

## EXPENSES AND BENEFITS

### Tax Efficient Remuneration

This leaflet has been produced to help churches to structure their pastor's remuneration package in the most tax efficient manner.

### Her Majesty's Revenue & Customs (HMRC) Guidance Booklets

HMRC have produced a number of guidance booklets and these are essential reading for church treasurers. The ones most likely to be of benefit are listed below; copies available from: [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

- CWG2(2015): Employer Further Guide to PAYE and NICs
- 480(2015): Expenses and Benefits
- 490: Employee Travel – a tax and NIC's guide for employers

### Expenses

The basic principle is that expenses must be wholly, necessarily and exclusively for business purposes or their reimbursement will be taxable in the hands of the recipients.

### Office Supplies

Office supplies used by a pastor (e.g. computer disks, stationery, postage, etc.) may be repaid without incurring a tax liability so long as they are used exclusively for business.

### Books

The cost of books used in the preparation of sermons may be reimbursed without incurring a tax liability but books or periodicals used for general background reading will be subject to tax.

### Conference Expenses

If it is necessary for the pastor to attend conferences on behalf of the church, the cost of the conference, including meals and accommodation, may be paid by the church without incurring a tax liability. It is preferable for the costs to be paid direct by the church. In addition payments of up to £5 per night may be made to cover "personal incidental expenses" when the pastor is staying away from home.

### Travelling Expenses

If the pastor uses public transport to visit members of the church or congregation or to attend conferences on behalf of the church, such expenses may be repaid without incurring a tax liability. If the pastor owns his own car it is possible to pay him a mileage allowance (for journeys in connection with his pastoral duties) in accordance with approved HMRC rates (currently 45p per mile for the first 10,000 miles per annum and 25p thereafter). Similarly, mileage allowances may be paid (without limit) in respect of the use of the pastor's motor cycle (24p per mile) and pedal cycle (20p per mile).

### Hospitality Expenses

It is very unwise to pay any lump sum expense allowances (e.g. £10 per week to cover the cost of pastoral hospitality at the manse). However, it is worthwhile asking the pastor to keep a strict record (with receipts where practical) of the cost each week over a period of time and then asking HMRC whether such costs may be repaid to the pastor (tax-free) as they are really reimbursement of the expenses incurred in the course of his ministry. The expenses of entertaining on informal occasions or social gatherings (that might be conducted by any member of the church) are not allowable.

## **Manse Expenses**

A pastor who lives in a manse owned by the church will not be liable to income tax, even though there is a benefit of rent-free accommodation. Furthermore, council tax and landlord's expenses (i.e. expenses in connection with the structure of the building) may be paid by the church without a tax liability arising. If the church pays for light and heat, cleaning and decoration these expenses will be regarded as a benefit in kind but the sum assessable will not exceed 10% of the pastor's emoluments.

## **Telephone Expenses**

If the telephone is in the name of the church no liability arises if it is used exclusively for business. If it is in the pastor's name, business calls (but not the rental) may be refunded to him if there is reference to itemised calls. If the church provides the pastor with a mobile telephone, the line rental and business calls will be exempt from tax. However, if the pastor owns a mobile telephone and the church pays for his use of it, he may face a tax liability.

## **Wife's Allowance**

If the pastor is married and his wife is sharing some of his pastoral ministry (such as in visitation and in the provision of hospitality) the total salary package may be divided between the two of them. The allocation must be made in respect of specific duties and should be capable of being justified to HMRC. The amount that can be paid to an employee before National Insurance Contributions are chargeable is currently £680 per month. Also, an employee with no other source of income would not pay tax on the first £958 per month. It should be noted in this context that the legal relationship between a church and a pastor's wife (being an employee) is different from that between a church and a pastor (who is self-employed) and therefore the regulations concerning the *National Living Wage* will apply to payments made to her. The current *National Minimum Wage* rates [as of 1<sup>st</sup> April 2017] are £3.50 per hour (for apprentices), £4.05 per hour (for those aged 16 to 17), £5.60 per hour (for those aged 18 to 20), and £7.05 per hour (for those aged 21 to 24). The *National Living Wage* rate (for those aged 25 and over) is £7.50 per hour.

## **Pension Contributions**

Employer's contributions to pension plans may be made without incurring a tax liability.

## **Loans to the Pastor**

If the church makes a loan to the pastor of up to £10,000 a tax liability will not arise. If the loan is for a higher amount than that, and the church charges a rate of interest lower than the approved HMRC rate (currently 3.25 %), a liability to tax will arise, on the whole amount of the loan, calculated on the difference between the rate of interest actually charged and the approved rate.

## **Gifts to the pastor**

If the church gives the pastor a gift (such as an anniversary offering) it will be taxable, but National Insurance Contributions will not be deductible if it is not part of his contract of employment. If church members, as private individuals, give the pastor gifts independently from the church, they will not be subject to tax.

## **Removal Expenses**

When a church calls a new pastor an amount of up to £8,000 may be paid to reimburse the actual costs of his removal expenses without incurring a tax liability. This includes not only the cost of the removal itself but other expenses such as preliminary visits to the new location and, in certain circumstances, the costs of children remaining in the old location (or going to the new location in advance) to ensure continuity of education.

## **Disclaimer**

Whilst we believe the above advice to be correct at the time of going to press, the law may subsequently be changed. Additionally, the advice is given generally without specific knowledge of a church's immediate circumstances. Church officers are therefore advised to seek the advice of their local income tax office or of an independent taxation consultant where they are in any doubt about the specific application of the general principles given. Similarly, the rates and thresholds quoted are subject to change and up to date rates should be obtained from HMRC's website or from the Corporation.