BEST PRACTICES TO FOLLOW IN COMPENSATION PLANNING AND EXECUTION

Presented by:

Elaine Sommerville, CPA

Sommerville & Associates, P.C.

elaine@nonprofit-tax.com

(682) 350-9392

www.nonprofit-tax.com

THE START

BUILDING BLOCK #1

THE DECISION MAKERS

Define	Define the decision makers
Confirm	Confirm the independence of the decision makers

BUILDING BLOCK #2

DEFINE THE POSITION

Create the job description

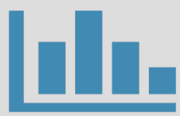
- A description of the duties to be performed
- A description of the prerequisites of the job, i.e., software skills, etc.
- Whether or not the job requires a person to be a credentialed minister
- Classification of the job for wage and hour, especially, if the job can qualify under the ministerial exception

Poll #1 What fun filled holiday occurs in October?

- Christmas
- St. Patrick’s Day
- Halloween

BUILDING BLOCK #3

KNOW THE LIMITS FOR THE POSITION (SETTING THE UMBRELLA)



Use of outside data

Salary surveys

- https://thechurchnetwork.com/ministrypay/
- https://new.churchsalary.com/
- https://www.churchcompensationservices.com/

Compensation Experts

Information gathered from other churches and organizations

Other factors

Experience
Certifications
Specialized Knowledge
Economic Factors

BUILDING BLOCK #4

DETERMINE THE GOALS OF THE COMPENSATION PACKAGE

CURRENT NEEDS

FUTURE NEEDS

EDUCATIONAL NEEDS

FAMILY NEEDS

HEALTH NEEDS

BUILDING BLOCK #5

IDENTIFY WHAT IS OR CAN BE PROVIDED

What is benefiting the employees:

- Housing
- Auto
- Insurance
- Medical programs
- Childcare
- Retirement
- Tuition
- Love gifts
- Gift cards
- Expense Reimbursement Plans

Select the benefits that fit the goals of the plan and check the legal requirements of the benefits:

- Are there nondiscrimination requirements?
- Are there plan document requirements?
- Are there legal restrictions in any way?

Poll #2 Most people associate what kind of pie with Thanksgiving?

- Lemon Meringue
- Pumpkin
- Key Lime

BUILDING BLOCK #6

VALUE THE BENEFITS

If you don't know the value of the benefits, you can't determine if compensation will still be reasonable. The goal is to use the funds to the best purpose to meet the goal.

The total must stay within the "umbrella" of reasonable compensation to meet regulatory requirements.

If it is too much, something may have to be restructured.

STEP #7

WRITE IT DOWN

Document the amount of the package

↓

Document the basis as to why the package is reasonable including the outside data that was used to prove it was reasonable

↓

Document the vote of each person of the committee or at least any person who votes against the package (there are penalties that can be assessed against persons who agree to pay an unreasonable amount of compensation to key individuals in the church.)

↓

Clearly document the portion of the package that is going to be considered as housing allowance under IRC Section 107.

STEP #8

SET UP THE PAYROLL RIGHT AND KNOW HOW TO REPORT EVERYTHING

Determine if each element is taxable for

- Federal Income Tax
- Social Security & Medicare Taxes

If one of the elements is taxable, is there a provision that makes it nontaxable if something is done a little differently.

- Example: Payment of auto expenses directly would be taxable, but if the employee is reimbursed based on the IRS approved mileage rate the benefit is not taxable.

Poll #3 Preparing one's individual tax return is:

- A family activity
- A dreaded annual event
- Not really required

A REVIEW OF THE BUILDING BLOCKS

Building Block 1
Define the decision makers

Building Block 2
Define the position

Building Block 3
Know the limits for the position

Building Block 4
Determine the goals of the compensation package

Building Block 5
Identify what is or can be provided

Building Block 6
Value the Benefits

Building Block 7
Write It Down

Building Block 8
Set up the payroll right and know how to report everything

THE FINISHED PRODUCT

A STRONG COMPENSATION PACKAGE MEETING THE NEEDS OF BOTH ORGANIZATION AND EMPLOYEE WITHIN THE GUIDELINES OF THE LAW

RESOURCES FOR MINISTERS & CHURCHES

- IRS Publication 517 - **https://www.irs.gov/forms-pubs/about-publication-517**
- Church Law and Tax – join for full member benefits and access to many resources for you and your church – **www.churchlawandtax.com**
- The Church Network – join for great access to other ministers and administrators working in churches – **www.thechurchnetwork.com**
- ECFA Minister and Church Tax & Financial Guides – Free download at **https://www.ecfa.org/TaxBooks/Default.aspx**
- The CO+OP Ministry Conference – February 24, 2026 **https://www.texasministryconference.org/**
- Church Compensation: From Strategic Planning to Compliance - **https://store.churchlawandtax.com/church-compensation-second-edition-with-2025-updates-from-strategic-plan-to-compliance/**

Elaine Sommerville, CPA
Sommerville & Associates, P.C.
elaine@nonprofit-tax.com
682-3509392

NOW AVAILABLE

Visit **ChurchLawAndTaxStore.com** to order **Church Compensation: From Strategic Plan to Compliance** by Elaine Sommerville, CPA.