

STEP 5: DETERMINE PERSONAL INCOME

A number of factors should be considered when determining the personal income of ministers and employees. Keep in mind that ministry-related expenses and the cost of benefits should not be considered part of personal income.

Responsibilities and Experience

Those called to the ministry usually do not follow their calling in order to become wealthy. However, they should not be expected to live on inadequate wages. Additionally, merit increases in recognition of exceptional service should not be considered inappropriate. To help determine an appropriate income, consider the income of other professionals in your community with similar experience and responsibilities. Reviewing the latest SBC Church Compensation Survey can also help you determine appropriate compensation, which is available at [GuideStone.org/CompensationPlanning](https://www.guidestone.org/CompensationPlanning).

Inflation

It is imperative for churches to consider inflation when reviewing pay each year. Historically, inflation has averaged around 3% annually. It's important to note that for every year your ministers' and employees' pay is not adjusted to meet the rate of inflation, their income has statistically less and less buying power as they seek to provide for their families.

Social Security

Churches with non-ministerial employees should keep in mind that the church is required to pay the employer portion of Social Security taxes. The employee portion of FICA taxes is then withheld by the church from the non-ministerial employees' salary. Ministers for Tax Purposes, on the other hand, pay SECA taxes, and they must pay all of this tax themselves. **GuideStone encourages churches to provide additional income to the minister for use in paying this tax.** This is sometimes called a Social Security offset and usually equals one-half of the SECA tax rate. When it is given to the minister by the church, it must be designated as taxable income on the minister's *Form W-2*.

Minister's Housing Allowance (available only to Ministers for Tax Purposes)

Ministers who own or rent a home may save taxes if a church designates part of their income as minister's housing allowance. Ministers who live in a parsonage may also be entitled to a housing allowance designated by their church if they have eligible housing expenses. Churches cannot designate a minister's housing allowance retroactively. To learn more about these housing qualifications, access our annual *Ministers' Tax Guide* at [GuideStone.org/TaxGuide](https://www.guidestone.org/TaxGuide).



How to Designate a Housing Allowance

- 1 The minister should present the church with an estimate of housing expenses. See the Sample: Minister's Estimate of Housing Expenses Form on the next page as a template.

SAMPLE: MINISTER’S ESTIMATE OF HOUSING EXPENSES FORM

To (church): _____

From (minister): _____

Housing allowance for (year): _____

Item	Amount
1. Down payment on a home	\$
2. Mortgage payments on a loan to purchase or improve your home (include both principal and interest)	\$
3. Real estate taxes	\$
4. Property insurance	\$
5. Utilities (electricity, gas, water, trash pickup, local telephone charges)	\$
6. Furnishings and appliances (purchase and repair)	\$
7. Structural repairs and remodeling	\$
8. Yard maintenance and improvements	\$
9. Maintenance items (pest control, etc.)	\$
10. Homeowners association dues	\$
11. Miscellaneous:	\$
	\$
	\$
TOTAL EXPENSES	\$

Minister’s signature: _____

Date: ____/____/____

- 2** The church must officially designate and document the amount of the minister’s housing allowance in advance of paying the minister. This should be done every year.

To avoid potential tax consequences of forgetting to designate a housing allowance one year, the church should make the annual designation for the current year “and all future years” until it is changed by official church action. The church should record this action in the church minutes and notify the minister.

If circumstances change, the amount designated as a housing allowance may be revised during the year; however, no changes can be made retroactively. Remember, there are limits on how much a minister can exclude from income as a housing allowance. As taxpayers, ministers are responsible for reporting their income properly.

Use the sample on the next page as a template:

SAMPLE: NOTIFICATION OF HOUSING ALLOWANCE FROM THE CHURCH TO THE MINISTER

To (minister's name): _____

This is to advise you that at the business meeting of _____ held on ____/____/____ (date) your housing allowance for the year _____ was officially designated and fixed in the amount of \$_____. Accordingly, \$_____ of the total payments to you during the year _____ (and all future years until changed by official church action) will constitute your annual housing allowance.

If a parsonage is provided, add: You will also have rent-free use of the home located at:

for the year _____. Utilities will be paid by: the church the minister

This action is recorded in the church minutes.

You should keep an accurate record of your eligible housing expenses to provide proof of any amounts excluded from income for income tax purposes when filing your federal income tax return. You may not exclude a housing allowance as income for SECA tax purposes. It is your responsibility as a taxpayer to understand and follow the limits about how much you can exclude from income as a housing allowance for income tax purposes and accurately report your income. For information on limits and reporting of housing allowance, see GuideStone.org/HousingAllowance.

Sincerely,

Clerk's signature: _____ Date ____/____/____

Since ministers who live in a church-owned parsonage are not able to build equity in a home, many are concerned about how they will pay for housing when they retire. Accordingly, churches can make added contributions (within legal limits) to a minister's 403(b)(9) retirement account that can be used to meet this need.

For more information about the benefits and requirements of a housing allowance, visit [GuideStone.org/Housing Allowance](http://GuideStone.org/HousingAllowance) or call GuideStone at **1-888-98-GUIDE** (1-888-984-8433) between 7 a.m. and 6 p.m. CST, Monday through Friday.