

# CHRISTIAN MONEY \$ENSE

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## How Should You Pay Your Pastor?

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Paul used an interesting analogy while writing to Timothy. “Do not muzzle the ox while it is treading out the grain” (1 Timothy 5:18, NIV). Paul was referring to the practice of allowing an ox to eat the grain that fell on the ground as the ox was treading around a millstone. In the surrounding verses, we see that Paul wanted Timothy to know that it is very appropriate for church members to take care of the financial needs of their pastor. Your pastor focuses his energy on the spiritual needs of your church. It is very proper for church members to tangibly show appreciation for this and take care of him financially.

According to *Leadership* magazine, the average pastor’s total gross pay (salary, housing, employment tax) is about \$35,000. The typical man does not enter the ministry to get rich. The call of God on his life and the desire to advance the kingdom of Christ are his banner. Church members who want to financially take care of their pastor must understand the two important points described below. Diligence in these areas can lead to providing more tax-free money to your pastor and better supplying his family’s needs.

### Dual Identity

For federal income tax purposes, your pastor is treated the same as an employee of a business. Taxes are withheld from his paycheck by the church, and wages are summarized for him on a W-2 form at year-end. For social security taxes, however, your pastor is treated much differently than an employee of a business. For an employee, the total social security tax due on wages is 15.3%. According to law, an employee pays only one-half of the tax (7.65%), and the business pays the other half.

However, self-employed individuals must pay the entire 15.3% out of their own pockets. For social security tax purposes, pastors are considered self-employed by the IRS. This means that your pastor must pay the entire 15.3% social security tax on his own. Many churches have recognized this dilemma and use a “gross up provision” to help their pastors. Basically, the church will “gross up” (or increase) their pastor’s salary by 7.65% to help him pay the extra social security tax. This can be a wonderful way to minister to your pastor because it removes an additional tax burden that he normally must carry. This puts him at parity with the other non-ministerial church staff. The “gross up” does become part of your pastor’s taxable income.

### Housing Allowance

Since pastors serve an important benefit to society, the government has passed provisions to help pastors financially and keep men in the pastorate. Licensed or ordained men who perform ministerial functions can deduct the cost of their housing expenses from their federal taxable income. The housing allowance is not an increase in the amount paid to your pastor, but is a designation of a part of his compensation for housing purposes.

In practical terms, his monthly rent or house payment, down payment, utilities, insurance, property taxes, furnishings, furniture, and repairs or improvements can be deducted from his federal taxable income. This can save him literally thousands of dollars each year. Even if your pastor is housed in a parsonage, he can benefit from a housing allowance. The value of the monthly parsonage rent, as well as the housing expenses that are not provided by the church, can be included in the housing allowance. The housing allowance savings helps compensate your pastor for the additional social security tax he pays.

Beware. The leadership of your church must vote annually to (1) initiate or renew this benefit and (2) set the amount. This is done with a board resolution, and it is not retroactive. It is better to overestimate than underestimate the annual amount. Any unused portion of the housing allowance simply gets added back to his federal taxable income at the end of the year. Your pastor must keep receipts to prove he has spent his housing allowance.

Our pastors work hard to minister to us. We must work hard to say thank you in tangible ways. I strongly encourage you to understand these principles. Discuss these issues with the leadership of your church. If you have specific questions or would like to receive a sample housing allowance board resolution, contact BBC FOUNDATION INC. Make necessary changes in how you pay your pastor so that you can better meet his family’s financial needs.

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BBC Foundation has been ministering to churches and individuals regarding biblical stewardship since 1992. Send your questions on finances and stewardship to: BBC Foundation, 538 Venard Rd., Clarks Summit, PA 18411. Phone: (800) 451-8668, website: [bbcfoundation.org](http://bbcfoundation.org); e-mail: [info@bbcfoundation.org](mailto:info@bbcfoundation.org)