What Every Church Needs to Know Before a

Payroll Decision becomes A Problem

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Payroll: Classifications

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“We’ve Always Paid Them This Way”

Ministers Do Not Fit the *Standard* Payroll Mold

Scenario: Pastor John

- Pastor John is the church’s senior pastor. The church:
- Establishes his responsibilities.
- Provides his office.
- Pays him a regular salary.
- Expects him to lead worship, provide pastoral care, and oversee ministry operations.
- Designates a portion of his compensation as housing allowance.

Opting Out of Social Security

Housing Allowance
Must Be Handled Intentionally

Core Requirements

A housing allowance should be:

- Designated in advance.
- Authorized through official church action.
- Properly documented.
- Applied prospectively rather than retroactively.
- Reviewed periodically as circumstances change.

The Three-Limit Rule

The amount excludable for Federal income tax purposes is generally limited to the lowest of:

- The amount officially designated as housing allowance.
- The minister's actual eligible housing expenses.
- The fair rental value of the furnished home, including applicable utilities.

Housing Allowance Does Not Mean Tax-Free for Every Purpose

Practical Church Checklist – year prior

- ✓ Confirm which individuals may qualify as ministers for tax purposes.
- ✓ Obtain appropriate professional guidance when status is unclear.
- ✓ Review any requested housing allowance.
- ✓ Complete the church’s official approval process.
- ✓ Retain the written designation.
- ✓ Communicate the approved amount to those responsible for payroll.
- ✓ Encourage the minister to retain appropriate expense documentation.

Accountable REIMBURSEMENT PLANS
are Not the Same as an Allowance

Church employees and ministers often use personal resources for ministry purposes

- Ministry mileage
- Travel
- Meals while traveling for church business
- Conference expenses
- Ministry supplies
- Books and educational materials
- Approved technology expenses

How the church pays these expenses matters.

The Three Requirements of an Accountable Plan

1. Business connection
2. Substantiation
3. Return of excess

Vehicle Allowance Scenario

A church pays its pastor a flat **$500 monthly car allowance**.

The pastor is not required to:

- Submit mileage.
- Document the ministry purpose.
- Return unused amounts.
- Reconcile the allowance to actual business use.

W-2 OR 1099:

Who Decides the Classifications?

The IRS Common-Law Analysis

3 broad IRS categories:

- Behavioral control
- Financial control
- Type of relationship

DOL may ask different questions
FLSA economic-reality analysis:

- Opportunity for profit or loss
  Investment
- Permanence
- Control
- Whether the work is integral
- Skill and initiative

Questions We Hear Most Often from Churches

Nursery Worker Scenario

- Works every Sunday morning and Wednesday evening.
- Must arrive at a designated time.
- Follows church child-safety procedures.
- Is assigned to a specific classroom.
- Uses the church’s facility and supplies.
- Reports to the children’s ministry director.
- Is expected to work on an ongoing basis.

Janitorial Scenario

- Cleans every Monday, Wednesday, and Friday.
- Uses church-provided supplies.
- Reports to the church administrator.
  Follows a task list.
- Performs work personally.
- Has an ongoing relationship with the church.

Independent Cleaning Co.

- Serves multiple businesses.
- Provides its own equipment and supplies.
- Determines how the work is completed.
- Sends different trained personnel when appropriate.
- Maintains a separate business.
- Invoices the church under a service agreement.

Regular Worship-Team Musician

- Plays every Sunday.
- Attends mandatory rehearsals.
- Reports to the worship leader.
- Performs music selected by the church.
- Uses church equipment.
- Has an ongoing relationship.

Special-Event Musician

- Operates an independent music business.
- Performs for multiple organizations.
- Is engaged for one special event.
- Sets a fee.
- Provides instruments and equipment.
- Controls the manner of performance within the agreed event requirements.

Guest Speaker or Evangelist

Potential contractor indicators may include:

- A limited speaking engagement.
- Services offered to multiple churches.
- Independent control over preparation and delivery.
- A separately established ministry or business.
- Payment by honorarium or agreed engagement fee.

Church Technology Consultant

Potential contractor indicators may include:

- An established technology business.
- Multiple clients.
- Project-based work.
- Independent tools and methods.
- The ability to experience profit or loss.
- Invoicing the church for defined services.

W-2, 1099,
or we need more information?

Stewardship Through Compliance

Ministry Support

Brotherhood Works™
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We Help Ministries With:

- ✅ Payroll & Tax filing
- ✅ Minister's Dual tax status & Housing Allowance
- ✅ Automated Time & Attendance, Accruals, DOL, FLSA
- ✅ Attract & Hiring
- ✅ EE Onboarding, Offboarding, Cloud HR file management
- ✅ Performance Reviews
- ✅ DOL, FLSA, local, State & Federal Compliance
- ✅ Benefits Administration
- ✅ Background checks & Arrest alerts
- ✅ Learning paths & Harassment training

Don’t Assume. Ask.

Request a discovery call

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