

Diocese of Lansing Priest Remuneration Reference Guide

Fiscal year 2021/2022

Parochial Ministry

Priest remuneration is established for pastors and parochial vicars assigned to parishes and other entities in the Diocese of Lansing. All priests are paid and taxed as employees according to this policy and are issued an annual W-2. Priests have a dual tax status and are responsible to pay for their own FICA (Social Security and Medicare withholdings). The entities to which they are assigned are not permitted to pay into Social Security or Medicare on their behalf per IRS rules.

Priests' annual salaries are designated in the table below. Priests may choose a higher salary which includes an estimate of annual mass stipends or a lower salary and be paid the individual mass stipends. If a priest chooses the lower annual salary so as to be paid the individual mass stipends (\$10/mass), the individual stipends must be processed through payroll and be reflected as income on his W-2.

Pastors		Parochial Vicars	
\$37,100	\$34,100 + stipends	\$32,448	\$29,448 + stipends

All priests are paid an annual increment of \$200 per years ordained. (Ex: 10 years ordained = \$2000 additional salary for the year.)

Priests may be paid stole fees by families for performing baptisms, weddings, and funerals. These stole fees may be processed through payroll and reported on the W-2 as taxable income. If they are not reported through payroll, the priest must track them on a separate log, report them as income, and pay taxes on them at the end of the tax year.

The Dual Tax Status of Priests

The IRS expects that ministers, including priests, will be designated as employees for income tax purposes and self-employed for Social Security and Medicare tax purposes.ⁱ Priests may not have the Social Security and Medicare taxes withheld from their paychecks.ⁱⁱ Social Security and Medicare taxes are set at 15.3% and are the largest taxes priests pay. These taxes are paid on a priest's total self-employment income.

Priests may pay quarterly income taxes, or may have federal and state income taxes deducted from their paychecks. Priests who choose to have federal income taxes deducted from their pay may choose to have additional monies withheld to offset their Social Security and Medicare self-employment taxes. Priests should talk to a tax advisor about how much additional to withhold. Depending on his income, a priest should have an additional \$110 up to \$400+ per paycheck withheld.

Priests can reduce their taxable income by setting money aside for retirement through a retirement tool such as our diocesan 403(b). Talking with a tax advisor is a good idea to help a priest understand how he can pay lower taxes and save for the future effectively. The amount a priest contributes to a 403(b) reduces his salary for BOTH income taxes AND self-employment Social Security/Medicare taxes.ⁱⁱⁱ

Taxable Benefits: Auto Insurance, Food and Car Allowances, and Room

The parish pays for the car insurance for the priests assigned to them. This must be reflected as taxable income of \$1,220 per year on his W-2. (Note: Priests do not receive the cash amount, but must pay income taxes on the amount and have it reflected as taxable income in his W-2.)

The parish will also provide a food allowance and a car allowance to the priest(s) assigned to the parish. This should appear as taxable income in his pay. Parish bookkeepers may designate separate taxable income items in Paycor as “food allowance” and “auto allowance.” If the parish is paying for a cook and groceries, then the priest(s) who benefit from this will not receive the food allowance.

The parish also provides room for the priests assigned to the parish. While these benefits are exempt from income tax, the benefits may be reported as a benefit in box 14 on the W-2 and the priest is responsible to account for this when he reports his self-employment income on IRS Form 1040, Schedule SE.

The fact that a parish can “compensate” a priest by providing him with income tax-free housing is a significant benefit. The IRS affords this benefit to only two classes of tax payers – ordained clergy and military personnel.^{iv} While these benefits are free from income taxes, they are not free from Social Security and Medicare taxes.

In the Diocese of Lansing, the room value is designated as the fair market rental value based on a ten county average for 2021-2022, which is \$725 per month or \$8,700 per year. This amount includes necessary utility expenses. This benefit amount is established based on the average of the fair market rental value of a one bedroom parsonage in each of the diocese’s ten counties. For more information refer to: <https://www.huduser.gov/portal/datasets/fmr.html>

Priests who are not assigned to a parish but have residence at the rectory (ex: high school chaplains, hospital ministry) are provided room by the parish. If the priest does not provide adequate regularly scheduled sacramental ministry to the parish, the parish may charge the assigned entity up to the maximum monthly cost of room the parish provides for the priest. The employing entity may show the value of the room and board on the priest’s W-2 in box 14 as a benefit provided.

Income Taxable for Federal Income Tax and Social Security/Medicare Tax

The following earnings are included:

- Salary – includes any supplements provided
- Allowances (paid without required documentation, ex: food and auto allowances)
- Stole fees and honoraria – a service was rendered, even if it was a “free will offering.”
- Mass stipends and weekend assistance fees paid to the priest
- Professional fees paid to the priest
- Non-ministry related earnings paid to the priest

Income Taxable for Social Security/Medicare but NOT Federal Income Tax

- Value of room

Income Taxable for Federal Income Tax but NOT Social Security/Medicare

- Pension payments
- Investment and passive income

Tax-Free Income

- Gifts (IRS takes a narrow view of what constitutes a “gift”)
- Reimbursements when accompanied by proper documentation

More on Gifts

Gifts to priests are tax-free; however the IRS takes a narrow view of what it considers gifts. “Donative intent” is the key to determine whether a payment is classified as a gift or income. Tax-free gifts are motivated by “love and affection” without regard to any past, present, or future services rendered.

Gifts include: birthday, anniversary, going-away, and get well gifts. A gift is not tax deductible by the giver. Gifts paid from parish funds are considered taxable income to the priest. Example: retirement gift paid for out of parish funds would be taxable as income to the priest.

Taxable compensation is motivated by the performance of a service. Even if the priest doesn’t specify a dollar amount or suggests a “free will offering,” the amount given for the service is considered income.

Tax Free Reimbursements

When a priest incurs business related expenses and submits detailed receipts for reimbursements, these qualify as tax free reimbursements. The Diocese of Lansing Priest Remuneration Schedule outlines the specific tax free reimbursements and maximum amounts priests are allowed per year. These items are directly related to his ministry and the amounts are considered reasonable business expenses.

Non-Taxable Benefits

Priests are provided non-taxable benefits which include health, dental and disability insurance paid by the assigned entity. Eligible priests are also provided with a long term care policy. To be eligible for the long term care benefit, a priest must be incardinated in the Diocese of Lansing, be over the age of forty

(per industry underwriting standards), and have completed the necessary qualification requirements of the insurance provider. The assigned entity is billed monthly for this benefit.

Incardinated priests of the Diocese of Lansing are in the priest pension plan. The assigned entities contribute \$6,000 per year to the pension fund, billed by the MCC, for each assigned priest. Priests who are not in our diocesan priest pension fund will receive this contribution from the assigned entity on a quarterly basis either to their incardinated diocesan priest pension fund, or to a retirement account of their choice. All priests are encouraged to set up a retirement account with our Diocese of Lansing 403b or an alternative retirement account to supplement their personal retirement.

Priests may receive the following non-taxable reimbursements when he provides receipts to substantiate the costs as required by IRS Accountable Plan regulations. These expenses must be directly tied to a priest’s ministry. The following chart provides **annual MAXIMUMS** for each category:

Formation (Education and Retreat)	\$1,200
Clerical Clothing – vestments, albs, chasubles, cinctures, clerical shirts, rabats, clerical collars, cassocks, surplices, etc. Does not include black pants, suits, belts, shoes, boots, socks, etc.	\$500
Dues/Subscriptions linked to ministry	\$500
Necessary Equipment and Supplies – cell phones and computer equipment paid by the parish are parish property	\$1,000
Diocesan Convocation	~\$600

Non-Parochial Ministry

Priests who are assigned non-parochial ministry, such as those assigned to full time hospital ministry, full time retreat center chaplain, or full time high school chaplains will receive the pastor’s salary which includes estimated stipends plus his annual increment for years ordained. **If he is not able to provide contracted weekend assistance to local parishes due to the nature of his non-parochial assignment, he will be paid an additional 10% of the base salary.**

Parish Requested Assistance (Contracted Help)

Priests who provide assistance to a parish in need will be paid according to the following schedule by the parish in need. These payments are considered income and the priest is expected to report them when he files his taxes. Diocesan entities are required to send contracted help a 1099 for any amount paid over \$600 per year and may send a 1099 to contracted help paid less than \$600 per year. Diocesan entities must have a completed W-9 on file for all contracted help, including priests, even if annual payments are less than \$600.

Entire Weekend including Reconciliation	\$250.00 (stipend built in) plus mileage
Single Weekend Mass Only	\$80.00 (stipend built in) plus mileage
Weekday Mass	\$45.00 (stipend built in) plus mileage
Baptisms, Weddings, Funerals	Stole Fee plus mileage
Reconciliation	\$50.00 plus mileage

Administrative Procedures for Employers

As mentioned at the beginning of this reference guide, priests are considered employees for income tax purposes and must be issued a W-2 by their employing entity. A priest's W-2 shall contain the following:

- Box a: Priest's social security number
- Box b: Parish EIN
- Box c: Parish name and address
- Box e/f: Priest's name and address
- Box 1: Priest's total taxable income less any contributions to a 403(b). (This includes auto insurance, food allowance, and auto allowance.)
- Box 2: Federal income tax withholding
- Boxes 3 – 8: Left blank because the priest pays these as self-employed
- Boxes 9 – 11: Generally left blank
- Box 12 a – d: Use code "E" and enter amount of 403(b) salary reduction. Use code "DD" and enter the value of the employer provided health insurance
- Box 13: Check if priest is covered in a retirement (pension) plan
- Box 14: The parish may include the value of room.
- Boxes 15 – 20: If State or City taxes are withheld, wages paid (same as box 1), and name of State or locality

Parishes must also issue a total compensation memo to priests assigned to them so that he has a clear understanding of his total annual compensation and benefits.

A sample Total Compensation Memo is included at the back of this guide.

To learn more about the unique tax status of priests, review the references cited below.

ⁱ USCCB Diocesan Financial Management (A Guide to Best Practices), Chapter 3: Compensation of Priests and the Dual Tax Status of Priests <http://www.usccb.org/about/financial-reporting/upload/diocesan-financial-management.pdf>

ⁱⁱ IRS Publication Number 1828 "Tax Guide for Churches and Religious Organizations" <https://www.irs.gov/pub/irs-pdf/p1828.pdf>

ⁱⁱⁱ Income Taxes for Priests Only Guide by Shepherd's Advisor <http://shepherdsadvisor.org/income-taxes-for-priests-only/>

^{iv} Ibid.

22222		a Employee's social security number 123-45-6789		OMB No. 1545-0008			
b Employer identification number (EIN) 98-3333			1 Wages, tips, other compensation 35189.53		2 Federal income tax withheld 8769.14		
c Employer's name, address, and ZIP code St. Mary Parish 123 Main Street Anytown, MI 48888			3 Social security wages		4 Social security tax withheld		
			5 Medicare wages and tips		6 Medicare tax withheld		
			7 Social security tips		8 Allocated tips		
			9		10 Dependent care benefits		
d Control number 79936-464792			11 Nonqualified plans		12a		
e Employee's first name and initial Fr. John		Last name Vianney	Suff.	13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b E 5000.00	
Fr. John Vianney 123 Main Street Anytown, MI 48888			14 Other		12c DD 9156.00		
			PARX 8700.00		12d		
			f Employee's address and ZIP code		12e		
15 State Employer's state ID number MI 98-3333		16 State wages, tips, etc. 35189.53	17 State income tax 1495.55	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

W-2 Wage and Tax Statement

2021.

Department of the Treasury—Internal Revenue Service

Confidential Memorandum

To: Fr. NAME, Pastor
From: Bookkeeper
Date: 1-Jul-21
RE: Annual Compensation

This memo serves to confirm your compensation and benefits for fiscal year 2021 - 2022. This will be effective July 1, 2021.

New base salary:		\$	37,100.00	
\$ 200.00 per year ordained:	5 years	\$	1,000.00	
2021-2022		\$	38,100.00	\$1,465.38
				Bi-weekly

Estimated cost of employer provided benefits and reimbursements:

Benefits:	Short Term Disability:	\$	204.00
	Long Term Disability	\$	156.00
	Health/Dental Insurance	\$	9,156.00
	Long Term Medical Care Insurance	\$	2,000.00
	Auto Insurance (income taxable benefit)	\$	1,140.00
	Priest Pension	\$	6,000.00
	Auto Allowance	\$	3,300.00
	Food Allowance	\$	5,100.00
	Housing	\$	8,700.00

Reimbursements:			
	Education and Retreat Reimbursements (max)	\$	1,200.00
	Clerical Clothing Reimbursements (max)	\$	500.00
	Dues and Subscriptions Reimbursements (max)	\$	500.00
	Equipment/Supplies Reimbursements (max)	\$	1,000.00
	Annual Priest Convocation Reimbursement	\$	600.00
	Total Compensation and Reimbursements	\$	77,656.00