

How the Church Can Reimburse Ministerial Expenses Legally

by Keith Hamilton

Since ministers are not allowed to deduct church-related business expenses from their local church employment as self-employed workers, often ministers and other church employees pay unnecessary income taxes on legitimate business expenses. Also, ministers face the impression that they are overpaid because churches include church-related business expenses as part of the minister's pay package.

The Internal Revenue Service has established an acceptable way for churches to reimburse its employees for church-related business expenses as tax-free reimbursements. In accordance with IRS regulations 1.162-17 and 1.274-5T(f), a church can establish an accountable reimbursement plan. With an accountable reimbursement plan, the church can agree to reimburse reasonable church-related business expenses such as the following:

* Conventions, conferences, seminars, and other workshop fees or costs. If the continuing education event furthers the minister's learning experience and the educational event does not qualify the minister for a new position, then the church can reimburse him tax-free for associated costs.

* Church-related business travel.

The IRS allows the church to reimburse its employees the IRS standard mileage rate plus parking fees and tolls for business miles driven for church-related purposes. The IRS does not allow a church to reimburse its minister for commuting miles from home to the church no matter how many times the minister goes back and forth each day. Also, the church can reimburse meals its staff incurs if the required travel takes the minister away from the church field during meal times.

* Costs associated with church-related business overnight trips.

The church can reimburse its minister for lodging, meals, and other costs associated with overnight church-related business travel.

* Subscriptions, books, tapes, CDs, DVDs, internet, equipment, and other similar tools. Sermon resources and other educational material expenses can be reimbursed by the church if the tool has a church-related business connection. Likewise, the church can provide church-related business equipment like PDAs

and computers as reimbursable expenses. Under current IRS rulings, cell phones can only be reimbursed if the employee provides a detailed itemized billing of personal and business use of the cell phone. The church can only reimburse the employee for the business portion of the cell phone bill.

* Hospitality expenses required by the church to entertain others. The church can reimburse its minister's expenses associated with providing a business meal for individuals like prospects or church members if the meal had a church-related purpose. The church can reimburse the minister for entire cost of the meal.

The Internal Revenue Service requires a few other simple rules to be followed so that the reimbursement can be given tax-free.

1. The minister must provide the church with a written receipt within sixty days of incurring the expense. Receipts are required for all expenditures over \$75. If the receipt is not provided, the reimbursement becomes taxable income.
2. The receipt should include the date, amount, church-related business purpose, the location, and, if a hospitality expense, the names of the individuals who were hosted.
3. The church must budget funds for the accountable reimbursement plan. The budgeted funds cannot come from a minister's salary. The funds for the accountable reimbursement plan should be budgeted just like any other church expense, such as utilities or maintenance expenditures. The budgeted funds for the accountable reimbursement plan should not be created by reducing a minister's salary.
4. The accountable reimbursement plan is a "use it or lose it" approach. If the minister does not use the entire budget line item designated for reimbursement, he cannot receive the overage. Remember, an accountable reimbursement plan is a church expense, not personal income to the minister.
5. The accountable reimbursement plan expenses like travel, conventions, hospitality, and others can be grouped together as one budget line item. The reimbursement expenses do not have to be budgeted separately.
6. The accountable reimbursement plan must be church-approved, but the plan does not have to be voted on by the church at church conference. If the

church's legal documents empower the finance committee or executive staff to make the determination of budgeted funds for the accountable reimbursement plan, then this is acceptable to the IRS.

7. The committee or staff overseeing the accountable reimbursement plan has the right to determine if a receipt presented for reimbursement is an acceptable expense for reimbursement. The reimbursement must have a church-related business connection.

8. The church should not report any expenses reimbursed properly under an accountable reimbursement plan as taxable income on the minister's W-2.

By adopting and funding an accountable reimbursement plan, the church becomes a better steward of the financial blessings God has given to the fellowship. The reimbursement plan also presents a better financial picture of what the true cost of providing the particular ministry position involves. Finally, the accountable reimbursement plan helps honor God's servants who are faithfully serving in the Lord's work.

Keith Hamilton, D.Ed.Min, CFP, CRPC is with the [Georgia Baptist Convention](#). He has written several publications on establishing church designated funds, managing your household finances, and protecting your church and ministry from identity theft.