LUTHERAN CONGREGATIONS IN MISSION FOR CHRIST

# Clergy Compensation Guide

*A Practical Resource for Congregations and Pastors*

LCMC does not publish uniform compensation standards. Each congregation negotiates compensation directly with its pastor. This guide provides the vocabulary, framework, and practical tools for both congregations and pastors to do so clearly, fairly, and without leaving important details unaddressed.

*This guide does not constitute legal or tax advice. Congregations and pastors are encouraged to consult a Certified Public Accountant (CPA) familiar with clergy taxation for guidance specific to their situation.*

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**Online Compensation Calculator:** This guide is designed to be used alongside the LCMC Texas District Clergy Compensation Calculator, an online tool that automates the calculations described in this guide and generates a professional compensation proposal PDF. The worksheet in Part 6 mirrors the calculator's structure step by step. Access the calculator at lcmctexas.org/clergy-compensation.

# Glossary of Key Terms

*These terms appear throughout this guide. Reviewing them first will make the rest of the document easier to follow.*

| Term | Definition |
|---|---|
| **Accountable Plan** | An employer reimbursement structure requiring receipts and documentation. Reimbursements are not taxable income and do not appear on the W-2. |
| **Base Salary** | The taxable cash portion of a pastor's compensation, reported on the W-2. Subject to federal income tax and SECA tax. |
| **Dual Tax Status** | Ordained clergy are treated as employees for federal income tax (W-2 issued) but as self-employed for Social Security and Medicare (SECA). This is unique to ordained ministry. |
| **Equity Allowance** | A pre-tax contribution to a parsonage pastor's 403(b) account to compensate for not building home equity. Recommended at 10–12% of the parsonage fair market rental value. |
| **Fair Market Value (FMV) — Housing Allowance** | For housing allowance designation purposes: the amount the home would rent for furnished with utilities included. This is the IRS ceiling for the housing allowance exclusion. |
| **Fair Market Value (FMV) — Parsonage Offset** | For compensation calculation purposes: the conservative unfurnished market rent for a comparable home in the community. Actual rents tend to be lower than asking rents. |
| **Housing Allowance** | A designated portion of clergy compensation excluded from federal income tax under IRC §107 when used for qualifying housing expenses. Also excluded from MAGI. Subject to SECA. Only one residence may be covered at a time. |
| **MAGI** | Modified Adjusted Gross Income. Used to determine ACA Premium Tax Credit eligibility. The housing allowance and parsonage fair rental value are excluded from MAGI. |
| **Parsonage** | Congregation-owned housing provided to the pastor. The fair rental value (unfurnished) is excluded from income tax and MAGI but is subject to SECA. Congregation-paid utilities are excluded from income tax, MAGI, and SECA. |
| **Premium Tax Credit (PTC)** | An ACA subsidy reducing monthly health insurance premiums, based on MAGI. Clergy often qualify for a larger credit than expected because the housing allowance is excluded from MAGI. |
| **SECA** | Self-Employment Contributions Act tax. The 15.3% self-employment tax paid by clergy on base salary, housing allowance, and parsonage fair rental value. Congregation-paid parsonage utilities are not subject to SECA. |
| **SECA Allowance** | An additional payment by the congregation equal to 7.65% of total salary to offset the pastor's self-employment tax burden. Taxable income reported on the W-2. Also itself subject to SECA. |

| Term | Definition |
|---|---|
| **Total Salary** | Base Salary + Housing Allowance (or parsonage fair rental value). This is the before-benefits salary figure comparable to what other professionals in similar roles are paid. It is the foundation for benchmarking and for calculating the SECA allowance and retirement contributions. |
| **W-2 Employee** | An employee whose compensation is reported on IRS Form W-2. Called pastors—full-time or part-time—are almost always W-2 employees under IRS standards. |
| **1099 Contractor** | An independent contractor whose compensation is reported on IRS Form 1099-NEC. Supply pastors are typically 1099 contractors. |
| **403(b)** | A tax-advantaged retirement savings plan for non-profit and church employees. LCMC sponsors the LCMC 403(b) Plan. |

# Part 1: Proper Classification

## Who Is a Minister for Tax Purposes?

The tax provisions described in this guide—housing allowance, SECA treatment, dual tax status, and the related compensation strategies—apply only to individuals who qualify as a *minister of the gospel* under IRS rules. The IRS does not define "minister" by title or job description alone. Instead, it applies a five-factor balancing test based on the individual's credentials and the duties they actually perform (see IRS Publication 517).

### The IRS Five-Factor Test

Not all five factors must be present. The IRS and the courts use a balancing approach, but being ordained, commissioned, or licensed is always required:

| Factor | Description |
|---|---|
| **1. Ordained, commissioned, or licensed** | The individual must hold a formal credential from a church, denomination, or religious body. |
| **2. Administers sacerdotal functions** | Performs rites such as communion, baptism, weddings, funerals, and other ordinances or sacraments of the faith. |
| **3. Conducts religious worship** | Leads or co-leads worship services, preaching, prayer, or other gathered worship in any regular setting—not limited to Sunday morning. |
| **4. Considered a religious leader** | Recognized as a spiritual leader by the congregation or religious body—not merely performing clerical, custodial, or other routine duties. |
| **5. Management of a religious organization** | Exercises responsibility in the control, conduct, or maintenance of a congregation or its integral agencies. |

### How This Applies in LCMC

For a LCMC congregation, any called and ordained pastor, whether contract or certified, full-time or part-time, meets the IRS standard of an ordained minister.

In certain situations, other church workers can be commissioned as ministers of the gospel if they meet the IRS standards. For example, ministry students serving as pastoral interns, youth

ministers, care ministers, worship ministers and more could potentially meet the standards if commissioned by the congregation. When a congregation commissions a worker who meets this standard, all of the same clergy tax rules—housing allowance, SECA treatment, dual tax status—and the compensation guidelines in this document apply to that commissioned minister as well as the ordained pastor.

**Important:** The IRS has made clear that commissioning an individual solely to confer tax benefits—without a genuine change in their duties or a bona fide intent for them to perform ministerial functions—is unlikely to be recognized. The commissioning must reflect the individual's actual role and responsibilities, not merely a desire to access favorable tax treatment.

## Are Pastors Employees or Contract Workers?

Before setting any compensation, congregations must correctly classify the pastor's employment status. Misclassification has significant tax and legal consequences for both parties.

## The IRS Standard: Called Pastors Are Employees

The IRS applies a multi-factor control test to determine whether a worker is an employee or an independent contractor. Under this test, almost all called pastors—including part-time called pastors—are W-2 employees. This is true even when the parties might prefer a contractor arrangement for simplicity.

The factors that make called pastors employees include: the congregation controls when, where, and how ministry is performed; the pastor works primarily for one congregation; the relationship is ongoing; and the congregation provides the context, tools, and space of ministry.

### W-2 vs. 1099: Which Applies?

| Status | Classification and Tax Treatment |
|---|---|
| **Called Pastor (full-time or part-time)** | Almost always a W-2 employee. The congregation issues a W-2. No employer FICA or FUTA tax applies to clergy compensation. The pastor pays the full 15.3% SECA. The pastor may request voluntary federal income tax withholding on Form W-4. |
| **Supply Pastor** | Typically a 1099 independent contractor. Fills pulpit on an occasional, non-exclusive basis. The congregation pays an agreed honorarium and issues a 1099-NEC if total payments exceed $600 in a year. No withholding is required. |
| **Interim Pastor** | Could be either, depending on the arrangement. An interim serving primarily one congregation under ongoing direction is likely a W-2 employee. When in doubt, consult a CPA—misclassification carries penalties. |

### Why Classification Matters

| Status | Tax and Administrative Implications |
|---|---|
| **W-2 Employee** | Congregation issues W-2. No employer FICA or FUTA applies. Pastor pays full 15.3% SECA. Pastor may request voluntary federal income tax withholding on Form W-4. All clergy tax benefits—housing allowance, parsonage exclusion, SECA allowance—are available. |
| **1099 Contractor** | Congregation issues 1099-NEC if payments exceed $600. No withholding. Contractor pays self-employment tax and files Schedule C. |

# Part 2: Determining Total Salary

Before dividing salary into base salary and housing components, congregations and pastors should first agree on an appropriate total salary figure. Think of this as the before-benefits salary you would offer any comparable professional. The process below walks through this step by step. These steps correspond directly to the online Clergy Compensation Calculator.

## Step 1 — Set the Total Salary

Begin by asking: what is the total salary for this position, as if hiring any other professional employee? This figure should reflect the role's responsibilities, the educational requirements of ordained ministry, and the pastor's experience. It is the equivalent of what you would pay a school administrator, counselor, or non-profit director before benefits.

**Comparable Professions for Benchmarking**

When determining appropriate total salary, consider what comparable professionals earn in your community. Ordained ministry requires a graduate degree, carries significant community responsibility, and demands a broad range of skills. Consider: school principals or assistant principals, guidance counselors or school psychologists, licensed clinical social workers or counselors, and directors of non-profit organizations. Regional salary data is available through the Bureau of Labor Statistics (bls.gov) and state education agencies.

**Total Salary = Base Salary + Housing Allowance** (or parsonage fair rental value). This is the before-benefits salary figure—comparable to what a school administrator or non-profit director earns before their employer adds benefits on top. It is the foundation for all benefit calculations—not the base salary line alone. If a parsonage is provided, include the fair market rental value of the parsonage (unfurnished, without utilities) in the total salary.

## Step 2 — Establish the Housing Component

Once total salary is established, work with the pastor to determine the housing component. The approach differs depending on whether a parsonage is provided. The online calculator handles both scenarios.

### No Parsonage: Cash Housing Allowance

Work with the pastor to document the fair market rental value of their home—furnished and including utilities. This is the IRS ceiling for the housing allowance exclusion and the basis for the designation. For a new pastor who will need to move to the area, use a typical home in your community for calculating a value for the compensation proposal.

- Designate as much of total salary as housing allowance as the fair market rental value (furnished + utilities) will support.
- The remaining balance becomes taxable base salary (auto-calculated in the online calculator).
- The pastor should provide documentation of fair market rental value each year, and the congregation must re-adopt the designation by formal resolution before January 1.

**Four methods for establishing fair market rental value (furnished + utilities):**

| Method | How to Use It |
|---|---|
| **Airbnb / VRBO** | Search comparable homes with a 30+ day filter. Monthly rates typically include furnishings and utilities. Tends to produce the highest estimate. Strong market-based documentation. |
| **Executive / Corporate Rental** | Search furnished executive rentals (Furnished Finder, local property managers). All-inclusive monthly rates. Good middle-ground. Directly mirrors the IRS furnished-with-utilities standard. |
| **Standard Rental + Add-Ons** | Unfurnished market rent + average monthly utilities + monthly furniture rental cost (CORT or similar). Most conservative. Component-by-component audit trail. |
| **1% Rule** | One conservative rental valuation method is 1% of the full value of the home per month. Landlords seek this for unfurnished rentals. Example: A $400,000 home can easily justify a housing allowance of $4,000 per month. |

### Parsonage Provided

When a parsonage is provided, determine a conservative fair market rental value for the home as an unfurnished rental in the community. This is the compensation offset figure—it is not the furnished-with-utilities figure used for housing allowance purposes.

- Use actual market comparables, not asking rents. Actual rents in most markets are lower than listed asking rents.
- Deduct this unfurnished FMV from the total salary. The remainder is available as cash compensation.
- Congregation-paid utilities (directly paid or as a separate allowance to the pastor) are not considered compensation and are not subject to SECA. Track them separately.
- The unfurnished fair rental value of the parsonage is subject to SECA—even though no cash changes hands.
- The pastor may request that a reasonable portion of cash compensation be designated as a housing allowance to cover furnishings and other qualified expenses not paid by the congregation. An amount of $500 per month is typical for a pastor with a parsonage.

## Designating the Housing Allowance — Required Steps

The housing allowance designation is a formal legal requirement that must be completed.

1. The congregation's governing board (Church Council) must pass a formal resolution designating the housing allowance amount BEFORE the period it covers (before January 1 for the coming year, or before a new pastor's first day).
2. The resolution must be recorded in the official meeting minutes.
3. The housing allowance exclusion applies to only one residence at a time.

**Why Designate the Maximum Allowable Amount?**

The housing allowance is excluded from both federal income tax and MAGI—the income figure used to determine ACA Premium Tax Credit eligibility. Designating the full fair market rental value (furnished + utilities) lowers the pastor's MAGI, which may qualify the pastor's family for better ACA health coverage options and larger premium subsidies.

If actual housing expenses are less than the designated amount, the unused portion is reported as taxable income at year-end. Designating the maximum defensible amount is almost always the right strategy.

### Step 3 — Add the SECA Allowance

Since ordained ministers owe the full 15.3% SECA on their salary and the congregation owes no employer-side FICA tax at all, congregations are encouraged to provide a SECA allowance to help offset the pastor's self-employment tax burden. The online calculator computes this automatically.

- Calculate as 7.65% of total salary (base salary + housing allowance, or base salary + parsonage unfurnished FMV).
- The SECA allowance is taxable income and is reported on the W-2 as wages.
- The SECA allowance is itself subject to SECA, but the net effect is that the pastor is compensated for the employer-side portion of self-employment tax they would not owe if they were a regular employee.

## Part 3: Benefits

Once total salary is established, congregations and pastors should address benefits.

### Retirement: The LCMC 403(b) Plan

Congregations are encouraged to support the pastor's retirement savings by contributing to the LCMC 403(b) Plan—the standard retirement vehicle for LCMC clergy and congregational employees.

| Component | Details |
|---|---|
| **Employer Contribution** | Recommended at 10–12% of total salary (base salary + housing allowance or parsonage fair rental value). Contributed pre-tax. In retirement, 100% of distributions are typically designated as housing allowance and are not subject to federal income tax to the extent used for qualifying housing expenses. |
| **Pastor Elective Contributions** | Pastors may also contribute additional amounts via payroll deferral, up to the IRS annual 403(b) limit. Pastor elective contributions are pre-tax and are not subject to SECA. |
| **Parsonage Equity Contribution** | Congregations providing a parsonage are encouraged to make an additional pre-tax contribution equal to 10–12% of the parsonage's unfurnished fair rental value. This compensates for the pastor's inability to build home equity. |

**LCMC 403(b) Plan — Enrollment and Contacts**

**Plan website:** www.lcmc403b.com | Documents and enrollment forms: lcmc.net/retirement-benefits

**Recordkeeper:** Transitioning from OneAmerica to Voya Financial, effective April 13, 2026. Watch for correspondence from Voya.

**Retirement Plan Specialist:** Annette LaPlant, CEBS — alaplant@cap-mgt.com | (952) 746-1118

**Congregation enrollment:** Participation Agreement and ACH Set Up — submit to Annette LaPlant.

**Pastor enrollment:** Related Employer and Beneficiary Designation Form — submit to Annette LaPlant.

**Participant Service Center:** 1-800-858-3829

## Health Insurance

Providing health coverage is an important part of the compensation package, but the approach is a congregational decision—most LCMC congregations do not have 50 or more full-time equivalent employees and are therefore not required to provide a group health plan. The congregation and pastor should make this decision together, with the pastor's specific family situation in mind.

**The online calculator offers three health insurance options. These same options should be considered when structuring the compensation package:**

### Option 1: LCMC Group Health Plan

LCMC offers a Group Health Plan administered by Hahn Financial Group, Inc., available to clergy and W-2 employees of LCMC congregations working 20 or more hours per week. The online calculator allows you to select either Pastor Only or Family coverage levels.

- **Pastor Only:** The employer pays the premium for the pastor. The pastor may extend coverage to family members by covering the additional premium difference through pre-tax payroll deduction.
- **Family:** The employer premium covers the pastor and eligible dependents.
- **Contact:** (800) 516-4246 | Health@HahnFinancialGroup.com | HahnFinancialGroup.com
- **Plan documents:** lcmc.net/retirement-benefits

### Option 2: Healthcare Allowance + Healthcare.gov

Since the value of a parsonage and a pastor's housing allowance is not counted as income for healthcare purposes, many pastors find that it more beneficial and affordable to secure health insurance through healthcare.gov. When the congregation and pastor agree that this route is preferable, the congregation pays the pastor a taxable healthcare allowance in lieu of group plan coverage. The allowance amount is negotiable, but congregations are encouraged to set the allowance amount equal to the premium cost under the LCMC group plan.

- The healthcare allowance is taxable income and is reported on the W-2 as wages.
- The pastor enrolls in coverage independently through healthcare.gov.
- Depending on the pastor's family size and MAGI, this option may result in lower net healthcare costs due to ACA Premium Tax Credits.
- The congregation cannot reimburse the pastor's actual healthcare premiums.

### Option 3: Not Provided

The congregation does not provide health insurance or a healthcare allowance. The pastor is financially responsible for all healthcare needs. This option is reflected in the online calculator when "Not Provided" is selected.

> **Important:** Once a path is chosen, it must be followed consistently. A congregation cannot officially offer the group plan and then allow the pastor to separately pursue healthcare.gov coverage for ACA Premium Tax Credits.

**The ACA Premium Tax Credit Opportunity**

The housing allowance is excluded from MAGI—the income figure used to determine ACA Premium Tax Credit eligibility. Because of this, many clergy families qualify for larger premium subsidies than they might expect, and may also qualify for Cost-Sharing Reductions (CSR) on Silver plans through healthcare.gov, which lower deductibles, copays, and out-of-pocket maximums.

**Example:** A pastor with $70,000 total salary, a $5,355 SECA allowance, and a $12,000 healthcare allowance receives $87,355 in total payments. With $48,000 designated as housing allowance, their MAGI is approximately $39,355 and likely to qualify for Premium Tax Credit and additional savings.

The LCMC group plan is the better option for pastors with higher taxable income and/or smaller family size. The congregation and pastor should model both scenarios before deciding.

## Ancillary Benefits

Congregations may wish to offer additional optional benefits. These are available through the LCMC group benefits package administered by Hahn Financial Group, or may be secured independently. The online calculator includes fields for each of these.

| Benefit | Notes |
|---|---|
| **Life Insurance** | Typically 1–2x annual compensation. Available through LCMC/Hahn Financial Group. |
| **Long-Term Disability** | Replaces 60–70% of income after a waiting period (typically 90 days). It is strongly encouraged that every pastor have this coverage—provided by the congregation or secured independently. |
| **Dental** | Available through LCMC/Hahn Financial Group. |
| **Vision** | Available through LCMC/Hahn Financial Group. |

# Part 4: Additional Considerations

## Paid Time Off

Leave policies are part of the total compensation package and are best defined in writing. The online calculator includes checkboxes and description fields for each leave type listed below. Each should be addressed:

| Leave Type | Standard / Notes |
|---|---|
| **Vacation** | 4 weeks (calendar weeks, not weekdays) is a common standard for full-time called clergy. |
| **Weekly Sabbath** | One full day off per week—not counted against vacation. Sunday is a workday for pastors. |
| **Continuing Education Leave** | Typically 10 days (two weeks) per year. Not counted against vacation. |
| **Parental Leave** | Define clearly. The absence of a policy is itself a statement. |
| **Medical / Sick Leave** | Define duration and process. FMLA does not apply to employers with fewer than 50 employees, but some states have broader requirements. |
| **Bereavement Leave** | Define the relationships covered and the number of days provided. |
| **Sabbatical Policy** | Typically 4–8 weeks after 5–7 years. Best discussed at the time of call. |

**Example: LCMC Texas District Policies**

**Flexible Time Off:** LCMC Texas District provides flexible, trust-based paid time off rather than separately tracking vacation, sick leave, and bereavement. Full-time employees are expected to take 15–25 days off annually. May be used for any purpose—vacation, personal matters, illness, or bereavement.

**Paid Holidays:** New Year's Day, Good Friday, Day after Easter, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Day after Thanksgiving, Christmas Eve, and Christmas Day.

**Parental Leave:** Six weeks paid following birth, adoption, or foster placement after one year of continuous employment. Up to six additional weeks unpaid if needed.

**Sabbatical:** Accrues at two weeks per year. First eligible in year 4 (6 weeks). Mandatory by end of year 7 (12 weeks). Fully paid. 12-month return commitment required.

## Continuing Education

Continuing education leave and reimbursement should be addressed separately from vacation:

- Continuing education leave is typically 10 days (two weeks) per year and is not counted against vacation.
- A continuing education reimbursement of $1,500–$3,000/year covers conferences, courses, workshops, and associated travel and lodging.
- Best handled through an accountable reimbursement plan (see Professional Expenses).

Pastors pursuing advanced degrees (such as a Doctor of Ministry) may request additional continuing education leave and recharacterization of a portion of base salary as an additional continuing education allocation. Such arrangements should be documented in writing.

## Professional Expenses

Professional expenses are the costs a pastor incurs doing ministry—they are not personal income. The correct structure is an accountable reimbursement plan: the congregation sets a budget, the pastor submits receipts, the congregation reimburses documented amounts, and unspent funds are not paid out.

Under an accountable plan, reimbursements are not taxable income and do not appear on the W-2. Rolling expenses into salary instead makes every dollar taxable and costs the pastor money in additional SECA.

The online calculator includes fields for each of these categories:

| Category | Notes / Suggested Range |
|---|---|
| **Mileage / Automobile** | IRS standard mileage rate for ministry-related driving. Requires mileage log. |
| **Continuing Education** | $1,500–$3,000/year. Includes travel and lodging. |
| **Books & Subscriptions** | $300–$600/year. Ministry-related resources. |
| **Technology** | $600–$1,200/year. Work-related phone, computer, software. |
| **Vestments & Supplies** | $200–$500/year. Robes, stoles, communion supplies. |
| **Hospitality / Meals** | $300–$600/year. Business meals and ministry-related hospitality. |
| **Discretionary Fund** | $300–$600/year. For the pastor to use to care for those in need. |
| **Moving Expenses** | Negotiated at call. Employer-paid moving reimbursements have been taxable income since 2018—verify current law when extending a call. |

# Part 5: Clergy Tax Considerations

Clergy occupy a unique and sometimes counterintuitive position in the tax code. Every pastor is encouraged to work with a CPA who has specific clergy taxation experience.

## Dual Tax Status

Ordained ministers are treated as employees for federal income tax purposes (W-2 issued) but as self-employed for Social Security and Medicare (SECA). This dual status is unique to ordained ministry.

| Tax Type | Treatment |
|---|---|
| **Federal Income Tax** | Employee treatment. W-2 issued. The pastor may request additional voluntary withholding on Form W-4 to cover SECA—or make quarterly estimated payments independently. |
| **Self-Employment Tax (SECA)** | Self-employed treatment. The pastor pays the full 15.3% (12.4% Social Security + 2.9% Medicare) on compensation. No employer FICA applies. Applies to base salary, housing allowance, and parsonage unfurnished FMV. Does NOT apply to congregation-paid parsonage utilities. |
| **State Income Tax** | Varies by state. Consult a CPA familiar with the tax laws of your state. |

**Managing the SECA Obligation**

**Simplest approach:** Request additional voluntary federal income tax withholding on Form W-4. The congregation withholds extra federal tax each pay period, which is applied against total tax liability, including SECA.

**Alternative:** Make quarterly estimated payments directly to the IRS (due April, June, September, January).

**Safe harbor:** Pay at least 90% of the current year's tax, or 100% of the prior year's tax (110% if prior year AGI exceeded $150,000).

## Tax Treatment Reference Table

| Compensation Component | Tax Treatment |
|---|---|
| **Base Salary** | Income tax: Taxable. SECA: Taxable. MAGI: Included. Reported as Wages on W-2. |
| **Cash Housing Allowance** | Income tax: Excluded up to lesser of designated amount, actual expenses, or furnished FMV with utilities. SECA: Taxable. MAGI: Excluded. |
| **Parsonage Fair Rental Value (unfurnished)** | Income tax: Excluded. SECA: Taxable—even though no cash changes hands. MAGI: Excluded. |
| **Congregation-Paid Parsonage Utilities** | Income tax: Excluded. SECA: Excluded. MAGI: Excluded. |
| **SECA Allowance** | Income tax: Taxable. SECA: Taxable. MAGI: Included. Reported as Wages on W-2. Net effect: offsets the pastor's out-of-pocket self-employment tax burden. |
| **Healthcare Allowance** | Income tax: Taxable. SECA: Taxable. MAGI: Included. Reported as Wages on W-2. Preserves pastor's ability to access ACA Premium Tax Credit. |

| Compensation Component | Tax Treatment |
|---|---|
| **LCMC Group Health Premiums (employer-paid)** | Income tax: Excluded. SECA: Excluded. If offered, the pastor cannot apply for coverage through healthcare.gov. |
| **403(b) Contributions (employer + elective)** | Income tax: Excluded. SECA: Excluded. MAGI: Excluded. Retirement distributions are designated housing allowance and not subject to tax to the extent used for qualifying housing expenditures.. |
| **Accountable Reimbursements** | Not income. Not on W-2. Not subject to income tax or SECA. |

### Resources

- IRS Publication 517: Social Security and Other Information for Members of the Clergy — irs.gov
- GuideStone Financial Resources — guidestone.org
- LCMC 403(b) educational video series — lcmc.net/retirement-benefits

## Working with a Ministry Payroll Provider

**A note on payroll:** Congregations owe no employer-side FICA tax, no employer Social Security or Medicare tax, and no FUTA tax on a pastor's compensation. Nothing paid to a pastor—salary, housing allowance, SECA allowance, or healthcare allowance—triggers an employer payroll tax obligation. The pastor bears the full 15.3% SECA obligation personally.

Given the unique tax treatment of clergy compensation, congregations are encouraged to work with a payroll provider that specializes in ministry payroll rather than a general-purpose payroll service. Ministry-specific providers understand dual tax status, housing allowance designations, voluntary withholding arrangements, and the fact that no employer FICA or FUTA applies.

**Recommended: BrotherhoodWorks Payroll Services**

BrotherhoodWorks is a full-service payroll provider built exclusively for churches and Christian ministries—a service of Brotherhood Mutual, one of the nation's leading church insurance providers, and the payroll provider recommended by LCMC Texas District.

Services include: full payroll processing with tax withholding and filing, quarterly and annual federal and state tax forms, W-2 preparation, a dedicated personal payroll specialist, time tracking integration, and HR tools for employee onboarding and document management.

Congregations that switch to BrotherhoodWorks typically save 20–50% compared to comparable general payroll services.

**Contact: (866) 215-5540 |** www.brotherhoodworks.com

# Part 6: Compensation Worksheet

Use this worksheet to build a complete compensation offer. All figures should be calculated on an annual basis.

**Online Calculator:** The Clergy Compensation Calculator automates these calculations, as you enter data, generates a professional PDF proposal, and breaks down pay-per-period to the pastor.

| | | |
|---|---|---|
| **Step 1 — Total Salary** | | |
| **A** | Total Salary (salary + housing combined)<br>*The before-benefits salary comparable to similar professionals; include parsonage FMV (unfurnished) if applicable* | $_____ |
| **B** | Less: Parsonage FMV — Unfurnished (if applicable)<br>*Deducted from Line A; subject to SECA* | $_____ |
| **C** | Congregation-Paid Utilities (if parsonage)<br>*Not compensation; excluded from income tax, MAGI, and SECA* | $_____ |
| **Step 2 — Salary and Housing Allowance** | | |
| **D** | Cash Housing Allowance Designated<br>*Designated at furnished FMV with utilities; IRS ceiling for exclusion* | $_____ |
| **E** | **Base Salary**<br>*Line A – Line B – Line D; taxable; reported on W-2* | **$_____** |
| **Step 3 — SECA Allowance** | | |
| **F** | SECA Allowance<br>*Line A × 7.65%; taxable; reported on W-2* | $_____ |
| **Step 4 — Retirement (LCMC 403(b) Plan)** | | |
| **G** | Employer Contribution<br>*Line A × ___% (recommended 10–12% of total salary); pre-tax* | $_____ |
| **H** | Parsonage Equity Contribution (if applicable)<br>*Line B × ___% (recommended 10–12% of Parsonage FMV); pre-tax* | $_____ |
| **I** | **Total 403(b) Employer Contributions**<br>*Line G + Line H* | **$_____** |
| **Step 5 — Health Insurance (choose one)** | | |
| **J** | Option A: LCMC Group Health Plan (employer premium)<br>*Coverage level: □ Pastor Only □ Family* | $_____ |
| **K** | Option B: Taxable Healthcare Allowance<br>*Reported on W-2; pastor secures coverage via healthcare.gov* | $_____ |
| | Option C: Not Provided<br>*Pastor responsible for all healthcare costs* | N/A |
| **Step 6 — Ancillary Benefits (if applicable)** | | |
| **L** | Life Insurance | $_____ |
| **M** | Long-Term Disability | $_____ |
| **N** | Dental | $_____ |
| **O** | Vision | $_____ |
| **P** | **Total Ancillary Benefits**<br>*Lines L + M + N + O* | **$_____** |

| | | |
|---|---|---|
| **Step 7 — Professional Expenses (Accountable Reimbursement Plan)** | | |
| **Q** | Mileage / Automobile<br>*IRS standard mileage rate; requires mileage log* | $_____ |
| **R** | Continuing Education<br>*Includes travel and lodging; separate from vacation* | $_____ |
| **S** | Books & Subscriptions | $_____ |
| **T** | Technology | $_____ |
| **U** | Vestments & Supplies | $_____ |
| **V** | Hospitality / Meals | $_____ |
| **W** | Discretionary Fund | $_____ |
| **X** | Moving Expenses<br>*Taxable since 2018; verify current law at time of call* | $_____ |
| **Y** | **Total Professional Expenses**<br>*Lines Q through X; not income; not on W-2* | **$_____** |
| **Summary** | | |
| | Cash Paid to Pastor<br>*Lines D + E + F + (K if applicable)* | $_____ |
| | LCMC Group Health Premiums (if Option A)<br>*Line J* | $_____ |
| | Total 403(b) Contributions<br>*Line I* | $_____ |
| | Total Ancillary Benefits<br>*Line P* | $_____ |
| | Total Professional Expenses<br>*Line Y* | $_____ |
| | Congregation-Paid Utilities (if parsonage)<br>*Line C* | $_____ |
| **Z** | **TOTAL COST TO CONGREGATION**<br>*Sum of all items above* | **$_____** |

## Time Off — Check All That Apply

| ✓ | Leave Type | Policy Description |
|---|---|---|
| ☐ | **Vacation** | |
| ☐ | **Continuing Education Leave** | |
| ☐ | **Weekly Sabbath Day** | |
| ☐ | **Sabbatical Policy** | |
| ☐ | **Parental Leave** | |
| ☐ | **Medical / Sick Leave** | |
| ☐ | **Bereavement Leave** | |

# Appendix

## A. Sample Housing Allowance Designation Resolution

BE IT RESOLVED that the Church Council of [Congregation Name] hereby designates, for the calendar year [YEAR], the amount of $_____ of the total salary paid to [Pastor Name] as a housing allowance pursuant to Section 107 of the Internal Revenue Code. This designation is made in advance of the period it covers. The designated amount reflects the fair market rental value of the pastor's home, furnished with utilities.

Adopted: _____ Signature: _____ Title: _____

## B. Key IRS References

| Reference | Purpose |
|---|---|
| **IRC Section 107** | The housing allowance and parsonage exclusion from federal income tax. |
| **IRS Publication 517** | Social Security and Other Information for Members of the Clergy. |
| **Schedule SE** | Self-Employment Tax—filed annually by clergy. |
| **Form W-4** | Used to request additional voluntary income tax withholding to cover estimated SECA. |

## C. LCMC Benefit Plan Contacts

| Contact | Details |
|---|---|
| **LCMC 403(b)** | Annette LaPlant, CEBS (CMA) — alaplant@cap-mgt.com<br>(952) 746-1118 \| www.lcmc403b.com |
| **403(b) Participant Service Center** | 1-800-858-3829 |
| **Health / Dental / Life / LTD** | Hahn Financial Group — Health@HahnFinancialGroup.com<br>(800) 516-4246 \| HahnFinancialGroup.com |
| **All LCMC benefit documents** | lcmc.net/retirement-benefits |

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*This document does not constitute legal or tax advice. Congregations and pastors are encouraged to consult a CPA with clergy taxation experience for guidance specific to their situation.*