social security tax when they file their personal tax return.

There are certain tax benefits available to Clergy not available to regular employees such as a housing allowance.

Types of Clergy Compensation:

1. Cash compensation (the clergy may designate a portion of cash compensation as housing allowance subject to certain limitations).
2. Housing allowance – a portion of the Clergy’s cash compensation that is designated in advance in a resolution approved by the Vestry.
3. SECA Allowance (also known as FICA Allowance) – some Churches provide additional cash compensation to assist the Clergy with a portion of Social Security Tax. Most often you will see this calculated at 7.65% of cash compensation and housing allowance (although it can be any amount).

Types of Clergy Benefits:

1. Church Pension Fund Assessment – The Church currently pays 18% of the Clergy's cash compensation, housing allowance, SECA allowance and certain other taxable fringe benefits to the Church Pension Fund.
2. Travel Allowance or Reimbursement – Some Churches provide a fixed travel allowance each month and they do not require the Clergy to provide documentation. This **IS** considered taxable compensation and **IS** subject to the Church Pension Fund Assessment. This is considered cash compensation.

Some Churches require the Clergy to provide documented mileage for travel reimbursement – This **IS NOT** considered taxable compensation and **IS NOT** subject to the Church Pension Fund Assessment.

3. Moving expenses paid to Clergy or on behalf of Clergy (to a moving company for example) are taxable to the Clergy. This **IS** considered taxable compensation and **IS** subject to the Church Pension Fund Assessment.
4. RSVP – Clergy can contribute to the Episcopal Church Retirement Savings Plan (RSVP) which is a retirement savings plan that gives Clergy the option of contributing their own money towards their retirement savings (there are pre-tax and after-tax contribution options).
5. Clergy Term Life Insurance – this mandatory life insurance is provided through the Diocesan group life insurance policy. You should coordinate this enrollment with the Diocese as they need to add your Clergy to the employee Roster to get this process started. Life insurance benefits exceeding \$ 50,000 are included in the Clergy's W2 based on imputed values calculated in accordance with Internal Revenue Service rules. The Diocese provides each Church a letter at the end of each year with the imputed value of the life insurance benefit to be included in the Clergy's W2.
6. Health insurance – Group health insurance paid by the Church for Clergy is not a taxable benefit to Clergy.

Generally, it is no longer permissible for an employer to directly reimburse an employee for an individual health insurance plan or directly pay the individual health insurance plan on behalf of the employee. This type of direct payment of an individual health insurance plan is considered taxable compensation to the employee.

If certain conditions are met, some employers may have the option of establishing a qualified small employer health reimbursement arrangement (QSEHRA). Given the many restrictions that apply to these types of arrangements, employers should speak to experts before establishing a QSEHRA.

7. Health Savings Accounts - depending on health insurance plans, employees within certain limitations can contribute pre-tax to a health savings account and employers within certain limitations can contribute as well. These funds can be used for qualified medical expenses.

HOUSING ALLOWANCE KEY POINTS

- The housing allowance resolution should equal the fair rental value of the Clergy's primary residence, furnished, plus estimated utilities or the anticipated actual expenses, whichever is less.
- The amount of the housing allowance should not be included in the letter of agreement (because it could change each year and the letter of agreement does not change each year).
- It is the responsibility of the Clergy to determine the fair rental value, furnished plus estimated utilities. Realtors can often assist Clergy in determining fair rental value furnished. Unless the housing allowance resolution suggested by the Clergy exceeds his or her compensation – the employer or Vestry should approve it.
- Under no circumstances can a Church designate a housing allowance retroactively.

Sample Housing Resolution:

The following resolution was duly adopted by the Vestry of Church in Diocese at a regularly scheduled meeting held on January 1, 2020, a quorum being present:

Whereas, the Revered John James is compensated by Church in Diocese exclusively for the services as a minister of the gospel; and

Whereas, Vestry of Church in Diocese does not provide Reverend John James with a rectory; therefore, it is hereby

Resolved, that the compensation paid to Reverend John James for calendar year 2020 shall be \$ 80,738, of which \$ 25,000 is hereby designated to be a housing allowance pursuant to Section 107 of the Internal Revenue Code; and it is further

Resolved, that the designation of \$ 25,000 as a housing allowance shall apply to calendar year 2020 and all future years unless otherwise provided.

STEPS TO PAYING CLERGY:

1. Review the Clergy's Letter of Agreement from the Diocese which should spell out agreed compensation. Be sure you understand the tax consequences of all types of compensation. Consult with the Diocese or your Church CPA with any questions.
2. Complete an Employment Change Form with the Church Pension Fund which can be found on the Church Pension Fund website – you either mail or e-mail this form to the Church Pension Fund. The Church Pension Fund will bill you monthly for contributions.
3. Coordinate with the Diocese to enroll your Clergy in the Clergy Term Life Insurance.
4. Have your Clergy complete a W-4 and NC-4 to determine if the Clergy want you to withhold Federal and State taxes from their compensation. This is voluntary (only for Clergy) as they are also able to make estimated tax payments on their own.
5. Have your Clergy complete an I-9 form – this is an employment eligibility verification form from Department of Homeland Security and is required of all employees.
6. Have your Clergy prepare a housing resolution to be approved by your Vestry in advance of paying Clergy (example provided).
7. Process payroll and file all required quarterly Forms 941 and annual W2s.
8. See attached example of W2 for Clergy.
9. At end of year verify the correct amount of pension has been paid for the Clergy based on annual compensation. See attached example.

EXAMPLE W2 for CLERGY

SCENARIO:

Reverend John James received the following annual compensation and benefits for 2020 and he began work on January 1, 2020:

\$ 75,000 salary (and the Vestry has approved his resolution to designate \$ 25,000 of this as a housing allowance).

\$ 5,738 SECA Allowance

John contributes \$ 200 per month (\$2,400 per year) pre-tax to the Episcopal Church Retirement Savings Plan (RSVP).

John contributes \$ 1,000 pre-tax to his health savings account and the Church contributes \$ 1,000 to his health savings account.

The Church receives a letter from the Diocese stating that the imputed value of his life insurance benefit for 2020 is \$ 800.

The Church pays John a \$ 1,000 Christmas bonus.

The Church pays John's moving company \$ 5,000 to move him to Kinston.

The Church reimburses John \$ 2,240 dollars during the year (4,000 business miles driven at .56 cents per mile at IRS standard mileage rate). **THIS HAS NO EFFECT ON W2. Keep in mind if you had provided an "allowance" instead of a reimbursement it would have been taxable to Clergy.**

The Church pays \$ 1,500 per month for John's family health insurance. **THIS HAS NO EFFECT ON W2.**

John has the Church pay in \$ 5,000 in Federal Taxes and \$ 2,000 in State Taxes during 2020 from his compensation.

Box 1 and 16 of W2:

Salary (net of \$ 25,000 housing)	\$ 50,000
SECA Allowance	5,738
RSVP employee pre-tax contributions	(2,400)
Health savings account employee pre-tax contributions	(1,000)
Bonus	1,000
Imputed life insurance benefit	800
Moving expenses paid on behalf of clergy	<u>5,000</u>
Total taxable compensation	\$ 59,138

Box 2 of W2 - \$ 5,000 Federal tax the Church withheld from John's compensation (and paid to IRS)

Box 3, 4, 5 and 6 of W2 – all of these boxes are blank on a Clergy W2 because Clergy are considered self-employed for Social Security and Medicare tax purposes.

Box 13 of W2 – mark the retirement plan box (as Clergy participate in a retirement plan)

Box 12 of W2:

C – imputed life insurance benefit provided by Diocese

G – RSVP employee contributions (457B plan)

W – employee and employer contributions to health savings account

Box 17 of W2 - \$ 2,000 State tax the Church withheld from John's compensation (and paid to NC)

Church Pension Fund Wages (subject to 18%)

Salary	\$ 50,000
Housing	25,000
SECA Allowance	5,738
Bonus	1,000
Moving expenses	<u>5,000</u>
	\$ 86,738
	times 18% retirement rate
	\$ 15,613 Clergy Pension

You should do this calculation at year-end and make sure you have paid in the correct pension for your Clergy. In the event of any shortfall or error, you should contact the Church Pension Group to correct. Your auditor will check this amount.

a Employee's SSN 111-11-1111		VOID <input type="checkbox"/>		Copy D For Employer. OMB No. 1545-0008			
b Employer identification number (EIN) 22-2222222				1 Wages, tips, other compensation 59138.00		2 Federal income tax withheld 5000.00	
c Employer's name, address, and ZIP code Church in Diocese PO Box 2876 Kinston, NC 28501 CONT: Jane Church 252-613-5844				3 Social security wages		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 name, address, and ZIP code John James 809 Mitchell Street Kinston NC 28501				11 Nonqualified plans		12a C 800.00	
				13 Statutory Employee <input type="checkbox"/> Retirement Plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b G 2400.00	
				14 Other Housing All 25000.00		12c W 2000.00	
						12d	
15 State NC	Employer's state ID number 10654235	16 State wages, tips, etc. 59138.00	17 State income tax 2000.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form W-2 Wage and Tax Statement 2020
FDEA0105L 01/18/21

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

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Form W-2 Wage and Tax Statement 2020
FDEA0105L 01/18/20

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Employment Change Form New Assignment Notice & Change in Compensation

Reason for change:

- Compensation Change
 New Assignment/Hire
 Change in Employment Status
 Termination
 Retirement
 Please select all benefits that apply
 Clergy DB
 Lay DB
 Lay DC
 RSVP

Employee Information

Legal Name

First MI Last

Mailing Address

City State Zip

Social Security #/TIN # Date of Birth

Canonical Residence

Employee information updated? Yes No

Employment Information

Employer Name

Mailing/Billing Address

City State ZIP Country

Phone Number

Employee's Title Effective Date of Change

Hours expected to work per year _____

Compensation

Other than a one-time payment, list all amounts on an **annual basis**. For explanations, see the instructions on the next page.

\$ _____	\$ _____	
Base salary (excluding housing) and scheduled taxable cash payments	Cash housing allowance and/or utilities	Employer-provided housing? <input type="checkbox"/> Yes <input type="checkbox"/> No (Check Yes if employer provides physical housing for the employee)

\$ _____	\$ _____	
Employer contributions to a qualified or non-qualified plan	One-time payments	

Send assessment bills to: Employer Diocese

Previous Employer Date Compensation Ended

Employer's Signature Date

Employer Email Address

Print Name Title

Employee's Signature Date ID# (CPF use)

Submit the completed and signed form to:

The Church Pension Fund, 19 East 34th Street, New York, NY 10016, Attn: Client Services or email to admin-assist@cpg.org.
 If you have any questions, call us at (866) 802-6333, Monday – Friday, 8:30AM – 8:00PM ET (excluding holidays).

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** Corrections to compensation and/or employment records will only be accepted for two years immediately preceding the current calendar year unless interest is paid on any assessment that becomes payable to The Church Pension Fund as a result of a correction.*

*** Any form of severance (including pay continuation following a termination of employment) should be excluded in all cases.*