



PREPARED BY IAN ELSEGOOD

This document has been prepared on the basis of information available at the time of publication. It is not a legal opinion, nor does it provide advice applicable to any particular circumstance. It is intended to be a general guide only. Individuals and churches should make their own assessment of the appropriateness of the material presented, having regard to their particular circumstances, and where appropriate seek professional advice.

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SALARY GUIDELINES FOR CRC CHURCHES INTERNATIONAL

EXECUTIVE SUMMARY

This paper has been prepared to provide assistance for churches wishing to determine appropriate remuneration packages for pastors.

The adoption of a benchmark for determination of salaries will assist churches in the process of setting and reviewing salaries. However, there are many factors that influence this decision making process, and in recognition of this fact, a scale of salaries has been proposed. It is the responsibility of each local church to determine what level is appropriate for their particular setting.

The major recommendations and areas covered are as follows:

- Eldership boards are encouraged to put appropriate salary review processes in place in their local church.
- The adoption of remuneration packages for full time pastors where the fringe benefit component represent between 40 per cent and 60 per cent of the total package.
- The adoption of salary rates consistent with the applicable state government teacher's awards is proposed. Documentation of revised salary rates have been arranged by the CRC National Office on a two-yearly basis to assist local churches.
- It is recommended all churches align their salaries in some form to the benchmarks proposed as this will assist the process of annual salary reviews for pastors.
- Clarification of the proper treatment of fringe benefits for taxation and social security purposes.
- Identification of other relevant salary related issues such as workcover, superannuation and long service leave entitlements.
- The provision of worked examples of salary remuneration packages.

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INTRODUCTION

PURPOSE

This paper has been prepared for CRC Churches International to provide a guideline for churches wishing to determine appropriate remuneration packages for pastors. The information contained in the document has been designed to assist both pastors and elderships undertaking remuneration reviews in their local church.

The recommendations made in this paper are guidelines only. Although every attempt has been made to make these guidelines clear and concise, it is acknowledged that the local church has the final say in establishing appropriate processes and remuneration levels in their own setting.

DISCLAIMER

This paper is not a legal opinion, nor does it provide advice applicable to any particular circumstance. It is intended to be a general guide only. Individuals and churches should make their own assessment of the appropriateness of the material presented, having regard to their particular circumstances, and where appropriate seek professional advice.

It is not intended that this paper cover remuneration package arrangements for other staff employed in the church. Salary rates for other staff can be determined by direct reference to the appropriate local awards that exist in these areas.

Every effort has been made to provide information relevant to the State or Territory where the legislation and conditions may differ. For simplicity, the examples given refer to South Australian conditions.

DEFINITIONS

The term "Salary" will be used regularly throughout this document. For ease of understanding, it is intended that this refer to a remuneration package in its broadest sense and not be limited to the technical understanding of the term in accounting or taxation regulations.

The term "Taxable Salary" refers to the component of a remuneration package that is by definition included as Taxable Income for the individual under Income Taxation law.

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The term "Fringe Benefits" refers to the component of a remuneration package that is defined as "Fringe Benefits" provided by the employer under Fringe Benefits Taxation law. In certain circumstances these fringe benefits may be defined as "Exempt Benefits" under FBT legislation.

AUTHOR

Ian Elsegood is a member of the Institute of Chartered Accountants and a Registered Tax Agent. He is a CRC Pastor and a member of the PortLife Church in New Port in Adelaide's western suburbs.

THE PROCESS & IMPLEMENTATION OF SALARY REVIEWS

SALARY REVIEWS

In the local church it is important to establish a process of salary reviews. This review should be initiated by the eldership on an annual basis.

Often it is difficult for a pastor to raise the matter of a salary review at an eldership meeting. The pastor may feel it is inappropriate to suggest that a salary review be undertaken where he will obviously benefit financially from such a review. As a result, the matter may go unnoticed by well-meaning elderships unaware of the financial pressures caused by irregular reviews of salaries.

This situation is often compounded by the fact that elderships find it difficult to ascertain what an appropriate level of remuneration for ministry related activities is.

To avoid this situation, the policy of an annual salary review in local churches should be adopted by the eldership and the agreed process documented in the eldership meeting minutes.

Action Point: The frequency of salary reviews should be formally decided upon by the eldership and be documented in the eldership meeting minutes.

Note: In place of an annual review, some churches may elect to adopt automatic increases in salaries based on some external determinant (such as the consumer price index, state award, federal award or enterprise agreement) and review the appropriateness of salaries say every three years.

SALARY COMMITTEE

The eldership in the local church should appoint a salary committee responsible for the annual salary review. This salary committee should be comprised of individuals who do not directly or indirectly benefit financially from the review.

It is recommended that the salary committee be comprised of members of the eldership that are not employed by the Church, and possibly others from the church congregation with recognised experience in financial or human resource areas. For some churches it may be necessary to look outside the local church for relevant input into the salary committee, such as the church auditor or to seek assistance from the CRC National Office.

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As part of the salary review, the salary committee should be encouraged to find a balance that reflects generosity and responsibility. Scripture instructs us that “the worker deserves his wages” (1 Timothy 5:18b). Generally speaking, pastors work sacrificially in their calling and receive lesser remuneration than others in similar settings. However, in determining appropriate salary levels, other factors often dictate the level of remuneration that can be paid, such as the size of the church or the ability of the church to pay.

It is acceptable that the Senior Pastor or other qualified personnel on the church staff make recommendations to the salary committee, but not be involved in the final decisions of the salary committee. Alternatively, advice can be offered by the CRC National Office concerning appropriate levels of remuneration across the Movement.

It is recognised that tension will always exist between the need for churches to provide a fair and equitable package for pastors and the ability of churches to fund it. Churches and pastors are encouraged to consider the particular needs and circumstances of each party in their negotiations so that they may partner together to fulfil the Great Commission.

Action Point: The eldership should appoint a salary committee to undertake the salary review. The establishment of the committee should be noted in the eldership meeting minutes. No persons should be appointed to the salary committee where a conflict of interest would exist or appear to exist. Where the establishment of a committee is not possible, advice should be sought from the CRC National Office.

IMPLEMENTATION

It is important that the salary committee arrive at salary recommendations in a manner that is above reproach. Salaried eldership members need to be excluded from the final determinations of the salary committee. However, the salary committee should ensure that the recommendations it makes are consistent with budgetary guidelines set by the entire eldership, which most likely will include the Senior Minister and possibly other salaried staff of the church. Whilst respecting confidentiality in setting remuneration levels, the salary committee must ensure that the overall impact of the recommendations made on the church’s budget are endorsed by the full eldership team. Once approved by the eldership, the salary committee should review the financial arrangements put in place to ensure compliance with the approved recommendations, including a review of financial statements and salary and employee records maintained by the church.

Action Point: The salary committee should report (at a pre-determined time) to the eldership at least once a year on its activities.

A CALLING OF GOD

One important principle is the fact that pastors are "called of God". In *Davies v Presbyterian Church of Wales* (1986) it was stated that "the duties owed by the pastor to the church are not contractual or enforceable. A pastor is called and accepts the call. He does not devote his working life but his whole life to the church and his religion. His duties are defined and his activities are dictated not by contract but by conscience. He is the servant of "God".

Although this definition comes from a legal perspective, it does have a significant bearing on social security payments and insurance cover which will be discussed later on in this paper.

By definition, a pastor does not enter an employee-employer relationship with the church but is seen by the law more like an independent contractor.

It is important to maintain this distinction defined by law. Written documentation entered into by the pastor and the church should reflect the independent contractor type basis (contract for services) rather than an employee-employer type relationship (contract of service).

An example contract for service is attached as Appendix 3.

Action Point: In recognition of the "calling of God", a contract for service should be entered into between the pastor and the local church.

The contract for service should clarify whether the pastor is engaged by the church in a full time or part time capacity. Particularly where church finances are limited and the church is unable to engage a pastor full time (although the demands of the position may warrant it), it should be clear that the pastor is engaged say 0.6 Full Time Equivalent (ie 3 days per week) or 0.8 FTE (4 days per week). This then should give release to the pastor, with the blessing of the church to obtain part-time employment to supplement his or her income.

ROLE DESCRIPTIONS & PERFORMANCE APPRAISALS

ROLE DESCRIPTION

In line with current "Best Practice", a role description should be negotiated between the pastor and eldership team (or a sub-committee appointed by the eldership team). The role description will identify specific areas of responsibility for the pastor and outline priorities for those areas. The role description and priorities should be jointly reviewed each year by the pastor and eldership team (or sub-committee).

Where there are expectations on the pastor's spouse to provide ministerial support (eg holding a voluntary ministry portfolio in the church), these expectations should be clearly outlined and agreed to by all parties.

ROLE PERFORMANCE APPRAISAL

Also in line with "best practice", there are benefits in establishing a process for evaluating the pastor's role. The aim of the performance appraisal would be to assess the pastor's performance concerning the agreed priority areas, identify factors that have limited the attainment of goals, and invite reflection on areas for further development. As an outcome of this appraisal, a programme of personal or skills development for the pastor could then be formulated and implemented.

It may be necessary to obtain the services of an external consultant (such as a well respected pastor in another church or the CRC National Office) to assist with the appraisal. The person nominated should be mutually agreed upon by the pastor and eldership team.

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RECOMMENDED SALARY BENCHMARK

A benchmark can be helpful in setting remuneration packages for pastors. The right of local churches to determine remuneration packages is clearly recognised and supported, but at the same time, many church boards are looking for some guidance and assistance in this matter.

There are many considerations in determining appropriate remuneration levels, including:

- size of church
- responsibilities
- physical location of church
- length of experience
- length of service
- provision of housing
- expected business travelling
- philosophy of ministry
- taxation concessions
- related ministry expenses
- other benefits
- ability of the church to pay

In identifying an appropriate benchmark, the objective is to identify an award that reflects local conditions, is easily available, regularly updated, is comparable in responsibilities to that of a pastor, has sufficient range to accommodate a wide variety of churches and would be considered "fair" by the community.

Action Point: It is recommended that the state government teacher's award be adopted for pastoral staff as a benchmark. This award (updated regularly by enterprise bargaining agreements) meets the criteria necessary for an appropriate benchmark, recognising the variation in "costs of living" from state to state.

A summary of current teacher salaries is available from the CRC National Office, and the spreadsheets are updated every two years so that the furnished examples of comparative salaries for pastors given the specific taxation concessions available to them are based on current information. (NOTE: to obtain a copy of these spreadsheets, contact the CRC National Office – peterg@familycentre.org.au or 08 8356 6999)

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Although these award rates proposed do not specifically address the differences between rural and metropolitan settings, they do form a general basis from which each local church can then make allowances for specific conditions.

The adoption of a benchmark for salaries that is updated every two years ensures that minister's salaries keep pace with community trends. Ideally a complete salary review should be undertaken on a periodic basis, but for many churches this task has been difficult in the past due to the lack of resources and information available to churches. As an interim step, it is highly recommended that churches align existing salaries with the benchmarks proposed (increasing salaries by rounding up to the closest benchmark nominated) where possible. For part time employees, the full time equivalent salary should be applied to the benchmarks provided.

This does not remove the responsibility of the church to instigate a comprehensive remuneration review but it does in the short term mean that ministers will not be disadvantaged by cost of living increases that can erode their existing remuneration packages.

Action Point: It is highly recommended that churches align their salaries as part of a regular salary review in some form or another to the salary rates as provided and periodically updated by the CRC National Office based on current teacher salaries. This will facilitate the process of salary reviews on a regular basis as the rates are updated by the CRC National Office.

SALARY PACKAGING CONSIDERATIONS

SALARY PACKAGING

Salary packaging can provide significant benefits to both the local church and pastor. As a general principle, salary packaging arrangements reduce the costs of a church to engage a pastor, whilst at the same time maximising the amount of remuneration a pastor receives in his or her hand (Refer Appendix 1).

INCOME SPLITTING (BETWEEN PASTOR & SPOUSE)

Income splitting should not be considered unless the spouse of a minister performs specific duties and enters into a contractual arrangement with the church for the provision of those services. Clearly the relative levels of remuneration between pastor and spouse should reflect actual hours worked, experience and responsibilities of the individuals. The activities should not just incorporate those responsibilities that could reasonably be expected of a volunteer within the church.

Where income splitting is appropriate, both the pastor and their spouse should have clear role descriptions outlining the responsibilities that each one has.

It should be noted that The Tax Commissioner has wide powers to negate income splitting that diverts income from higher tax paying individuals to lower tax paying individuals if, in the Commissioner's opinion, the amount is not 'reasonable'. Income splitting should be entered into only where the facts support such an arrangement.

FRINGE BENEFITS

A fringe benefit has been described as an advantage that accrues to an employee by virtue of his or her employment. The definition of employee includes a current, former or future employee. The fringe benefits are provided in non-cash form, such as the provision of accommodation, payment of health insurance direct to a private medical benefits fund, provision of company car for private use or reimbursement of personal expenditure. This list is not exhaustive. Any private expense of an employee paid directly by an employer will constitute a fringe benefit.

It is important to note that a fringe benefit is something other than reimbursement for a work-related expense. Where a church reimburses expenses incurred by an employee that are clearly connected to his performance of his duties (eg telephone calls made from home for church business, purchase of reference materials etc.), these reimbursements provide no direct benefit to the employee.

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Allowances likewise do not constitute a fringe benefit, but may fall within the PAYG system and be subject to withholding tax (eg motor vehicle allowance). Additional information can be obtained from Taxation Ruling TR 92/17 issued by the Australian Taxation Office (<http://law.ato.gov.au/pdf/pbr/tr1992-017.pdf>)

Considerable advantages can be achieved by churches providing fringe benefits to pastors. Under existing legislation, churches that provide non-cash benefits to pastors are exempt from fringe benefits tax where

- the employer is a religious institution
- the employee is a religious practitioner
- the benefits are provided principally for pastoral duties or duties directly related to the practice, teaching or propagation of religious beliefs
- the recipient is an employee (or close relative)

For technical detail concerning Fringe Benefits Tax exemptions, refer to Section 57 of the Fringe Benefits Tax Assessment Act (1986) and Taxation Ruling TR 92/17)

The Lutheran Church received written documentation dated May 1996 from the FBT Specialist Cell in the Australian Taxation Office that

"...the exemption from the FBT is a concession by Government to assist your organisations (churches) in their worthwhile role in the community, it is considered that the savings gained by salary packaging should be used to reduce the net employment costs of your organisations rather than passing the savings created by this concession directly on to employees as inflated wages"

This exemption is significant in that a church can provide benefits that have a greater value to the pastor than a taxable salary because there is no corresponding income tax liability that applies to the benefit.

The fringe benefits that meet the criteria provided to a pastor are considered to be "exempt" fringe benefits. These benefits are not quantified and recorded on the employee's PAYG certificate issued by the church.

Tax law does not restrict the range or type of fringe benefits which may be provided by a church to its pastor. Neither does tax law restrict the level of fringe benefits which may be provided. It is possible in limited cases that a remuneration package comprises only the provision of fringe benefits, but no salary.

Recent changes to Fringe Benefits Tax legislation imposed limits on the amount of tax exempt fringe benefits within charitable organisations, but this does not apply to benefits provided to ministers of religion engaged in pastoral duties.

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Some guidelines are given in Appendix 3 as part of the sample contract for service as to the type of fringe benefits that can be provided. The list is not exhaustive, but does serve to clarify the purpose for which the fringe benefits are provided to the pastor.

Other denominations have guidelines that prescribe the apportionment of a salary package between taxable income and the provision of fringe benefits. Currently, the following arrangements exist:

- Lutheran churches recommend an approximate 55/45 split between salary and fringe benefits.
- Church of Christ churches recommend an approximate 60/40 split between salary and fringe benefits.
- Baptist churches recommend an approximate 60/40 split between salary and fringe benefits.
- Assemblies of God churches make no recommendation of allocation between salary and fringe benefits but do suggest that consideration be given to the "spirit of the law that still provides generous tax exemptions to churches, colleges and other ministries".

The Tax Office has expressed verbal opinion only at various times that although no limit is given in the legislation, a 50% split between taxable salary and fringe benefits is "reasonable". It should be highlighted that this reflects opinion, and not the law.

In determining a salary package, consideration must be given to what would be regarded as "reasonable" by the "man in the street". Churches must comply with the letter of the law, the spirit of the law and not be involved in any practice that could be interpreted as a tax avoidance scheme.

With this in mind, it is important to note that when salary packaging places the pastor in a low tax bracket, the allocation of a portion of the remuneration package as taxable income results in only a small amount of income tax payable by the pastor. In most cases this is true when there is a 50/50 split of the remuneration package between taxable salary and fringe benefits.

There are cases where the provision of fringe benefits and no salary may be appropriate. In the case of a part time pastor (engaged say 4 days per week in secular work and 1 day per week paid work at the church), the payment of a nominal reimbursement to cover ministry costs may be justifiably 100% fringe benefits. It would be difficult on the other hand for a full time pastor to justify that they receive no taxable salary and only fringe benefits when the remuneration

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package provided by the church is in line with salaries paid in the general community.

Practically speaking, the provision of fringe benefits and no salary would preclude the pastor from accessing cash for living and general expenses, as fringe benefits can not be paid as cash. For a pastor with no other income, even a cash salary below the tax threshold (currently \$18,200) would allow the pastor to access a cash component of the remuneration package without attracting a personal tax liability.

In all cases, the determination of an appropriate split between cash salary and fringe benefits must stand the scrutiny of the wider community.

Action Point: Based on current accepted practice, consistent with the spirit of the concessions available, it is recommended for a full time pastor that the fringe benefit component of the remuneration package represent between 60 per cent and 40 per cent of the total package.

The allocation between a cash salary and fringe benefits should be clearly documented by the employer prior to the employee earning the remuneration. This needs to be in place to ensure that an "Effective Salary Sacrifice Agreement" is in place that will be recognised by the Australian Taxation Office.

Please note that for simplicity, all examples provided in this paper assume a 50/50 split between salaries and fringe benefits.

It is necessary that an official record is kept in the church of the remuneration package arrangements for the pastor. The distinction between taxable salary and fringe benefits provided as part of the package should be clearly made.

Action Point: A note in the salary committee minutes should clearly record the remuneration package of a pastor, clearly distinguishing between taxable salary and fringe benefits paid for the pastor's benefit.

PROVIDED HOUSING

A church may be in a position to provide a manse for the pastor. The value of that housing component should be taken into consideration when determining the remuneration package. As a guide, the South Australian Baptist Union has valued the provision of housing at around \$170 per week in 2004. It is possible that the value of provided housing could range from \$100 - \$400 per week depending on the particular circumstances. Local housing rental market rates may be used as a reasonable guide for churches in determining a value for provided housing.

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ALLOWANCES – GENERAL CONSIDERATIONS

In determining a salary package, due regard needs to be given to work related expenses that will be incurred by the employee in performing his duties.

Reimbursement of these expenses should be made by the church and can be paid in the form of allowances. In many cases, the payment of these allowances provide no direct benefit to the employee, but may be subject to PAYG tax deductions.

Additional information can be obtained from Taxation Ruling TR 92/17 issued by the Australian Taxation Office (<http://law.ato.gov.au/pdf/pbr/tr1992-017.pdf>)

Where the allowances paid reflect the costs incurred by the employee in performing his duties, the amounts should not be regarded as a benefit to the employee in determining appropriate remuneration levels for employees. Where the allowances exceed the costs incurred by employees in performing their duties, the excess amount paid should be considered in determining cash salary and fringe benefit remuneration levels.

VEHICLE ALLOWANCES

In many situations it is assumed that the pastor provides his own vehicle for ministry work. The vehicle expenses incurred by the pastor (excluding private usage) should be reimbursed by the church.

As a guide, the South Australian Baptist Union has calculated that on average, business travel by a pastor equates to 12,000 kms per annum. An allowance of \$118 per week has been included in their salary packages in recognition of this expected business travel. In circumstances where the annual rate of business travel is expected to exceed 12,000 kms, arrangements are made to reimburse the pastor for this additional travel at a suggested rate of 51c/km. (NOTE – these are 2004 figures which will have changed since)

Special consideration needs to be given where large distances need to be travelled by the pastor, particularly in rural areas.

As a guide it may be reasonable to consider the cost of running vehicles published by the applicable state automotive association (RAA, NRMA, RACV).

Churches may elect to pay a vehicle allowance or a petrol allowance to a pastor. Alternatively, the church may wish to incorporate the reimbursement into the fringe benefit component of the remuneration package.

If the option of the vehicle or petrol allowance is selected, the allowance is included as income (as an allowance) on the pastors PAYG certificate. This may be advantageous to the pastor where a large amount of business travel is undertaken that is not reimbursed by the church. In that situation, the pastor would be able to

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claim a tax deduction for the component of business travel that was not reimbursed, effectively reducing the pastor's taxable income and liability for income tax.

Vehicle purchase arrangements negotiated by the pastor or church may be an option to consider.

PHONE AND RESEARCH ALLOWANCES

Phone and research allowances can also be incorporated into a remuneration package. Home telephone or mobile phone expenses (excluding private usage) should be covered by the church.

It is difficult sometimes to differentiate between private and church use, but the onus should be on the pastor to maintain records and act with integrity in these areas to determine appropriate levels of reimbursement. It would be appropriate to keep records for a 3 month period to determine the percentage of church and personal use, and then use this percentage as a guide for future periods (i.e. 35% church use and 65% personal use).

Research allowances (or book allowances) can also be provided to the pastor. This allowance encourages the pastor to purchase publications that assist in the professional development of the pastor. This could be paid as an allowance or reimbursement of expenditure up to an agreed amount based on accounts provided by the pastor to the church. Alternatively, the church may elect to purchase publications required by the pastor to build up a church library of resources owned by the church.

In determining the appropriate remuneration package for pastors, all the various allowances or benefits provided to the pastor should be compiled to identify the total remuneration received. If this is not done, it is difficult for those responsible for salary reviews to make valid comparisons concerning remuneration packages or to fully understand the "big picture" when undertaking salary reviews.

An example of how a remuneration package could be presented is provided in Appendix 4.

PASTORS EXPENSE ACCOUNT

To process the payment of fringe benefits, the church may elect to establish a bank account for this purpose. The account remains the property of the church and must be under the name of the church (eg XXXX Church Pastors Expense Account). At regular intervals (say fortnightly, if the pastor's salary is paid fortnightly), amounts are transferred from the church's general bank account into the pastor's expense account.

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There are two ways then that can be chosen to operate this account.

A church can choose to operate the bank account within the normal financial operating systems of the church. The signatories may be the same as for other church accounts, although the pastor may also be included as an additional signatory to the account. The church and the pastor should agree in advance the amount and types of benefit to be paid from this account. Supporting documentation, with appropriate authorisation should be filed in the same way that other bank accounts within the church are operated.

Alternatively, the pastor may be given authority to operate this account on his own. Specific reporting requirements and obligations on the pastor are required under this arrangement. These are outlined in the sample contract for service in Appendix 1.

The provision of a credit card in the name of the church may also be another practical way of administering fringe benefits. However, it should be noted that additional supporting documentation (such as tax invoices and receipts) are required and not just the credit card dockets to meet audit requirements.

On no account is cash to be withdrawn from the pastor's expense account, as this will change the very nature of the payments made. If cash was drawn from the account, this amount would represent cash salary on which PAYG tax must be deducted at the appropriate rate.

The repayment of a pastor's line of credit loan account by the church is a fringe benefit provided the repayment does not result in a credit balance in the account.

Since the account is a church account, GST paid through this account can be claimed back through the church's Business Activity Statement. The church has the choice of whether to use the GST credits claimed to benefit the church, or as an additional benefit to the pastor.

SALARY SACRIFICE ARRANGEMENTS

A pastor may wish to consider further salary sacrifice arrangements that reduce the taxable salary received outside of the fringe benefit arrangements. Salary sacrifice arrangements allow a pastor to allocate a portion of their salary before tax is deducted on the amount (thereby reducing the amount of tax payable). Some examples available include:

- the payment of tithes/offerings into the church
- additional contributions to a superannuation fund
- the provision of a lap top computer (specifically exempted under fringe benefits tax legislation)

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These salary sacrifice arrangements do not create a Fringe Benefits Tax liability owed by the church.

WORKED EXAMPLES

Examples of salary remuneration packages are provided in Appendix 4.

SOCIAL SECURITY CONSIDERATIONS

The assessment of fringe benefits in determining Social Security benefits causes a great deal of confusion and concern for pastors.

Different rules apply for the various types of benefits, and terminology has changed over the years. The major distinction applies to Family Tax Benefit compared to other Social Security benefits.

It is important in relation to these matters that a contract for services between the Church and pastor has been clearly documented.

FAMILY TAX BENEFIT (PART A & PART B)

For the purpose of determining a pastor's entitlement to Family Tax Benefit, fringe benefits are excluded from the calculations. The definition of income for family tax benefits is taken from Income tax legislation, being "taxable income" and "reportable fringe benefits". As the fringe benefits received by pastors are "exempt" benefits, family income only includes the taxable salary of the pastor.

PARENTING PAYMENT & OTHER SOCIAL SECURITY BENEFITS

For the purpose of determining a pastor's entitlement to Parenting Payment and other Social Security benefits, the definition of income includes fringe benefits received, but does allow for some deductions to be offset against this income that relate to "direct ministry expenses". It is recognised that in many cases, fringe benefits comprise amounts that are of a "private nature" as well as some that are connected to ministry activity (such as the use of the minister's home for church hospitality etc). The reimbursement of direct ministry expenses can be excluded from the income test.

It is important to note that fringe benefits need to be disclosed to Centrelink for the calculation of Age Pension, Austudy and Newstart Allowance benefits.

The suggested approach for the declaration of fringe benefits is for the Church to provide a letter to Centrelink documenting the allocation of fringe benefits between private expenditure and direct ministry expenditure based on the particular circumstances that relate to the minister.

An example of the letter for this purpose is attached as Appendix 2.

OTHER SALARY RELATED MATTERS

WORKCOVER ISSUES

Workcover arrangements vary from state to state. To determine whether ministers of religion are covered by Workcover and on what basis the levies are calculated, each church should contact the appropriate CRC Churches State Executive for guidance. In some cases, it should be noted that where a compensation claim is made, a pastor's entitlement will be based on his salary only (excluding fringe benefits). Additional top-up insurance to cover the fringe benefit component of a pastor's remuneration package can be obtained from Australian Christian Services. Further details are available from the CRC national office.

SUPERANNUATION

The church has a responsibility to contribute superannuation to employees. This obligation extends to a contractor where the contract requires the contractor to provide labour personally and the labour part of the contract is more than 50% of its value. Clearly, pastors fall within that definition.

The amount of superannuation contributions is calculated on the "earnings base" of the employee.

Although technically, superannuation contributions only have to be paid on salary (and not fringe benefits), it is considered appropriate that the contributions be based on the total remuneration package provided to the pastor.

It should also be noted that since remuneration packages are generally less for pastors (because of the specific taxation concessions available) the accumulation of superannuation contributions over the years may be considerably smaller than for others in the secular workforce. Pastors need to consider their retirement needs in light of this and may wish to voluntarily contribute towards their superannuation.

Superannuation contributions need not be made by an employer in certain circumstances. No contribution is required where employees are paid less than \$450 in a calendar month, or for those aged 70 years and over or those under 18 years of age working 30 hours or less per week.

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LONG SERVICE LEAVE ARRANGEMENTS

Long service leave legislation differs from state to state. A summary is provided below of the various States:

State/Territory	Qualifying Period	Length of Leave	Pro Rata Commences
Federal	15 years	13 weeks	10 years
New South Wales	10 years	2 months	5 years
Victoria	15 years	13 weeks	10 years
Queensland	10 years	8.67 weeks	10 years
South Australia	10 years	13 weeks	7 years
Western Australia	15 years	13 weeks	10 years
Tasmania	15 years	13 weeks	7 years
Northern Territory	10 years	13 weeks	7 years
ACT	10 years	2 months	7 years

For example, in South Australia, a pastor is entitled to long service leave of 13 weeks after 10 years service. After 7 years, a pro-rata entitlement to long service leave is payable on termination of employment. This long service leave is provided to employees in recognition and as an incentive for longevity of service with one organisation.

Pastors, by the nature of their calling, may move from church to church before becoming entitled to pro-rata long service leave entitlement. In recognition of the fact that the pastor is responding to God's calling on his life, acknowledgement of his service spent at the previous church can be made.

The following conditions should be met for this to take place

- The pastor leaves in good standing
- The pastor's move from one church to the other is endorsed by the respective eldership teams and State CRC Executives
- An amount representing the current (calculated) entitlement to long service leave is transferred from the "previous" church to the "new" church. (Note that when moving from one state to another where entitlements differ, a negotiated arrangement that suits both churches and the pastor may be necessary)

The "new" church would then accept responsibility for the completed years of service the pastor has served at the "previous" church.

COMPARISON OF SALARIES – THE EFFECT OF SALARY PACKAGING

In making a comparison of salaries based on salary packaging arrangements, “after tax” or “net” salaries based on the South Australian Teachers Awards are compared with and without the allocation of fringe benefits. The left hand section of the table calculates the “net” or “take home” pay of a teacher. The right hand section of the table indicates the equivalent “net” salary package received by a pastor where the remuneration package is split 50% salary /50% fringe benefits.

The calculations have been based on current resident personal tax rates only. No allowance has been made for medicare levy, rebates or other adjustments. It has been assumed that the individual earns no other taxable income.

These calculations will be updated by the CRC national office each year or when renegotiated between the Government and teachers through enterprise bargaining agreements.

As an example for determining the appropriate level of remuneration, the following basis is used within the South Australian Teachers Award:

- A step 3 teacher holds a three year degree qualification with no previous teaching experience.
- A step 12 teacher holds a three year degree qualification with ten years full time teaching experience.
- An AST2 teacher holds a supervisory position over a number of employees, exhibiting advanced teaching and management skills within the organisation

Worked examples for these three specific scenarios are provided in Appendix 4.

A summary of current teacher salaries is available from the CRC National Office, and the spreadsheets are updated every two years so that the furnished examples of comparative salaries for pastors given the specific taxation concessions available to them are based on current information. (NOTE: to obtain a copy of these spreadsheets, contact the CRC National Office – peterg@familycentre.org.au or 08 8356 6999)

SALARY GUIDELINES FOR CRC CHURCHES INTERNATIONAL

APPENDIX 2

EXAMPLE LETTER TO CENTRELINK FOR PURPOSES OF PARENTING PAYMENT OR AGE PENSION

To Centrelink Office

Pastor is employed by

The remuneration package per week is as follows:

Gross Salary	\$.....
Fringe Benefits (of a private nature)	\$.....
Total Income (for purposes of calculating entitlement to Parenting Payment/Age Pension)	----- \$ =====

Fringe Benefits (reimbursement of ministry related expenses)	\$.....	<u>Note A</u>
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Please find attached an itemised list of fringe benefits provided to the employee, detailing the type and amount of fringe benefits received and the amount considered to be reimbursement of ministry related expenses for each category of fringe benefit.

Note A

The Pastor receives this amount to cover ministry related expenses. It is the intention of the church that this amount covers:

- the costs involved in running and maintaining a suitable vehicle to meet the transport needs associated with carrying out his religious duties (ie visitation and pastoral care)
- housing related expenses as the pastor is required to use his home or provide accommodation for the purpose of counselling, hospitality, sermon/teaching preparation, convening of functions and other activities related to his ministry role
- Other costs directly related to his ministry role.

Advice has been provided from Centrelink that this amount should be excluded from any calculation of entitlements for Parenting Payment/Age Pension as this represents a direct reimbursement of expenses incurred by the pastor in carrying out his responsibilities directly related to his ministry role.

SALARY GUIDELINES FOR CRC CHURCHES INTERNATIONAL

APPENDIX 2

It is our understanding that the calculation of entitlements for Parenting Payment/Age Pension should be based on the Gross Salary and Fringe Benefits of a private nature notified above.

Yours Faithfully

Listing of Fringe Benefits provided (example)

Type	Total Provided	Ministry Related	Private	Basis of Calculation
House rental	\$	\$	\$	
Rates & Taxes	\$	\$	\$	
Vehicle Expenses	\$	\$	\$	
Hospitality	\$	\$	\$	
Telephone	\$	\$	\$	
Medical Insurance	\$	\$	\$	
Education Costs	\$	\$	\$	
Other (specify) ...	\$	\$	\$	
Other (specify) ...	\$	\$	\$	
Other (specify) ...	\$	\$	\$	
Other (specify) ...	\$	\$	\$	
Other (specify) ...	\$	\$	\$	
TOTAL	\$	\$	\$	

SAMPLE CONTRACT FOR SERVICES

Please note that a Template CRC Employment Contract is available in WORD format on the CRC website for download and adjustment for use.

Please use this link <http://crcchurches.org/?p=9435> to view and download.

SALARY REMUNERATION WORKED EXAMPLES

EXAMPLE 1

SALARY PACKAGE BASED ON SA TEACHERS AWARD LEVEL 3

Equivalent to 4 years training but no experience

TEACHER'S GROSS SALARY	\$ 73,320
LESS TAX	\$ 15,376
NET SALARY	\$ 57,944

PASTORS REMUNERATION PACKAGE

TAXABLE SALARY	\$30,103
LESS TAX	\$2,262
NET SALARY	\$27,841

FRINGE BENEFITS	\$30,103
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TOTAL REMUNERATION PACKAGE RECEIVED BY PASTOR (after tax)	\$57,944
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COST TO CHURCH

TAXABLE SALARY	\$30,103
FRINGE BENEFITS	\$30,103
	\$60,206
LEAVE LOADING (17.5% for 4 weeks of TS)	\$405
SUPERANNUATION (9.5% of total package)	\$5,720
WORKCOVER (1% of Taxable Salary)	\$301
LONG SERVICE LEAVE PROVISION (1.3 weeks p.a.)	\$1,505
GST tax credits for FB amounts (7% estimate) - added back	\$2,107
TOTAL COST OF PACKAGE TO CHURCH	\$66,030

SALARY GUIDELINES FOR CRC CHURCHES INTERNATIONAL

APPENDIX 4

SALARY REMUNERATION WORKED EXAMPLES

EXAMPLE 2

SALARY PACKAGE BASED ON SA TEACHERS AWARD LEVEL 8

Equivalent to 4 years training and 5 years experience

TEACHER'S GROSS SALARY	\$ 91,673
LESS TAX	\$ 21,866
NET SALARY	<u>\$ 69,807</u>

PASTORS REMUNERATION PACKAGE

TAXABLE SALARY	\$36,657
LESS TAX	<u>\$3,507</u>
NET SALARY	<u>\$33,150</u>
FRINGE BENEFITS	\$36,657
TOTAL REMUNERATION PACKAGE RECEIVED BY PASTOR (after tax)	<u><u>\$69,807</u></u>

COST TO CHURCH

TAXABLE SALARY	\$36,657
FRINGE BENEFITS	\$36,657
	<u>\$73,314</u>
LEAVE LOADING (17.5% for 4 weeks of TS)	\$493
SUPERANNUATION (9.5% of total package)	\$6,965
WORKCOVER (1% of Taxable Salary)	\$367
LONG SERVICE LEAVE PROVISION (1.3 weeks p.a.)	\$1,833
GST tax credits for FB amounts (7% estimate) - added back	\$2,566
TOTAL COST OF PACKAGE TO CHURCH	<u><u>\$80,406</u></u>

SALARY REMUNERATION WORKED EXAMPLES

EXAMPLE 3

SALARY PACKAGE BASED ON SA TEACHERS AWARD AST 2

Exhibiting advanced teaching skills and leading other teachers

TEACHER'S GROSS SALARY	\$ 99,965
LESS TAX	\$ 24,934
NET SALARY	\$ 75,031

PASTORS REMUNERATION PACKAGE

TAXABLE SALARY	\$39,748
LESS TAX	\$4,465
NET SALARY	\$35,283

FRINGE BENEFITS	\$39,748
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TOTAL REMUNERATION PACKAGE RECEIVED BY PASTOR (after tax)	\$75,031
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COST TO CHURCH

TAXABLE SALARY	\$39,748
FRINGE BENEFITS	\$39,748
	\$79,496
LEAVE LOADING (17.5% for 4 weeks of TS)	\$535
SUPERANNUATION (9.5% of total package)	\$7,552
WORKCOVER (1% of Taxable Salary)	\$397
LONG SERVICE LEAVE PROVISION (1.3 weeks p.a.)	\$1,987
GST tax credits for FB amounts (7% estimate) - added back	\$2,782
TOTAL COST OF PACKAGE TO CHURCH	\$87,186