

MEMO TO: PASTORS, CONGREGATIONAL CHAIRMEN, & TREASURERS

SUBJECT: 2010 SALARY & COMPENSATION GUIDELINES FOR PASTORS

DATE: August 24, 2009

FROM: THE ND DISTRICT LCMS BOARD OF DIRECTORS

**NEW for 2010**

The 2010 recommended salary scale reflects a 3% (the exact percentage increase may vary slightly due to rounding) across the board increase over 2009. Option 2 in the auto allowance section has also been changed. Due to the change of the annual allowance to \$7200 last year the miles driven had to be changed to the first 13,090 miles rather than 5,000 miles.

**OTHER SALARY CONSIDERATIONS**

These guidelines are most appropriate in situations where a sole pastor serves a single congregation. Dual and triple parishes, multi staff congregations, and other configurations will need to adapt the guidelines to fit their unique circumstances and workload.

Congregations with more than one pastor might consider using multipliers in order to differentiate between a senior and associate pastor. A congregation with two pastors may, for instance, compensate the associate pastor from the appropriate baptized membership column for his years of experience and compensate the senior pastor from the appropriate column for his years of experience but multiplied by 1.03. Or, distinctions for levels of responsibility could be made by using a different column from the scale for different workers.

**UNIQUE TAX STATUS OF PASTOR**

A pastor is considered an ordinary or common law employee by the IRS for income tax purposes.

With respect to Social Security taxes, ministers of the Gospel are self-employed. Self-employment tax (SECA) is the equivalent of both the employer's and employee's social security contribution. Virtually all cash paid to a worker by a congregation is subject to SECA tax. If a congregation provides a parsonage, the fair rental value of the parsonage (even though no cash has exchanged hands between the worker and congregation) is subject to SECA tax. If a cash housing allowance is paid, the worker pays SECA tax on the allowance paid.

Clergy taxes are complicated. Competent tax advice should be sought as questions arise. The LCMS **Congregational Treasurers Manual** provides information on IRS reporting requirements and payroll issues. It is updated annually. Call the ND District Office for a copy or find it on the web at [www.lcms.org](http://www.lcms.org).

Clergy are not subject to mandatory income tax or FICA tax withholding. They make estimated quarterly payments. Voluntary withholding is permissible but the treasurer needs a

very good understanding of how such voluntary withholdings are reported to the IRS in order to avoid confusion.

Reporting income received from honorariums for funerals, weddings, etc is subject to yet additional IRS rules. Reporting these types of income to the IRS is not the responsibility of the congregation.

### **AUTOMOBILE EXPENSES**

Ministry related travel by the pastor should be reimbursed using one of the following options: Discussing the mileage needs of the ministry in advance will help avoid misunderstandings and budget surprises.

#### **Option 1**

Ministry/business mileage is reimbursed at the IRS rate (The 2009 rate is 55¢) per mile. As of this writing, the IRS mileage rate for 2010 has not been announced. When using this option, the pastor records all pastoral miles driven during the month; submits them to the Treasurer; and receives reimbursement at the IRS rate for each mile. The IRS has specific rules on how mileage logs are to be kept. Mileage reimbursements using this option are not subject to income or self-employment taxes.

#### **Option 2**

\$7,200 annual allowance for the first 13,090 miles.

This mileage is calculated using the IRS 2009 mileage allowance of 55 cents per mile.

Using this option, the \$7,200 annual auto operation allowance is paid to the pastor in equal monthly payments. At the point during the year when total miles driven exceeds 13,090, the pastor is paid the monthly allowance plus an additional \$0.315 for each mile.

This method may result in income and SECA tax liability depending upon actual business miles driven annually.

A pastor needs reliable transportation. In some situations, actual business miles may not provide an allowance adequate for maintaining or replacing an auto. An auto allowance using this method is reported as taxable income on the pastor's W-2. The pastor must maintain adequate records to justify these allowances as business expenses on his tax return.

### **CONVENTIONS & CONFERENCES**

Conventions and pastor conferences, including monthly circuit meetings (winkels) are required by Synod. They should be considered an integral part of congregation's ministry. They are not "days off". Meals, lodging, registration fees, and other related costs for these meetings are legitimate business expenses and should be paid by the congregation(s).

### **HOUSING & UTILITIES**

Every parish is expected to provide for the pastor's housing. A parsonage or a cash housing allowance is in addition to a cash salary.

### **Parsonage provided**

When a congregation provides a home, all utilities are paid by the congregation excluding personal long distance telephone costs and other items of a personal nature. Lawn care, snow removal, routine house maintenance, cable TV, etc. should be discussed to determine who provides the necessary equipment, who does the work, and who pays the bill. Charges for premium or add-on services (movie channels, call waiting, etc) should be discussed prior to their installation.

Congregation leadership should assure that the parsonage reflects well on the congregation within the community and provides the pastor and his family a modern, comfortable home. Trustees need to regularly inquire as to the home's condition and make necessary repairs and updates.

The parsonage family's privacy should at all times be protected.

The pastor and his family should view the parsonage as a trust which receives their care and respect. Permission should be received prior to making changes/improvements. While the parish should not dictate how the pastor and his family live in the parsonage, discussing matters such as pets before they become part of the family, can help avoid conflict.

The parsonage, when vacated, should be in a condition similar to when it was first occupied.

Pastors are required to pay self-employment tax (SECA) on the fair rental value of a parsonage (see the Treasurer's Manual for a definition of *fair rental value*). Normally, this means that the Pastor pays the 15.3% SECA tax on the fair rental value of the parsonage from his cash salary.

### **Housing equity**

If the parish provides a parsonage, they should consider paying their pastor a Housing Equity Allowance. This annual amount roughly equates to equity the pastor would earn as a homeowner. It is important to understand the rules and regulations which apply to this benefit. If the housing equity is paid to the worker, it is treated as ordinary income for tax purposes. It may also be treated as deferred compensation. It can be complicated so seek legal guidance.

### **Pastor buys or rents housing**

A Cash Housing Allowance may be paid to the pastor in lieu of the congregation providing a parsonage. This amount should be sufficient to cover utilities, property taxes, insurance, and other necessary costs of home ownership. Review this allowance annually so that it remains adequate.

A Cash Housing Allowance is sheltered from income tax. But, the Worker is required to pay self-employment tax (SECA) on all cash housing allowance dollars. (For example: A \$1,000 per month cash housing allowance, after paying the SECA tax, leaves about \$860 for paying actual housing expenses.)

### **IRS housing allowance resolution**

IRS regulations require congregations to *annually* designate a portion of the pastor's total salary and cash housing allowance (if any) as a Housing Allowance. This should not be confused with the above Cash Housing Allowance. The Resolution does not involve additional dollars paid to the pastor. It is simply a designation for tax reporting purposes which allows the

pastor to shelter that portion of his earnings which are used to provide housing for his family from income taxes. These dollars are not reported as taxable income on the worker's W-2.

He must still pay SECA tax on the designated amount. He must also be prepared to verify to the IRS what portion of the amount designated as housing allowance was, indeed, used for housing costs. The congregation must pass such a Housing Allowance resolution before the pastor can begin to take advantage of this tax benefit. Sample Resolutions and a more thorough explanation of this tax benefit are in the **Congregational Treasurer's Manual**.

Pastors living in a parsonage are also eligible for this "tax break". While not making house payments or paying utilities, a pastor living in a parsonage may purchase furniture, pay renters insurance, or may incur other housing related expenses which are eligible for this tax shelter.

The amount designated in the IRS housing allowance resolution may be larger than the cash housing allowance being paid to the worker.

It is the worker's responsibility to verify housing expenses to the IRS if asked to do so. The congregation is only required to have an annual resolution.

### **LCMS Concordia Plan Services (Formerly Worker Benefit Plans)**

The Concordia Plan Services of the LCMS provides comprehensive Health, Retirement, Disability and Survivor Plans along with other benefits in a package called *The Churches Plan*. **Concordia Plan Services communicates directly to the congregation and worker. Please read their mailings and follow their instructions precisely.**

If you have specific questions after reviewing the material from Concordia Plan Services, please contact the District Office. Mr. Sharpe will work with you on answering questions and concerns.

Concordia Health Plan (CHP) offers employers several health insurance options. This is an effort to control health insurance premiums. Employers may be able to lower their premiums depending on the insurance option they choose. Unfortunately, lower premiums for the employer may mean higher out-of-pocket expenses for the worker. Congregations should discuss these options with their workers and consider sharing their premium savings with their workers if they experience higher out-of-pocket expenses.

The North Dakota District Board of Directors discourages choices C and D.

### **SOCIAL SECURITY**

The IRS allows ministers to opt out of Social Security within the first two years of entering the ministry. The reason for opting out must be theological. *The Lutheran Church-Missouri Synod does not oppose participation by its ministers in Social Security on the basis of religious principles.* **LCMS pastors seeking exemption from Social Security must discuss their choice with the district president prior to filing for exemption.**

A pastor pays the 15.3% SECA Tax directly to the IRS on a quarterly basis. **Congregations should consider paying a portion of the pastor's SECA liability.** This should be paid directly to the worker. Any SECA allowance paid to the worker is subject to both SECA and income tax.

## **PROFESSIONALISM - PERSONAL NEEDS**

A pastor's responsibilities cannot be squeezed into a regular schedule or a 40 hour week. Many of his evenings, weekends and holidays are consumed by obligations to the congregation. Weddings, funerals, hospital visits, and other pastoral care cannot be scheduled by the pastor for his convenience. He is on call 24 hours a day, 7 days a week. Even dealing with phone calls (some of which are critical and necessary and some which aren't) from members while at home is an intrusion which blurs the lines between work and leisure. In addition, there are times during the year (Lent is an example), where the pastor spends a great deal more time in preparing and carrying out the public ministry.

The need for time to rest and to *re-create* is Scriptural. A pastor and his Elders and/or Church Council need to discuss this important matter. Striking a balance between ministry and relaxation is the pastor's ultimate responsibility. He should not abuse this privilege; neither should the congregation deny him this freedom.

Time off for sickness, funerals, and other emergencies should not be counted as vacation time or as the pastor's day(s) off. The congregation should have a policy in place *prior* to such a need or be prepared to be generous when these situations arise.

## **VACATION TIME**

The pastor should discuss his vacation plans well in advance with the appropriate church board so that the congregation has adequate time to arrange for pastoral care and pulpit supply during his absence. The pastor and congregation should also discuss in advance what constitutes a vacation day, how many, if any, vacation days can be accrued for use the following year, and who keeps the official tally of days used.

Years in ministry	# of vacation days *	# of Sundays
1-5	21	3
6-14	28	4
15+	35	5

\* Does not include legal holidays which may fall during a scheduled vacation

## **PROFESSIONAL GROWTH**

Continuing Education is important in every profession. Congregations are encouraged to provide time and financial assistance so that their pastor(s) may take advantage of professional growth opportunities. Monthly circuit meetings and biannual pastor conferences are mandatory conferences and should not be counted as continuing education time. Neither should continuing education time off be counted as vacation.

## **SUMMARY**

The pastor's salary and benefits requires careful management and understanding by a congregation's leadership. Each congregation should develop procedures for annually reviewing and adjusting compensation. The pastor should be made to feel comfortable discussing his salary, his ministry, and related matters with those responsible for his welfare.

These guidelines are reviewed annually by the ND District Division of Professional Church Worker Growth and Health. The Division forwards their recommendations for changes to the District Board of Directors. The District BOD is the final approving authority of these guidelines. Both groups include lay and clergy members working together to provide guidelines that reflect the concerns of both congregations and professional church workers/

### **TREASURER'S MANUAL**

A **Congregational Treasurer's Manual** is updated annually by District & National Synod Business Managers. It is a helpful tool for understanding the complexities of salary, benefits, and other payroll issues. It also covers congregational accounting and financial reporting. It is available on CD and on the LCMS website.

### **QUESTIONS OR CONCERNS?**

Should you have questions or comments regarding the items in this document, you are encouraged to contact your Circuit Counselor, the District President or the Executive Director of the Board of Directors for assistance.

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## North Dakota District LCMS 2010 Salary Guidelines

Years of experience	Year of ordination	Baptized membership up to 300	Baptized membership 301-600	Baptized membership over 600
0	2010	\$32,715	\$33,635	\$34,553
1	2009	\$32,986	\$33,905	\$34,824
2	2008	\$33,527	\$34,445	\$35,365
3	2007	\$34,067	\$34,986	\$35,906
4	2006	\$34,608	\$35,527	\$36,447
5	2005	\$35,690	\$36,608	\$37,528
6	2004	\$36,771	\$37,690	\$38,610
7	2003	\$37,853	\$38,771	\$39,691
8	2002	\$38,934	\$39,853	\$40,773
9	2001	\$40,016	\$40,934	\$41,854
10	2000	\$41,097	\$42,016	\$42,936
11	1999	\$41,638	\$43,097	\$44,017
12	1998	\$42,179	\$44,179	\$45,099
13	1997	\$42,448	\$45,260	\$46,180
14	1996	\$42,557	\$46,342	\$47,262
15	1995	\$42,665	\$47,423	\$48,343
16	1994	\$42,773	\$48,505	\$49,425
17	1993	\$42,881	\$49,046	\$50,506
18	1992	\$42,989	\$49,586	\$51,588
19	1991	\$43,097	\$50,127	\$52,669
20	1990	\$43,205	\$50,668	\$53,751
21	1989	\$43,260	\$51,209	\$54,291
22	1988	\$43,314	\$51,317	\$54,832
23	1987	\$43,368	\$51,425	\$55,373
24	1986	\$43,422	\$51,533	\$55,914
25	1985	\$43,476	\$51,641	\$56,454
26	1984	\$43,530	\$51,749	\$56,995
27	1983	\$43,584	\$51,857	\$57,536
28	1982	\$43,638	\$51,966	\$57,644
29	1981	\$43,693	\$52,074	\$57,752
30	1980	\$43,746	\$52,182	\$57,860
31	1979	\$43,801	\$52,263	\$57,968
32	1978	\$43,854	\$52,345	\$58,077
33	1977	\$43,909	\$52,425	\$58,185
34	1976	\$43,962	\$52,506	\$58,293
35	1975	\$44,017	\$52,588	\$58,401
36	1974	\$44,071	\$52,669	\$58,509
37	1973	\$44,125	\$52,749	\$58,617
38	1972	\$44,179	\$52,831	\$58,726
39	1971	\$44,233	\$52,912	\$58,834
40	1970	\$44,287	\$52,994	\$58,942

Note: Revised 8-15-2009