



8 ESSENTIALS OF
**COMPENSATING
MINISTERS**



Introduction

Introduction

In your church, would you tend to use words like overlooked, overwhelmed, or uncertain when describing the compensation-setting process for your pastor? If so, you're not alone.

While the topic of minister's compensation has the potential to be a confusing area or one you might prefer not to address, with the right tools and information at your disposal, it certainly doesn't have to be as challenging!

Compensation-setting practices should be consistent with generally accepted biblical truths and practices, should not cause a diminished Christian witness, and should comply with ECFA's Policy for Excellence in Compensation-Setting and Related-Party Transactions.

*Plans fail for lack of counsel,
but with many advisers they succeed*

Proverbs 15:22

ECFA has a heart to help churches be good stewards of all of their resources, including their pastors who are called to serve the congregation. The essentials outlined in this eBook should give you a great starting point in understanding the unique tax rules that apply to pastors and how each of the major elements of compensation can best be leveraged to maximize the church's compensation budget and the pastor's take-home pay.

And while you may use a different name than "minister" to describe the top spiritual leader or leaders employed by your church, just remember that terms like minister, pastor, and clergy are interchangeable. In this eBook, we use the term "minister" for sake of consistency with tax regulations, which afford unique benefits (and burdens) to those who are recognized by the church as spiritual leaders and perform ministerial duties. Examples include the minister's housing exclusion and self-employed status for social security purposes, which we'll address later in more detail.

With this introduction, let's start by diving in with *Essential 1* and an understanding of the importance of a church's compensation philosophy and goals.

1

Establish your
church's
compensation
philosophy and
goals

Establish your church's compensation philosophy and goals

Although we are all one Church in the Body of Christ, every congregation has its own unique culture and ministry environment which affect how the senior minister is compensated. So, there is no “one-size-fits-all” solution when it comes to compensating church leaders.

Being aware of our congregation's culture can help us make better decisions about stewardship. A church's compensation philosophy is a product of many factors, including theology, congregation size, experience, standards of living of the congregation and in the local community, and the role and responsibilities of the minister.

Your compensation philosophy should also reflect your congregation's expectations for your minister, in terms of helping the church fulfill its present mission and achieve its long-term goals—areas like worship attendance and membership, growth in giving to missions, paying down or paying off the mortgage, or raising money for a building expansion.

A church's compensation philosophy should consider its short- and long-term goals and objectives. Three broad categories of goals and objectives include (1) Attraction, (2) Retention, and (3) Motivation and Reward. Read below for how these might be stated in a written compensation philosophy statement.

- 1. Attraction** – Our goal is to attract a minister who has a record of leading churches that are growing spiritually and numerically.
- 2. Retention** – Our goal is to increase the average time a minister stays at our church to more than 10 years. (It is often overlooked, but longer tenure is needed for sustained church health.)
- 3. Motivation and Reward** – Our goal is to motivate our minister as a leader to do what is necessary to cause our church to meet its objectives as a congregation. Accordingly, compensation should be fair as well as a reflection of how well the minister handles a multitude of challenges and effectively serves all the diverse needs of the congregation.

Exactly what constitutes reasonable compensation is a more complex question that will be addressed later in *Essential 7*. For now, remember whatever approach you take with your church's compensation philosophy, it is important to approach compensation-setting in a financially sound and sustainable way for the church that is also fair to the minister.

2

Leverage each
unique aspect of
compensation

Leverage each unique aspect of compensation

Usually we think of compensation in terms of salary alone, but it can include *any form of payment* that a minister receives, from wages to insurance benefits, use of a vehicle, meals, housing, and more. In this context, “minister’s compensation” is any form of payment a minister receives from their congregation in return for their work.

The various forms of compensation that a minister might receive for their work can and should be leveraged to ensure the best financial outcome, both for ministers and in terms of responsible stewardship for the church. Let’s consider a couple of examples to illustrate.

Example 1: Minister A receives cash salary of \$75,000, but the church does not directly pay or reimburse his group health insurance premiums of \$10,000. Minister B receives cash salary of \$65,000, but the church directly pays his \$10,000 group health insurance premiums.

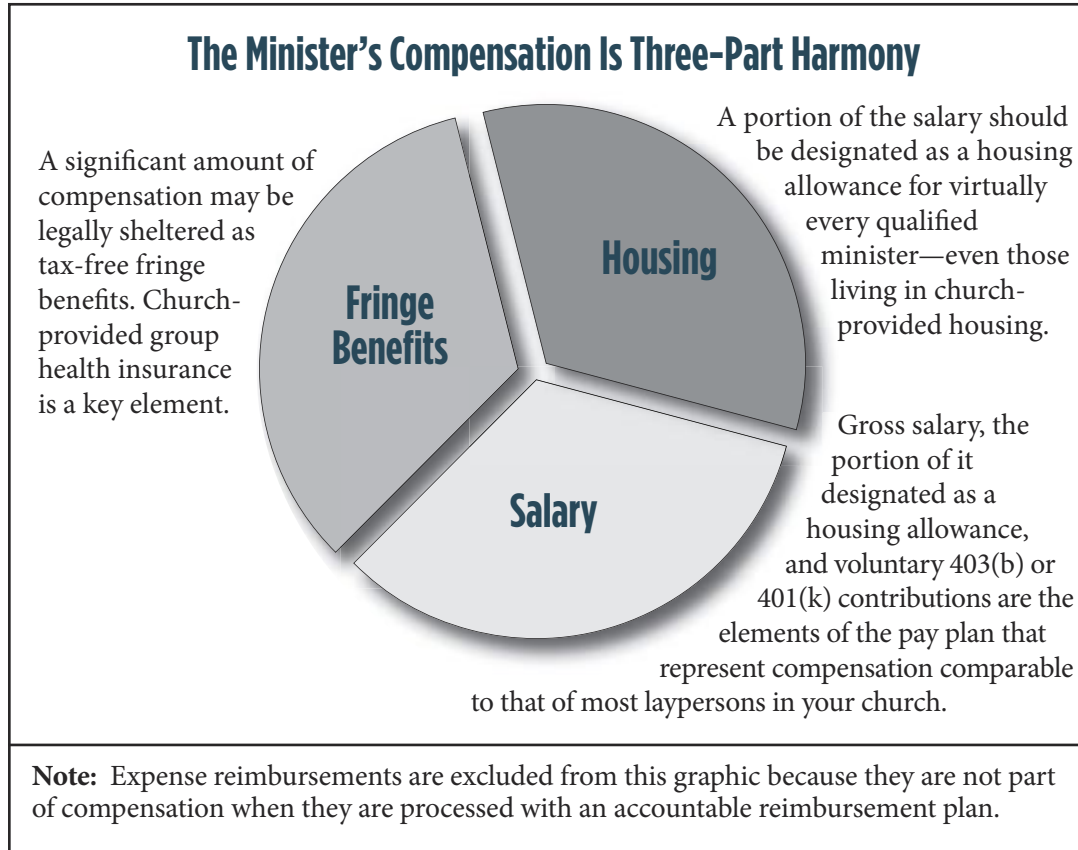
Which minister has the better compensation plan based on just these factors? The church pays the same dollars (\$75,000) either way, but Minister B has the better compensation plan in nearly every instance. Health insurance premiums paid by a minister out-of-pocket have absolutely no tax value if the minister uses the standard deduction (as does nearly every minister who lives in church-provided housing). Even ministers who do itemize their deductions on Schedule A only receive tax benefits from the premiums they pay when their medical expenses, including health insurance, are greater than a certain percentage of their adjusted gross income.

Example 2: Is it better stewardship for a church to pay its minister a cash salary of \$70,000 and provide a professional expense allowance (nonaccountable plan) of \$8,000 or pay its minister a cash salary of \$70,000 and reimburse up to \$8,000 of professional expenses under an accountable plan?

The church is going to spend the same amount of money either way (\$48,000). However, the minister will almost always have less money in his or her pocket at the end of the year with the nonaccountable plan. This is because the \$8,000 of professional expense allowance under a nonaccountable plan must be added to the minister’s Form W-2 as taxable compensation. Then, the minister must deduct the expenses not reimbursed under an accountable plan. If the minister could not itemize his deductions before considering this \$8,000 of unreimbursed expenses, there will be deductions lost just to get up to the itemized deduction level.

As illustrated in these examples, stewardship isn’t only about how much a minister is compensated, but also how or the form in which a minister is compensated. We often think

of compensation strictly in terms of a cash salary, but salary is just one of three major components of a minister's compensation, housing, and fringe benefits. Reimbursements under an accountable expense reimbursement plan do not constitute compensation—they are merely a church operating expense.



Determining what a minister is really paid, all elements considered, is a challenging task but well worth the effort. Going forward, we will review each of these elements in detail. Congregations should take care to leverage all three major parts to ensure that their ministers are fairly compensated in a manner that is also sustainable for the church.

*The heart of the discerning acquires knowledge,
for the ears of the wise seek it out.*

Proverbs 18:15

3

Adopt and follow
an accountable
expense
reimbursement
plan

Adopt and follow an accountable expense reimbursement plan

Many ministers personally spend hundreds or thousands of dollars each year on church-related business expenses. For example, a minister might pay for gas while traveling on church business, registration fees for a ministry-related conference, or pick up supplies on the way to a church dinner.

An accountable expense reimbursement plan, in which expenses with appropriate substantiation are fully reimbursed to the minister by the church, is the best form of stewardship.

To qualify for reimbursement, an expense must be both ordinary and necessary. An “ordinary” expense is one that is common and accepted in someone’s profession, while a “necessary” expense is one that is helpful and appropriate in the context of a person’s work. So, while a minister could certainly be reimbursed for the cost of ordering books on theology to research a sermon, he or she would not, for instance, be entitled to reimbursement for buying a detective novel to read on a plane.

Because reimbursements are essentially the church paying money owed to the minister, they should not be considered part of a minister’s taxable salary. Rather, reimbursements are part of a church’s operating expenses, which in this case were initially paid by the minister. When a church lists reimbursements as part of a minister’s compensation package, it gives a distorted picture of what the minister is actually receiving in return for his or her work.

By the same token, it is important that a congregation NOT treat expenses that are really part of a minister’s compensation as church-related expenses. For instance, while a church could reimburse a minister’s restaurant bill from leading a breakfast Bible study group, meal expense would not be reimbursable if the minister were simply getting something to eat on a lunch break or having a purely social meal with members of the congregation.

Even if the church reimburses a minister for a personal expense, that does not suddenly make it a “business expense” in the eyes of the IRS. Business expenses are business expenses whether or not they are reimbursed, while personal expenses are always nondeductible and non-reimbursable. If a personal expense is inadvertently reimbursed by the church, then the minister should immediately refund the money. Otherwise, the church should include the amount of the reimbursement in the minister’s taxable wages on Form W-2.

In the end, there are only two valid ways to deal with ministry-related expenses. The first is for the minister to try to take a federal income tax deduction for unreimbursed expenses

from personal income at tax time. The second is for the minister to provide the church with an accounting of the expenses and for the church to reimburse the minister. Reimbursement is almost always the better option in terms of saving on taxes.

For reimbursements to be excluded from taxes, the minister must provide a detailed accounting. As far as the IRS is concerned, reimbursements paid without proper accounting are simply additional taxable income. To avoid taxes on expense reimbursements, the IRS requires three basic elements: (1) a **business purpose** for the expenses, (2) **substantiation of expenses** such as a receipt, and (3) **the five W's** noted on the back of the credit card slip or other receipt:

- Why (noting the business purpose),
- What (description, including itemized accounting of cost – which is standard on most receipts),
- When (date),
- Where (location), and
- Who (names of those for whom the expense was incurred).

Failure to keep adequate records of expenses can be problematic should the church or minister ever find themselves audited.

Whatever the specifics of the church's policy, providing ministers with full reimbursement for all reasonable ministry-related expenses should be the goal. Anything less is poor stewardship on the part of the church. Establishing an accountable reimbursement plan is the best option.

For more information on accountable expense reimbursement rules, including guidelines on the timeliness of reimbursements, see the *5 Essentials of Reimbursing Ministerial Expenses* eBook.

4

Consider various
fringe benefits

Consider various fringe benefits

A “fringe benefit” is any cash, property, or service that an employee receives from an employer in addition to salary. To call these “fringe benefits” is a bit of a misnomer. While, a generation ago, fringe benefits were secondary perks of a job, employees have since come to depend on these benefits as a major part of their total compensation.

*Nevertheless, the one who receives instruction in the word
should share all good things with their instructor.*

Galatians 6:6

A significant amount of compensation may be legally sheltered as tax-free fringe benefits. Church-provided group health insurance and a qualified medical reimbursement plan are two primary examples. Because fringe benefits are a “form of pay for performance of services” in the eyes of the IRS, they are just like all other forms of compensation in the tax code and are considered taxable unless a specific exception or exclusion exists. And while some benefits—such as group health insurance—may be provided by a church to a minister without limitation, the law places an annual limit on other fringe benefits, such as dependent care.

Fringe benefits fall into 3 categories: **(1) Taxable**, **(2) Tax-Deferred**, and **(3) Tax-Free**.

Examples of **taxable fringe benefits** include personal use of a church-owned vehicle or allowances to help offset all or a portion of a minister’s social security tax obligation.

Another popular way for a church to compensate a minister is through **tax-deferred** retirement accounts. IRA payments, tax-sheltered annuities, and 401(k) plans are tax-free up to a certain limit. If your church is part of a denomination that maintains a pension plan, then it is usually a good idea for your church to contribute the maximum. Over the long-term, these benefits should pay out more to ministers than if they were to simply save a portion of their salary. Also, at retirement, distributions from this plan generally qualify for the housing exclusion. This is a double benefit: tax-deferred going into the plan and tax-free coming out of the plan!

For a more in-depth discussion on retirement planning and social security, we’d encourage you to check out a special chapter dedicated to this topic in ECFA’s annual *Minister’s Tax & Financial Guide*.

Finally, let’s consider some **tax-free fringe benefits**. When it comes to the economic burdens facing ministers, close behind providing a home and necessities like food for their

families, health care can be one of the greatest needs and expenses. This is an area where fringe benefits may be greatly leveraged for the benefit of the minister.

If a church can afford and is eligible to provide group health insurance, it makes more sense for a church to provide their minister with insurance coverage. This is preferable to a church giving their minister extra money to buy his or her own, since group health insurance provided by an employer is excluded from taxes whereas insurance premiums paid by an individual typically are not.

Example: The church has a group health insurance plan and pays health insurance premiums of \$12,000 for the minister (and his or her dependents). The minister's marginal federal and state income tax rates are 22% and 5%, respectively. For social security tax purposes, the minister's rate is 15.3%. Therefore, the tax-free reimbursement of the health insurance premiums saves the minister over 42%, or over \$5,400 (42.3% x \$12,000). In other words, if the minister paid for the cost of the health insurance personally after taxes, the minister would be left with only \$5,400 to spend on health care coverage rather than the \$12,000 paid by the church.

There are other common forms of insurance like life, disability, and long-term care insurance that can function as fringe benefits to ministers. When a church provides group term **life insurance** coverage for a minister, this is an excellent fringe benefit. A church can provide its minister with tax-free group life insurance, up to \$50,000, though the IRS requires that the same life insurance be made available to all church employees. The church can provide additional life insurance beyond the IRS limit, though the additional portion will be subject to tax.

Disability insurance, which covers a minister's salary if he or she is somehow unable to work, is another common fringe benefit. There are two options for how to handle taxes on disability insurance. **Option 1** is for the minister to pay taxes on the annual premiums. If so, then any payments received from the policy will be tax-free. **Option 2** is for the church to provide the insurance tax-free, though in this case any benefits the minister might receive from the policy would be taxed as regular income. If premiums for **long-term care** insurance are paid by the church or by a church employee and reimbursed by the church, these amounts are tax-free.

5

Maximize the
minister's housing
exclusion

Maximize the minister's housing exclusion

Maximizing the housing exclusion is an extremely vital component of compensation that can save ministers thousands of dollars in income taxes and promote good stewardship on the part of the church.

Churches may provide ministers with housing owned or provided by the church, often called a church parsonage, or a housing allowance for ministers who own or provide their own home. Under either approach, this form of compensation is eligible for *exclusion* from the minister's taxable compensation. Ministers who live in church-provided housing can also receive a housing allowance free from income tax to cover related expenses such as furnishings, personal property insurance, and utilities.

While a parsonage or housing allowance may be excluded from a minister's salary for calculating federal income tax, the minister will still owe SECA tax (Social Security and Medicare taxes) on the amount of the housing allowance or the fair rental value of the property for those living in a parsonage, except in the rare instance where the minister has opted out of SECA.

Although the housing exclusion can be leveraged as a major tax benefit for ministers, there are some general limits to keep in mind. For those living in church-provided parsonages, the IRS's overall limit on "reasonable compensation" applies. Although it would be very unlikely, let's say a church gives a minister the opportunity to live in a lavish mansion owned by the church while only working a few hours a week for the church. The IRS might consider this arrangement to violate the overall limits on the reasonableness of compensation that applies to nonprofit employees.

For ministers living in homes they own or provide, the housing exclusion is subject to the same overall limit on reasonable compensation, plus a few additional factors. According to the tax law, the allowance that may be excluded from income tax is limited to the lowest of the following amounts:

- 1. The amount actually used from current ministerial income to provide the home.** In other words, the minister cannot exclude more salary from income taxes than is actually used to pay for housing-related expenses, even if the church has designated a higher amount for housing purposes.
- 2. Amount prospectively and officially designated by the church.** The church must officially designate, in writing, the amount of a minister's compensation that is to be classified as a housing allowance. Ministers may not treat any of their income as a tax-free housing allowance until it is officially designated as such, and may not exclude more than the designated amount. Retroactive housing

allowance increases are not allowed, so if a minister has reason to believe that his or her housing-related expenses will run over the designated amount, he or she should ask the church to increase the allowance in advance.

The church should consider using the minister's estimate for housing-related expenses when designating the housing allowance. It is often wise to designate an amount like 5% or 10% above the estimate to account for unexpected expenses and avoid the need to re-designate the amount during the year. Still, the minister can only exclude for income tax purposes the amount actually used for housing expenses if it is lower than the amount designated by the church.

3. Fair rental value of the home including utilities and furnishings. The minister may not claim a tax-free housing allowance for more than the home's fair rental value, including utilities and furnishings.

To recap, if a minister's housing allowance exceeds any of these limits, then it must be reported as taxable personal income.

Also important to note: based on legal precedent from tax cases, the housing benefits described here can apply to *only one residence* at a time. If, for whatever reason, the minister utilizes a second residence, he or she would have to pay for it out of his or her own after-tax income, the same as any other taxpayer. Ministers may count the cost of a second mortgage against their housing allowance, but only if the money from the mortgage is used towards *housing-related expenses*. The second mortgage cannot be excluded if it is being used to pay for an automobile or their children's college tuition, for instance.

Another practical consideration: If a minister lives in church-provided housing, only the church is building up equity. If the church provides a cash allowance for the minister to purchase a home, the minister may establish some equity. To account for this economic reality for ministers living in church-providing housing, the church may provide an **equity allowance**. This allowance may partially or fully offset the equity that the minister would have accumulated in a personally owned home. The equity allowance that a minister receives is fully taxable and not excludable as a housing allowance. However, the church could consider making the equity payments to a tax-sheltered annuity (TSA) or 401(k) plan. This would be consistent with the desire of a congregation to provide funds for the minister's housing at retirement. Under current law, the funds received at retirement from church sponsored TSA or 401(k) plans may be eligible for tax-free treatment as a housing allowance.

On a related note, churches may continue to provide a housing allowance to retired ministers as part of their pension or annuity income. However, this exclusion does not extend to a minister's surviving spouse after his or her death.

In all situations, be sure to maximize the housing exclusion component of your minister's compensation by taking advantage of this significant tax benefit.

To learn more about the “tax best friend” of most pastors, check out the *10 Essentials of the Minister’s Housing Exclusion* eBook and the annual *Minister’s Tax & Financial Guide* published by ECFA.

6

Provide a
cash salary

Provide a cash salary

Stewardship is generally maximized for the congregation and minister by initially focusing on accountable expense reimbursements (*Essential 3*), tax-favored or tax-free fringe benefits (*Essential 4*), then the housing exclusion (*Essential 5*), and finally cash salary. Many people equate salary to compensation, but as we've learned, there's so much more to it when we think of expense reimbursements, housing, and fringe benefits.

Even if a church paid all ministry-related expenses through an accountable plan, provided for all housing expenses of the minister, and used other fringe benefits like health care and retirement, the minister still needs money for other living expenses.

For Scripture says, “Do not muzzle an ox while it is treading out the grain,”
and “The worker deserves his wages.”

1 Timothy 5:18 (cf. Deuteronomy 25:4; Luke 10:7)

While leveraging the other elements of compensation is extremely important, churches must not forget to consider cash salary when arriving at a compensation package that is financially sound, sustainable to the church, and fair to the minister. Salary is last of the components discussed for leveraging compensation because it is fully taxable to the minister and reportable on Form W-2.

Keep in mind the federal income tax is a pay-as-you-go tax. Ministers must pay tax as they earn or receive income during the year. Lay employees usually have income tax withheld from their pay; however, the pay of qualified ministers is not subject to federal income tax withholding.

Ministers who are employees for income tax purposes may enter into a voluntary withholding agreement with the church to cover any income tax and self-employment social security taxes that are due. An agreement to withhold income taxes from wages should be in writing. There is no required form for the agreement. It may be as simple as a letter from the minister to the church requesting that a specified amount be withheld for federal income taxes. A minister may also request voluntary withholding by submitting Form W-4 (Employee's Withholding Allowance Certificate) to the church indicating an additional amount to be withheld in excess of the taxable amount.

For more information on paying ministerial taxes, including the latest tax rates, tax withholding, methods of filing and amending returns, and more, the annual *Minister's Tax & Financial Guide* by ECFA is a very helpful resource.

7

Ensure total
compensation
is fair and
reasonable

Ensure total compensation is fair and reasonable

There is no universal formula for deciding the compensation a minister should receive for their work. The appropriate types and amount of compensation will vary depending on a church's philosophy and goals.

There are obvious risks involved in paying a minister too much, although this is an unusual scenario for most churches. If a minister is making far more than most members of your community, it could potentially raise questions about the church's stewardship and negatively impact your witness.

However, it is a far more common problem for congregations to pay their minister too little. When a minister cannot provide for their most basic material needs, it can't help but distract from their ministry. Personal stress caused by inadequate compensation causes many ministers to quit the profession after a few short years. Remember the words of 1 Timothy 5:18—"The worker deserves his wages."

Part of setting fair and reasonable compensation is routine evaluation and discussion of the compensation package. What this means for your church may vary, but a good start is to engage with compensation data and surveys.

It is often helpful to review compensation data for other ministers who serve churches of similar size in the same geographic area. There are several national surveys available with comparative compensation data.

8

Routinely evaluate
and discuss the
minister's
compensation
package

Routinely evaluate and discuss the minister's compensation package

Few people would deny that most ministers work very hard at their jobs, yet many churches prefer to avoid conversations about compensation and hope that it will somehow all work itself out. On the other hand, if a church has a broken window or faulty equipment that distracts during the service, immediate action is taken to keep the church performing at its best.

In the same way, employees of the church must be properly compensated to free them up for ministry unhindered by trouble paying rent or obtaining health care due to inadequate or poorly planned compensation. And, of course, it is our biblical mandate to provide for workers, including ministers.

All of this starts with open and productive discussion to help your church find and implement a sound compensation policy. To do this, it is vital to routinely evaluate and discuss the minister's compensation package. As discussed in *Essential 7*, to ensure that total compensation is fair and reasonable, we must be willing to engage in regular discussion. More than that, a church's compensation policy goes hand-in-hand with its culture, goals, and philosophy as a ministry.

It is understandable how difficult it can be for churches and ministers alike to speak openly about their finances. Discomfort around discussing pay can lead to what we sometimes call a "conspiracy of silence" where no one wants to talk about compensation for the church's leaders, and therefore no one discusses it until there's a serious problem. With the principles outlined in this resource, it is our hope that your church and its leaders will be empowered to engage in the conversation and properly steward resources to bless your leaders and your ministry.

Now what?

Action Steps to Excellence

Now What? Action Steps to Excellence

- Establish your church's compensation policy with consideration for the church's goals in terms of the attraction, retention, and motivation/reward of ministers.
- Identify and maximize the interplay between the four major components of compensation for each minister: expense reimbursements, fringe benefits, housing, and cash salary.
- Use an accountable reimbursement plan where ministry-related expenses (with proper substantiation) are fully reimbursed to the minister and therefore not taxable as income.
- Account for fringe benefits as a valuable part of the minister's compensation package, being careful to delineate between taxable, tax-deferred, and tax-free benefits.
- Maximize the minister's housing exclusion in order to promote good stewardship and provide tax benefits to the minister, being careful to meet the IRS requirements for "reasonable compensation."
- Determine a cash salary for ministers that is both financially sound and sustainable for the church, as well as fair and reasonable to the minister. Ministers may wish to consider a voluntary withholding agreement with the church to help plan for the impact of taxes on their compensation.
- Ensure that the total compensation package (which includes all of the factors above) is fair and reasonable by reviewing compensation surveys.
- Routinely engage in open and productive discussion about the church's compensation philosophy and strategies to ensure continued ministry effectiveness and good stewardship.

Resources



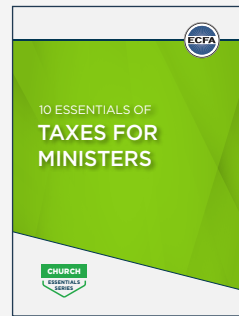
ECFAPress eBooks in the Church Series



10 Essentials of Forming a Church

Churches are formed to give followers of Christ the opportunity to worship together, grow in faith, and meet the needs of the local community. There are also practical legal and financial consequences that arise when organizing a church. This resource highlights ten of the most common issues that surface

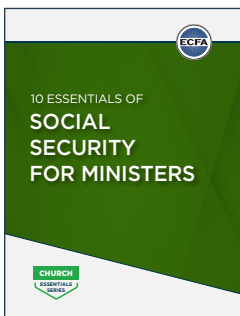
when forming a church and offers insights to address them.



10 Essentials of Taxes for Ministers

This resource provides a cogent overview of the ten most basic fundamentals of clergy tax. Clergy who understand these ten fundamentals will have a better understanding of the Federal tax issues impacting them. Some of these crucial issues include the clergy housing allowance, expense

reimbursements, social security tax, and more.



10 Essentials of Social Security for Ministers

Social security tax is one of the most complicated issues for many clergy in the U.S. It all starts with two types of social security—and a minister might be subject to both types of social security in the same tax year. The tax forms do not provide a convenient way to calculate the amount subject to social security tax.

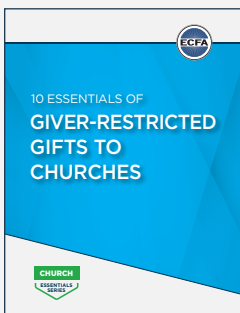
Understanding these ten fundamentals provides a good grasp of the social security basics that are often puzzling to ministers.



10 Essentials of the Minister's Housing Exclusion

The minister's housing exclusion provides an income tax advantage to nearly every minister—in some instances ministers can save thousands of dollars per year using this tax provision. Maximizing this benefit requires coordination with the church, keeping good records of housing

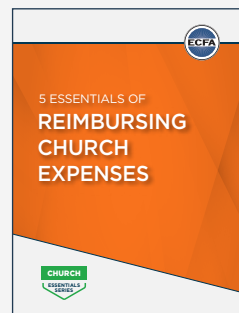
expenses, and applying the housing exclusion limits provided in the tax law. If you understand these essentials, you will have a sound understanding of the housing exclusion basics for ministers.



10 Essentials of Giver-Restricted Gifts to Churches

Givers often make gifts to churches for specific purposes and many of these gifts are in response to resource-raising opportunities shared by churches. These gifts, often called "designated" or "restricted," must be expended consistently with giver intent. This resource outlines the way churches can

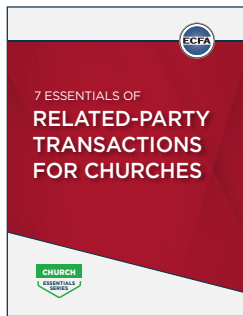
handle giver-restricted gifts with integrity.



5 Essentials of Reimbursing Church Expenses

How a church handles the payment of business expenses incurred by staff speaks volumes about the integrity of the church. Adequate substantiation is the starting point to qualify business expense reimbursements for tax-free treatment. This resource covers the steps for churches to maximize

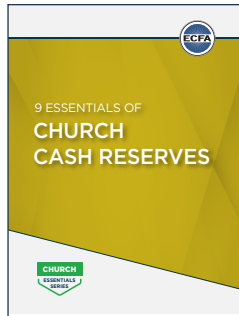
stewardship for both the church and staff.



7 Essentials of Related-Party Transactions for Churches

Conflict of interest situations are common with churches—when a person who is responsible for promoting church interests is involved at the same time in a competing personal interest. A church should only enter into related-party transactions if strict guidelines are met. Even then, the risk of misperceptions may

cause church leaders to choose to avoid related-party transactions.



9 Essentials of Church Cash Reserves

Adequate cash reserves are necessary for a church to pay its obligations on time in spite of fluctuations in monthly revenue. Still, developing and maintaining appropriate cash reserves is often one of the most overlooked and misunderstood issues for a church. This resource provides an overview of the different types of

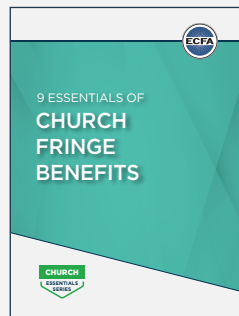
reserves and how a church may achieve them.



8 Essentials of Compensating Ministers

Setting the compensation of ministers should meet high standards that will enhance our Christian witness. These standards include utilizing comparability data to ensure reasonable compensation, approving compensation independently of the person whose compensation is being set, and properly documenting

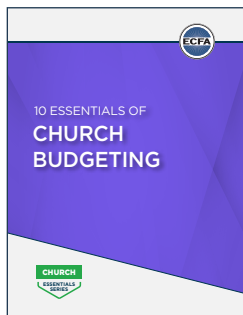
compensation, including fringe benefits. This resource covers all of this and much more.



9 Essentials of Church Fringe Benefits

Fringe benefits are taxable and must be included in the recipient's taxable pay except for those the law specifically excludes. Therefore, it is important for churches to design fringe benefit plans to model stewardship for the church and structure fringe benefit plans to allow employees to maximize compensation.

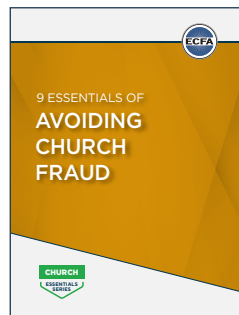
This resource will help you understand how to effectively use fringe benefits.



10 Essentials of Church Budgeting

Preparing and utilizing budgets for a church is not as easy as it might seem. There may be several types of budgets: operating, cash, and capital. Budgets provide the guardrails to build cash reserves and keep expenses within certain limits, and assure there is adequate cash to pay operating, mortgage, and capital

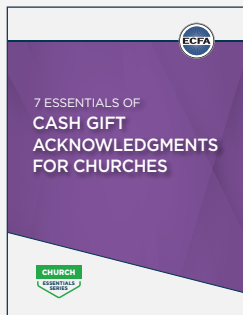
expenses. This resource provides the keys to maximize the benefits from church budgets.



9 Essentials of Avoiding Church Fraud

Fraud and misuse of church resources can create sensational news and cause a diminished witness for Jesus Christ. While it is almost impossible to eliminate all fraud, churches should find a reasonable balance between preventive efforts and risks. This resource helps churches understand how to identify fraud risks and

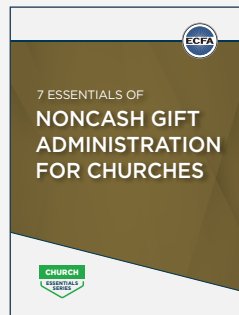
implement fraud prevention.



7 Essentials of Cash Gift Acknowledgments

It is a privilege for churches to express appreciation to givers for their generosity. Thanking givers for their contributions seems simple. But it is often not so. The complexity comes because U.S. tax law only allows charitable deductions for certain gifts, and charitable gift acknowledgments must meet strict

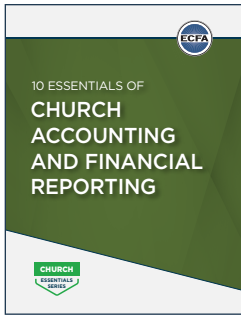
substantiation requirements. This resource guides a church through these challenging issues.



7 Essentials of Noncash Gift Administration

Most gifts to churches are in an electronic form with some additional gifts coming in the form of checks and currency. Noncash gifts—gifts of stock, real estate, other property, plus gifts of services—are often very helpful to fulfill a church's mission. Most of these gifts are tax-deductible, but some are not. This resource is helpful in

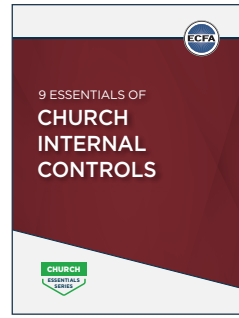
addressing accounting and charitable gift receipting of noncash gifts.



10 Essentials of Church Accounting and Financial Reporting

The accounting for church financial resources is the basis for accurately documenting revenue and expense. A sound accounting system provides the data to determine if a church is on track in comparison to the budget. It is also important to provide the appropriate

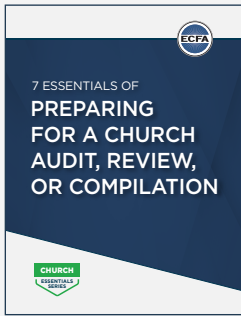
financial reporting to the right audience. This resource covers the basics for optimizing the church accounting system and providing meaningful reporting.



9 Essentials of Church Internal Controls

Setting the compensation of church leaders should meet high standards that will enhance our Christian witness. These standards include utilizing comparability data to ensure reasonable compensation, approving compensation independently of the person whose compensation is being set, and properly documenting

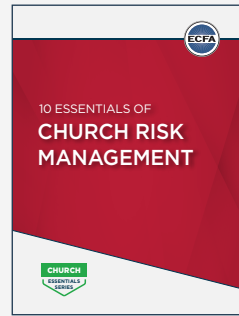
compensation, including fringe benefits. This resource covers all of this and much more.



7 Essentials of Preparing for a Church Audit, Review, or Compilation

Though the process can be intimidating, there are many ways to maximize the benefits of an audit. Independent reporting offers assurance to donors and in some cases, identifies weaknesses that may otherwise go undetected. Determine what level of CPA engagement is right for

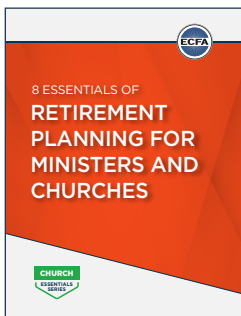
your church and prepare with confidence.



10 Essentials of Church Risk Management

There are a variety of risks in a congregation and all of them ultimately can have a financial impact. Risks range from property to people. It is not enough to understand risks exist. Churches must be able to prioritize and mitigate identified risks. This resource is designed to help you begin to think more intentionally about

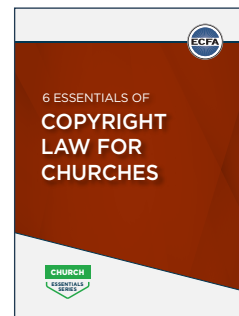
risks in your congregation and where you may need to focus more attention.



8 Essentials of Retirement Planning for Ministers and Churches

Retirement planning is important for ministers. The church should play an active role in the planning process for both ministers and staff. This resource will assist the church and the minister to better understand the stages of retirement and the resulting financial needs. It will also

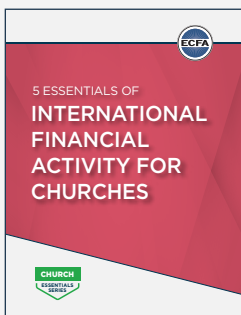
provide practical tips on selecting and implementing a plan that encourages participation by ministers and staff to prepare adequately for traditional retirement years.



6 Essentials of Copyright Law for Churches

A church's intellectual property includes the sermons preached at its services, the original curriculum and other writings it produces, the original music if it produces, and the video and audio recordings of its services. But who owns this intellectual property? This resource addresses the ownership of sermons and other kinds of

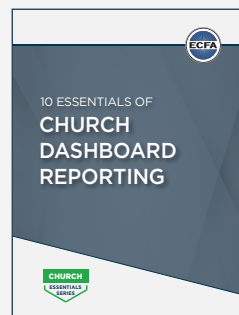
intellectual property commonly generated by churches.



5 Essentials of International Financial Activity for Churches

A church that sends funds internationally incurs significant legal and compliance requirements. The church must retain control and discretion over the use of the funds just as much as if the funds were expended in the U.S. This resource covers the special rules for screening and vetting international grant recipients, reporting

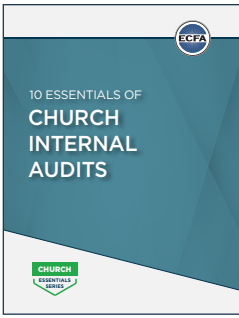
when a church has a financial interest or signatory authority over certain financial accounts, and carries significant cash in or out of the U.S.



10 Essentials of Church Dashboard Reporting

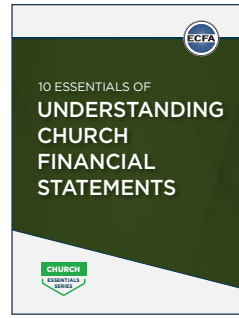
Dashboards are really nothing more than user-friendly tools for displaying performance measures. What is working well? What went wrong? How can the church improve and further fulfill its mission? Dashboards are not only a powerful tool for staff to communicate important information to the board, but also for

alerting staff to internal or external changes that could affect the way programs are administered.



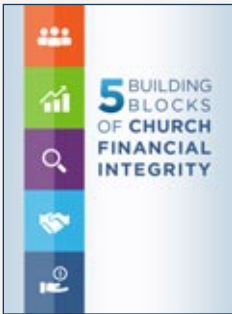
10 Essentials of Church Internal Audits

Internal audits are very meaningful to a church whether or not an external CPA audit is performed. Internal audits are often performed by a committee of individuals with accounting expertise. Improvements in internal controls and accounting procedures is often a result of this process. And, in some instances, fraud or the misuse of church funds may be identified and/or prevented.



10 Essentials of Understanding Church Financial Statements

Church financial statements consist of a lot of numbers—probably hundreds of numbers or more of numbers. Some numbers or combinations of numbers are much more important than other numbers. So which numbers are the key ones? How can a church board discern the key financial data—positive and less than positive? This resource provides many of the answers you need to understand church financial statements.



5 Building Blocks of Church Financial Integrity

When it comes to building a church's financial integrity, many leaders simply don't know where to start. Some think that establishing a strong financial foundation is too difficult, or perhaps only possible for large churches. The good news is building a church's financial integrity is not as complicated as some might think. It is all about properly adding one building block at a time.



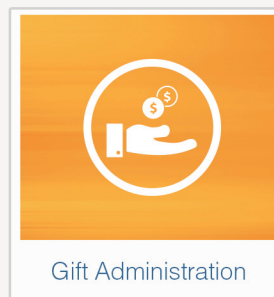
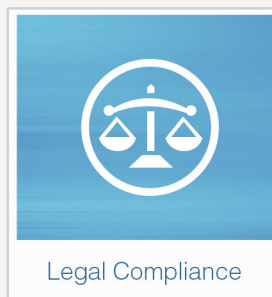
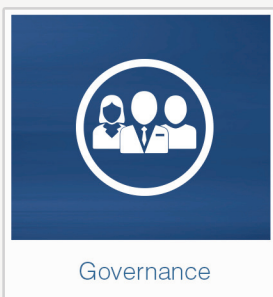
Now in publication for three decades, the *Church and Nonprofit Tax & Financial Guide* and the *Minister's Tax & Financial Guide* are two of the most trusted tax and financial reference guides for leaders of churches and other religious nonprofit organizations. These companion resources written by ECFA staff Dan Busby and Michael Martin are designed to provide up-to-date information in an easy-to-understand format on key issues affecting churches and nonprofits and the ministers serving them.

To order these helpful resources, visit ECFA.org



KNOWLEDGE CENTER

The **Church Knowledge Center** contains hundreds of documents on church finance, governance, stewardship, and more. In addition, check out the ECFA website for special church webinars, newsletters, and other practical learning opportunities.



Copyright

NOTES

This text is provided with the acknowledgment that the authors and the publisher are not engaged in rendering legal, accounting, or other professional advice or service. Professional advice on specific issues should be sought from an accountant, lawyer, or other professional.

More Information

- *Church and Nonprofit Tax & Financial Guide* by Dan Busby and Michael Martin, revised annually



ECFA.org

Copyright © 2020, ECFAPress

ISBN: 978-1-936233-46-5

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopy, recording, or any other—except for brief quotations in printed reviews, without the prior permission of the publisher.