Ministers and employees naturally have expenses related to the work they need to accomplish. However, these expenses should never be a burden to them. As such, the expenses should be fully paid for by the church and should **not** impact any portion of a minister’s or employee’s personal income.

Examples of ministry-related expenses include:

- Vehicle use for business purposes
- Meetings, workshops and conferences
- Books, publications, technology, and audio or video resources
- Continuing education opportunities
- Provisions for ministry-related hospitality

**Addressing Ministry-related Expenses with an Accountable Reimbursement Plan (ARP)**

An ARP is a plan you create to help explain terms, conditions and tax rules related to allowable ministry expenses. With this type of plan, the church creates a reimbursement budget, the minister or employee turns in an expense report and the church uses that report to reimburse the minister or employee. Also, it’s important to know employees pay no taxes on reimbursements, and they are not included on a **Form W-2**.

**Impact of the Tax Cuts and Jobs Act of 2017 (TCJA) on Ministry-related Expenses**

On December 22, 2017, the TCJA was signed into law to be effective beginning January 1, 2018, reducing tax rates and modifying credits and deductions for both individuals and businesses.

In particular, the law removed tax deductions for unreimbursed business expenses, making the use of an ARP by churches and ministries even more essential as they pursue financial stewardship and balanced budgets. For more information, please see IRS **Publication 15**.

**Requirements for an ARP**

- All expenses must have a business purpose related to the minister’s or employee’s duties.
- Expenses must be verified with documentation of the amount, date, place and business purpose.
- Documentation should be provided within 60 days of incurring the expense, and any excess reimbursements should be returned to the church within 120 days.
- Unused ARP money should not be given as a bonus or additional income.
- All reimbursements must come from employer funds, not by reducing salary or allowing a minister to rearrange his salary package.
HOW TO CREATE AN ARP
IN THREE EASY STEPS

1 Decide what expenses will be covered and outline a plan (see the Sample: Accountable Reimbursement Plan on the next page). Then determine how much money the church will budget to cover these expenses separate from personal income. If applicable, you may want to use last year’s figures in each category as a guideline.

2 Instruct ministers and employees to submit an expense report within 60 days of incurring expenses (see the Sample: Expense Report form on the next page). Receipts should be required for purchased items, and for automobile expenses, mileage should be reported.

3 Reimburse ministers and employees at least once a month for all approved expenses (this reimbursement should not affect their personal income). Additionally, advances can be given for anticipated expenses, but unused funds from those advances must be returned to the church within 120 days.

A Word of Caution About Reimbursement Arrangements Through Salary Reduction

According to IRS Code section 62(a)(2)(A), business expenses must come from employer funds, not by reducing salary or by allowing the minister or employee to rearrange his or her compensation package. That type of salary reduction will qualify as a non-accountable arrangement, and the church will have to report the amounts on the minister’s or employee’s Form W-2 as income. In general, the minister or employee will have to pay more taxes if the church chooses this option.
**SAMPLE: ACCOUNTABLE REIMBURSEMENT PLAN**

1. The church hereby establishes an accountable reimbursement plan for all ministers and employees with the following terms and conditions intended to comply with all applicable tax rules. The church will reimburse only reasonable ministry-related business expenses incurred by a minister or employee. Subject to budget limitations, these expenses will include:
   - Business use of automobile, up to the current IRS standard mileage rate
   - Business travel away from home, including transportation, lodging and meals on overnight trips
   - Convention, conference and workshop expenses
   - Continuing education expenses
   - Subscriptions, books and technology if related to ministry or employment
   - Entertainment/hospitality expenses, if business connection requirement is met

2. The minister or employee will account for each allowable expense in writing at least every 60 days. Documentation will include the amount, date, place, business purpose and business relationship of any person entertained for each expense. A receipt will accompany the documentation.

3. The minister or employee will return advances that exceed actual business expenses within 120 days.

4. Under this accountable arrangement, the church will not report reimbursed amounts as taxable income on the minister’s or employee’s Form W-2. The minister or employee should not report reimbursed amounts as income on his or her federal income tax return.

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**SAMPLE: EXPENSE REPORT**

<table>
<thead>
<tr>
<th>Date</th>
<th>Description of Expense</th>
<th>Business Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 17–18</td>
<td>Mileage to conference</td>
<td>Mileage (457 x .58)*</td>
<td>$ 255.92</td>
</tr>
<tr>
<td>January 17</td>
<td>Meals at conference</td>
<td>Meals</td>
<td>$ 53.25</td>
</tr>
<tr>
<td>January 17–18</td>
<td>Hotel</td>
<td>Lodging</td>
<td>$ 120.00</td>
</tr>
<tr>
<td>January 17</td>
<td>Sunday school teacher’s guide</td>
<td>Ministry expense/books</td>
<td>$ 53.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Subtotal</strong></td>
<td>$ 482.17</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Minus advance</strong></td>
<td>$ 200.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total reimbursement due</strong></td>
<td>$ 282.17</td>
</tr>
</tbody>
</table>

*This figure is subject to change on an annual basis. For the latest update, visit IRS.gov/tax-professionals/standard-mileage-rates.*