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ACCOUNTABLE REIMBURSEMENT MADE SIMPLE

Since ministers can no longer deduct unreimbursed business expenses from their personal tax returns, an accountable reimbursement plan is a necessity, especially for ministers that have a lot of business expenses.

So, let's talk about how this can be done simply:

First, a resolution needs to be adopted by the Church Council. This can be done at the next regularly scheduled meeting or by an e-mail to the Church Council asking for their approval of such if a regular meeting is not scheduled in the next few days. The resolution should be something similar to the following:

The ______________ Church of God, through this action of the Church Council, does hereby create an accountable reimbursement plan for Pastor ___________. As a part of the compensation paid to Pastor _____________, the Church Council designates $_________ each week/ $________ annually to reimburse all necessary and proper business expenses incurred by him during the normal course of conducting business on behalf of the ________________ Church of God. Expenses must be substantiated to the church treasurer as to the date, amount, and business purpose within 30 days after they are incurred. Any excess reimbursement must be refunded to the church within 60 days after expenses are paid or incurred.

This resolution shall be good and valid immediately from this point onward for this fiscal year and all years afterward unless changed by this body.

Second, the Pastor needs to determine how much out of his/her monthly paycheck will be designated for expenses. That amount should be included in the resolution just mentioned. As time progresses, the amount can be changed if the Pastor determines the amount designated for expenses are too much or not enough. At that point, a new resolution will need to be adopted by the Church Council.

For example, let's assume that the Pastor's current pay per month is $5,000. Under this approach, he could designate $1,000 a month (or whatever amount that he thinks he will reasonably spend) as accountable reimbursement – and include that amount in the resolution above.

Third, once the amount for accountable reimbursement is set, the Pastor will still get the same amount as before ($5,000 in the example – but $4,000 will be listed as salary on the church's books and taxable for all purposes while $1,000 will be listed as accountable reimbursement for business expenses – and that $1,000 will not be taxable for Federal or State income taxes, nor for Social Security/Medicare taxes). This will amount to a substantial tax savings for the Pastor.

Fourth, it is the Pastor's responsibility to regularly submit receipts to the church treasurer. It is generally suggested that receipts be submitted at least monthly just to assure their timeliness. The church treasurer is responsible to keep the receipts submitted by the Pastor. Please note that the Pastor may want to submit copies of receipts to the church treasurer, while maintaining the originals. That is okay as long as one maintains the originals.

Fifth, let's assume again that the Pastor is set up for $1,000 a month for accountable reimbursement expenses. As expected, the Pastor is not going to have exactly $1,000 each month of expenses. Some months he will have less than that amount and some months more. If he has less, the overage rolls over to the next month and becomes the first money that is used for expenses that month. Of course, if the expenses are over, those receipts can go against the amount that he will receive for the next month. All of this is simply bookkeeping that the church treasurer must account for on the church's books. Of course, as mentioned earlier, if the Pastor is over every month (or under every month), the amount designated needs to be changed for the coming months. That can be done simply by having the Church Council pass a new resolution. You can always change the amount going forward, but you cannot change for months that have already occurred.

Sixth, since this money is set aside in a tax advantaged way for the Pastor, if the Pastor does not provide receipts for all the accountable reimbursement money he has received in a year, he must return the excess to the church at the end of the year. For example, let's assume that $1,000 a month is set aside for accountable reimbursement. If the Pastor has not submitted $12,000 worth of business expense receipts (mileage, business meals, lodging costs, etc.) in the year, he must return the excess amount to the church. So, if he has only submitted $11,500 worth of receipts in a year, the Pastor would need to write a check back to the church for $500. If he does not do so, the entirety of the $12,000 becomes taxable income (Federal, State, Social Security, and Medicare). By not returning the excess to the employer, the accountable reimbursement plan is blown up and the entire amount becomes taxable.

Seventh, while the Church Council may decide to give the Pastor the "returned amount" ($500 in my example immediately above) as a year-end bonus, the steps mentioned above must be followed with the Pastor actually writing a check back to the church for the excess. Of course, the bonus would be treated as additional compensation to the Pastor and would be taxed for all purposes.

Eighth, if the Pastor submits more expense receipts than there are funds available in the designated accountable reimbursement account, those amounts cannot be reimbursed in excess of the amount designated in the resolution, nor can the Pastor deduct those excess expenses on his personal tax return since unreimbursed business expenses have currently been eliminated from the Tax Code. Therefore, it is very important that the estimated expenses closely match what the Pastor spends, and if it does not, the resolution needs to be amended during the year to account for the difference.

While this may sound like a lot of trouble, it actually is rather simple. Most importantly it provides a huge tax benefit to the Pastor now that unreimbursed business expenses have been eliminated by the Tax Code.

The perfect scenario is for the church to have sufficient funds to cover the Pastor's business expenses above and beyond the designated salary amount. However, when that is not the case, an accountable reimbursement plan serves as a tax-advantaged opportunity to mitigate the tax burden on the Pastor since the Pastor can no longer claim his unreimbursed business expenses as a tax deduction.