

## Ministry Related Expenses

### ALLOWANCE OR NON-ACCOUNTABLE REIMBURSEMENT

- *Example 1 – Church budgets \$ 2,400 for Car Expense and pays the minister \$ 200 each month*
  - *Example 2 – Church budgets \$ 20,000 for minister's salary. Minister requests that the church reduce salary by \$ 3,000 to fund an accountable reimbursement of expenses.*
  - *Example 3 – Minister receives salary of \$ 500 per week. Minister accounts for ministry related miles weekly to the treasurer. The treasurer adjusts \$ 500 each week so part is salary and part is car expense.*
1. **The entire amount in all 3 examples above must be treated as taxable income** and reported on the minister's W-2 form and included as income on the minister's 1040 form.
  2. Expenses may be "**deductible**" on Schedule A as a miscellaneous deduction. But the amount is reduced by:
    - Percentage of total compensation that consists of tax-exempt housing ("Deason Rule")
    - 2% of Adjusted Gross Income
    - If the standard deduction is used, NO expenses get deducted for income tax purposes.
  3. **Problems with an Allowance or Non-Accountable Reimbursement**
    - Employees WILL pay income tax on some expense money.  
Many ministers will pay income tax on ALL expense allowance money.
    - An allowance is usually incorrectly perceived as part of the minister's "pay package".

### ACCOUNTABLE REIMBURSEMENT

Accountable reimbursement allows a church to correctly recognize ministry related expenses as "expenses", not "pay". If done correctly, amounts paid to reimburse ministry related expenses on a accountable basis are non-taxable to the minister and to other church employees.

1. Three IRS Requirements to qualify as an Accountable Reimbursement Plan
  - a. Business Purpose
  - b. Substantiation within a reasonable time. (Generally 60 days)
  - c. Return of amounts in excess of substantiated expense.  
(Generally within 120 days after expenses are incurred)
2. Daily accounting of business miles is reported to the church.
3. Minister/Employee is reimbursed ONLY for actual "business" miles.
4. IRS mileage is recommended as a matter of church policy.
5. Budgeted expense funds not used for accountable expenses are retained by the church.
6. Expenses paid using a valid accountable reimbursement plan are NOT reported as taxable income.
7. If the church has a printed budget, expenses should be listed in a different budget section from compensation and protection coverages.
8. The church should adopt an Accountable Reimbursement Plan as a matter of church policy.