

How Churches Pay for Ministry Related Expenses

1. An Allowance or Non-Accountable Reimbursement

When a church covers ministry related expense using an allowance or a non-accountable reimbursement, all those payments must be included with taxable salary on an employee's W-2 and reported as taxable income. Prior to 2018 some of the actual expenses may have been deductible. Under current tax rules, unreimbursed "business expenses" are not deductible for INCOME TAX.

RESULTS OF USING AN EXPENSE ALLOWANCE:

- A. All expense allowance money must be included as taxable income.
- B. Expense allowances are often perceived incorrectly as part of an employee's "pay package."

2. An Accountable Reimbursement Plan

A well-structured accountable reimbursement plan for ministry related expenses allows a church to correctly recognize those costs as "expenses", not "pay". If done correctly as outlined below, amounts paid to reimburse church employees for expenses incurred in doing their job are non-taxable.

- A. To cover employee's expenses incurred in doing their jobs, the church should adopt an Accountable Reimbursement Plan as a matter of church policy. *See the link to the sample policy.*
- B. The policy should specify that the IRS mileage rate for business related miles should be used.
- C. The policy must follow IRS requirements to qualify as an accountable reimbursement plan:
 - a. The expense must have a business purpose. (Personal or commuting miles are NOT to be included.)
 - b. There must be written substantiation (daily accounting of business expenses reported to the church) within a reasonable time. (Generally 60 days) *Many ministers now use an app on their phone for this purpose. If a printed form is needed, see the link to that sample form.*
 - c. The return of amounts in excess of substantiated expenses must be required. (Within 120 days after the expenses are incurred)
 - d. Salary Reduction or similar adjustments to compensation may NOT be used to fund the reimbursement of ministry related expenses.
- D. Budgeted expense funds not used for accountable expense reimbursement are retained by the church.
- E. Expense payments that comply with all the above requirements are NOT reported as taxable income.
- F. **In a printed budget, expenses should be listed in a different budget section from staff compensation and benefits. This helps the church have a correct perception of the expenses reimbursing what it costs to do the job rather than appearing to be part of the compensation.**

NOTE: Occasionally a church will reimbursement or pay for gas only for ministry related miles. Keep in the mind that approach is only paying a small portion of the total cost. Again, prior to 2018 the minister could deduct the remaining cost. Starting in 2018 those additional costs are no longer deductible. When a minister uses their car for significant miles to do their job, the reimbursement should cover the total per mile cost.

Links are also available on the website to the following two forms that will be helpful in administering an Accountable Reimbursement Plan for Expenses:

"Sample Church Expense Reimbursement Policy"

"Ministry Related Expense Form" (This is a paper form than can be used realizing that with today's technology most minister's are using an app on their phone. The key with the IRS is that it is a daily accounting of expenses.)