

Explanation of Compensation Form - both with Housing Allowance and Parsonage (8/16/17)

Part I: Please provide indicative data as requested. The only field that is not mandatory is Effective Date of Compensation Change.

Part II: Clergy Compensation

- (1) **Annual Base Cash Salary** - On the old form this was base pay. This is the annual cash amount that is the foundation of a pastor's compensation. This amount is taxable, unless a portion is going to be used as a housing exclusion (explained below). Personal deductions for UMPIP, Flexible Spending Account (FSA) or Health Savings Account (HSA) would be included in the base cash salary calculation.
- (2) **Housing Exclusion** - As defined by Section 107 of the Internal Revenue Code a clergy person can exclude a portion of their income in order to pay for housing expenses. The amount designated as a housing exclusion is not reported or subject to federal income tax. So, if a clergy person has an Annual Cash Salary of \$50,000 and a Housing Exclusion of \$5,000 then their reportable taxable income would be \$45,000. Please note that this does not apply to Social Security or Medicare taxation and that the clergy person not the church is responsible for reporting and keeping track of these expenses. Amounts not used would need to be reported as taxable income. Typically, a housing exclusion is used when someone has a parsonage and wants to use personal income to make personal changes to the home.
- (3) **Accountable Reimbursement** - For business and tax reasons it is in the best interest of the church and clergy staff to have an accountable reimbursement policy to pay for the business expenses necessary to do the ministry of the church. The church sets up a budget for the pastor's professional and business expenses, such as travel, continuing education, subscriptions etc. When the pastor incurs a legitimate expense they submit a claim with backup substantiation. The church either pays the expense directly or reimburses the pastor. Accountable Reimbursement money belongs to the church and money provided to the pastor is not taxable when substantiated as a legitimate expense. Accountable reimbursement money is not used when considering Wespeth compensation but is considered when developing a total compensation package for the pastor.
- (4) **Other Cash:** In some situations, instead of identifying money as an Accountable Reimbursement, a church may decide to provide taxable cash in order for the pastor to pay for monthly dues or other miscellaneous items. There is not much advantage to this approach except that the church and the pastor do not have to substantiate the expenses that have been made.
- (5) **Other Cash: Medical Allowance if medical insurance is not provided through the Conference-** You should not see this often but there may be a situation where the church waives out of HealthFlex and elects to provide cash to the pastor so they can find health insurance in the private market or on the Exchange. This line would not be used if your pastor is part of the pilot program in which they are receiving income from the Conference and the Church is paying HealthFlex premiums with

quarterly rebates. This cash is not considered in the Wespath definition of compensation. If a person is in the pilot program the cash they receive from the Conference should be identified on this line

(6) **Other Cash: SECA** - For many this may be a new learning. Pastors, as self-employed workers, are responsible to pay for Social Security and Medicare taxes (unless they opt out). The amount they owe is basically 15.3% of their Annual Cash Salary, plus housing exclusion, plus other cash allowances, plus housing or the value of the parsonage. In a typical employment situation the employer usually pays half this taxable amount. Therefore, in some cases, and it is not mandatory, the church will pay have of the SECA tax in the form of taxable compensation to the pastor.

(7) **Other Cash Total** -This is just the total of the other cash items above

(8) **Housing Allowance or Value of Parsonage** - If the pastor has a housing allowance the amount of cash provide would go on this line. The housing allowance amount is not taxable to the pastor and is not considered income and therefore does not need to be reported on the pastor's W-2. The housing allowance amount is used in determining compensation for Social Security and Medicare and also for the GBOPHB/Wespath definition of compensation (GBOPHB/Wespath definition of compensation is important because it is the primary factor in determining CRSP and CPP contributions.) If a pastor has a parsonage its value is 25% of Annual Cash Salary, plus Housing Exclusion, plus Other Cash: SECA, plus Other Cash but not for Other Cash: Medical.

(9) **Personal Deductions** - A pastor my wish to defer from Base Cash Salary into UMPIP (defined contribution plan provided by Wespath), FSA (a flexible spending account used to pay for medical premium and expenses and must be used within the year deferred), or HSA (health spending account used to pay for medical expenses and can consist of employer and participant money. Can be carried over from year to year. Can be elected if participant choses a high deductible health plan).

Part III: Taxable/Nontaxable Compensation

Clergy Taxable Compensation = Annual Cash Salary - Housing Exclusion + Other Cash Total

Clergy non-Taxable Compensation= Accountable Reimbursement + Housing Exclusion + Housing Allowance or Value of Parsonage

Total Clergy Compensation = Annual Cash Salary + Accountable Reimbursement + Other Cash Total + Housing Allowance or Value of Parsonage

Total Cash Payroll to Clergy: For Parsonage Provided Form = Annual Cash Salary + Other Cash Total (This does not include Accountable Reimbursement or Parsonage).

For Housing Allowance Form = Annual Cash Salary + Other Total Cash + Housing Allowance

Part IV: GBOPHB/Wespath Compensation and Contributions

Refer to Eligibility Rules on Compensation Form

GBOPHB/Wespath Compensation = Annual Cash Salary + Other Cash, except for Medical Cash, and Housing Allowance or the Value of the Parsonage

Additional Information

The form can be printed at any time by right clicking your mouse and clicking print. After all mandatory lines (*) have been filled out and the form submitted you can print by clicking the print tab.

This form does not include Clergy deductions for the Flexible Spending Account (FSA) or UMPIP. Please make sure these deductions if warranted are included in the initial payroll.

Should you have questions concerning these explanations please contact Woody Bedell at wbedell@umcnic.org