

# **Letter of Agreement between Clergy and Congregation**

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# Letters of Agreement

Topics we will explore in this workshop:

- Purpose and Content of Letter of Agreement
- Rector's Position Description
- Reporting compensation and benefits on the congregations financial statements
- Accountable Reimbursable Professional Expenses
- Discretionary Funds

# Letter of Agreement



- A Letter of Agreement should document
  - compensation
  - benefits
  - accountable reimbursable business expenses
  - paid and unpaid leave
  - other financial agreements
- Contact your diocesan deployment officer for sample Letter of Agreement and suggested process for annual compensation reviews
- Consult the Clergy Compensation Report published by the Church Pension Group at [cpg.org](http://cpg.org)

# **Sections of Letter of Agreement**

- Preamble and Rector's Position Description
- Times of Work and Leave
- Compensation
- Professional Expenses
- Discretionary Fund
- Supplementary Compensation
- Use of Buildings
- Mutual Ministry Review
- Other Agreements

# Preamble

- Basic description of ministry of a priest from the Ordination examination (pg. 531, *Book of Common Prayer*), prayer of consecration (pg.534) and Catechism definition of ministry of a priest (pg. 856)

# **Rector's Position Description**

- *The ministry will be further described in a Rector Position Description, which meets the mutual approval of the Rector and the Wardens and Vestry, to be completed no later than \_\_\_\_\_.*

*When the Rector Position Description has thus been completed and approved by the Bishop, it shall be considered a part of this Letter of Agreement.*

# **Times of Work and Leave**

- Regular schedule of position described.
- Times of Leave for the following purposes:
  - National holidays
  - Annual vacation
  - Continuing education
  - Sabbatical
  - Parental leave

# Compensation

- This section outlines the components of compensation that are provided by the congregation for the support of its Rector and his/her family.
- Understanding the difference between “compensation” and “package.”
- Housing allowance or provided housing
- Other benefits

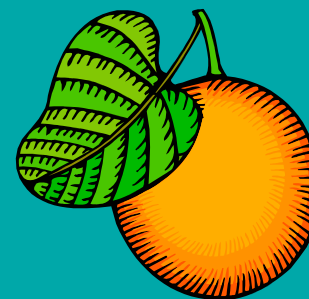
# Total Compensation and "Package"



## Clergy View

- Salary
- Housing
- Social Security Offset
- Other Cash Compensation

**Total Compensation**



## Vestry View

- Salary
- Housing
- Social Security Offset
- Other Cash Compensation
- Benefits
- Accountable Reimbursable Business Expenses

**Total "Package"**

# Topics for Discussion During Search Process or Annual Compensation Review

- **Compensation**
  - Salary
  - Social Security Offset (SECA)
  - Housing Allowance or Church-Provided Housing
  - Utility Allowance or Church-Provided Utilities
  - Equity Allowance for Church-Provided Housing
- **Accountable Reimbursable Business Expenses**
  - Auto
  - Travel
  - Hospitality and Entertainment
  - Professional Associations and Membership Dues
  - Publications, Books, and Subscriptions
  - Continuing Education

→  
(Cont.)

# Topics for Discussion During Search Process or Annual Compensation Review

(Cont.)

- **Benefits**

- Pension Assessments (CPF): Mandated by canon
- Medical and Dental Insurance: Tier provided (single, employee+one, family)
- Disability Insurance
- Group Life Insurance and/or Supplemental Life
- Workers' Compensation

- **Other**

- Leave including vacation, holidays, continuing education, sabbatical, and other paid leave such as sick leave or parental leave
- Church-paid contribution to 403(b)/IRA
- Church-operated school tuition for dependents
- No interest or low interest loans for housing (where applicable)
- Malpractice insurance
- Relocation expenses

# Reporting Compensation on Financial Reports

- A church's financial reports should reflect separate line items for each component of a cleric's package
- Example:

Salary	\$30,000
SECA Offset	4,208
Housing Allowance	25,000
Total Pension-Based Compensation	59,208
Pension Assessment	10,657
Medical Insurance	5,600
Dental Insurance	2,400
Life Insurance	500
Long Term Disability Insurance	4,760
Continuing Education	1,000

# Housing Allowance Resolution

- Clergy should have the vestry or governing board pass a housing allowance resolution before the first paycheck each year
- Must be designated in advance — cannot be retroactive
- Can be amended (prospectively) during the year
- Optional safety net designations to protect against inadvertent failures by vestry or governing board to designate a timely housing allowance:
  - Housing allowance resolution should state it is effective for current year and all future years unless otherwise provided
  - Letter of agreement should designate housing allowance
  - Budget and financial reports should appropriately document separate line item for housing allowance

# Estimating Housing Allowance

- Estimate cost to provide, furnish and maintain a residence:
  - Rent, mortgage payments, property taxes, utilities, basic cable TV, security service, furnishings, appliances, structural repairs, remodeling, yard maintenance and improvements, maintenance items (household cleaners, light bulbs, pest control, etc.), homeowners association dues, etc.
  - Estimate should not exceed the annual fair rental value of the house, furnished, plus utilities



# Housing Allowance Cleric-Owned Residence

- A cleric may exclude from taxable income the lesser of:
  - Amount specified in the vestry minutes before the money is paid, or
  - Actual amount of housing-related expenses paid during the year, or
  - Annual fair rental value of the home, furnished, plus utilities



# Housing Allowance

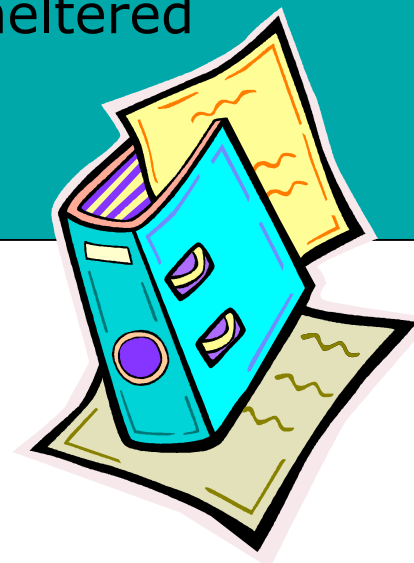
## Church-Provided Residence

- A cleric who lives in church-provided housing does not pay federal income tax on the fair rental value of the house
- If the cleric incurs any out-of-pocket expenses in maintaining the house (such as utilities, property taxes, furnishings, lawn care), he/she should be sure to have such amounts included in a housing resolution.



# Housing Allowance Exclusions

- Housing allowance is excluded from income for federal income tax purposes
- Cannot exclude housing allowance or the annual fair rental value of a church-provided house from self-employment tax
- Housing allowance is not compensation for purposes of computing the contribution limits to a tax-sheltered annuity/403(b)



# Sample Housing Resolution: Cleric-Owned Residence

Whereas the Rev. John Smith is employed as a minister of the Gospel by St. Swithin's Church in Anytown, Florida, which does not provide a residence for him, the vestry resolves that of the total compensation of \$54,000 to be paid to the Rev. John Smith during 20xx, that \$15,000 be designated a housing allowance within the meaning of that term as used in Section 107 of the I.R.S. Code of 1986.



# Sample Housing Resolution: Church-Provided Residence

Whereas the Rev. Jane Smith is employed as a minister of the Gospel by St. Swithin's Church in Anytown, New Jersey, which although providing a residence for her, does not provide the full cost of maintaining and furnishing such a residence, the vestry resolves that of the total compensation of \$54,000 to be paid to the Rev. Jane Smith during 20xx, that \$3,000 be designated a housing allowance within the meaning of that term as used in Section 107 of the I.R.S. code of 1986.



# Sample Safety Net Addition to Housing Resolution

\$15,000 of compensation is designated as housing allowance for this and all future years unless otherwise provided.

Note: Using dollar amounts instead of percentage is less confusing if audited



## Sample Letter From Realtor

I have visited the house at 123 Main Street, Anytown, Florida, on December 1, 20xx, and believe that the fair rental value of the house furnished as it has been furnished by the Rev. John Smith is about \$18,000 per year.

(Signed) Jane Doe, Realtor



# Equity Allowance

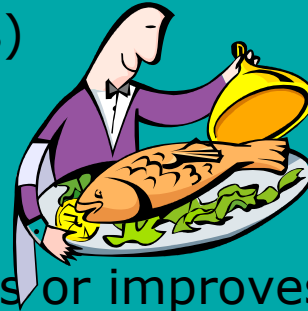
## Church-Provided Residence

- Tax deferred if:
  - Cleric lives in church-owned property
  - Church contributes to tax-deferred account, such as RSVP
  - Can't touch funds until retirement after age 55 without substantial tax penalty



# Accountable Reimbursable Business Expenses

- Operating and maintaining your auto for business purposes
- Travel expenses incurred while away from home for business purposes (transportation, lodging, meals)
- Hospitality and entertainment
- Certain educational expenses if maintains or improves skills required by church
- Subscriptions and books if related to duties at the church
- Vestments and related clerical attire



# Accountable Reimbursable Plan for Business Expenses

- Four rules for accountable reimbursable plan:
  - 📁 Expenses paid or incurred by the cleric must have a business connection in the performance of services as an employee
  - 📄 Expenses must be properly substantiated within 60 days as to date, amount, place, and business purpose
    - Original receipts are required for expenditures of \$75 or more
    - Vestry may establish requirements of less than \$75
  - 📄 Any excess reimbursements must be returned to the church within 120 days
  - 📄 Reimbursements cannot be made out of salary reduction
- Reimbursements meeting the above criteria are not reported as taxable income on Form W-2
- Items purchased with church funds belong to the church

# Accountable Reimbursable Plan for Auto Expenses

- Reimbursement at standard mileage rate established by IRS
  - exclude personal and commuting miles
  - include parking and tolls
  - 2007 rate is 48.5 cents per mile
  - Must be selected for the first year a car if used for business
- Personal use of a church-provided car (leased or owned by the church) must be reported on Form W-2 as taxable income



# Discretionary Funds

- **Authority**

- Title III, Canon 9, Section 5(6), Canons of the Episcopal Church

“The Alms and Contributions, not otherwise specifically designated, at the Administration of the Holy Communion on one Sunday in each calendar month, and other offerings for the poor, shall be deposited with the Rector or with such Church officer as the Rector shall appoint to be applied to such pious and charitable uses as the Rector shall determine. When a Parish is without a Rector or Priest-in-Charge, the Vestry shall designate a member of the Parish to fulfill this function.”

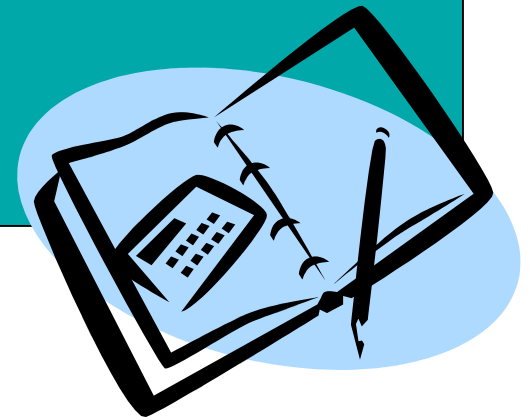
- **Potential Sources**

- Loose offering at least one Sunday a month
- Budgeted amount
- Designated gifts for weddings, funerals, and baptisms
- Individual contributions



# Discretionary Funds

- Account must be approved by Vestry or governing body
- Use the church's name and federal employer identification number (EIN) when establishing a bank account
- Account should not be in cleric's name
- Subject to annual audit
- Must be included on church's financial report
- Funds remain with the church when cleric departs
- Payment for anything that personally benefits the authorized cleric is prohibited



# Discretionary Funds

- **General Operating Account Option**
  - Income deposited into church's general operating account
  - Disbursements authorized by the cleric
  - Disbursements written by check from general operating account
- **Separate Checking Account Option**
  - Income deposited into general operating account
  - Transfer (as needed or on regular basis) to the separate Discretionary Fund checking account
  - No other income should be deposited directly into the separate Discretionary Fund checking account
  - Authorized disbursements made from the separate Discretionary Fund checking account

# Personal Tax Management: Resources for Clergy Taxes

- For the Church Pension Group's Tax Hotline call:
  - Mr. Matt Chew, CPA: 877 305-1414
  - The Rev. Canon Bill Geisler, CPA: 877 305-1415
  
- Resource guides written by Richard R. Hammar, J.D., LL.M., CPA:
  - *2006 Tax Guide for Episcopal Ministers & Churches* (mailed annually by the Church Pension Group to all active and retired clergy)
  - *Church Law & Tax Report: Church & Clergy Tax Guide* (2006 Edition)
  - Others resources are listed in the bibliography.



# Wardens and Vestries

- Descriptions of the duties of Wardens and Vestries are provided in the following:
  - Episcopal Church Title 1, Canon 14
  - Revised Statutes of New Jersey 16:12-6, 16:12-8 to 16:12-12.
  - Canons 49 and 50 of the Diocese of New Jersey