

# **PRIESTS' COMPENSATION POLICY**

## **Catholic Diocese of Spokane**

(as approved by Bishop Thomas Daly, Nov. 8, 2016)

### **INTRODUCTION**

The relationship between a diocesan priest, his Bishop, and the People of God is anchored in the Sacrament of Holy Orders. Therefore, the priest should not be viewed by the faithful or by himself primarily as an employee of the diocesan corporation or the parish corporation any more than the Bishop would be viewed primarily as the chief executive officer of a corporation. At the same time, the priest is part of the secular community wherein he enjoys certain rights and is bound by obligations to it. The Church must provide remuneration for priests consistent with their condition, taking into account the nature of their function and the conditions of places and times (cf. can. 281). This policy places into an ecclesial context various civil or secular matters related to the employment and compensation of priests. The compensation provided to the priest is unique in its configuration and cannot be compared directly with salary scales offered for business or executive positions in the secular world. Each pastor/administrator is to share this policy with his Finance Council and consult the Council as required. Priests or Finance Councils may submit questions concerning the interpretation and application of this Policy to the Vicar for Finance.

**Application of this Policy.** Most priests of the Diocese serve in parochial ministry in a single parish or a group of parishes; others may be assigned to non-parochial entities such as Bishop White Seminary or Immaculate Heart Retreat Center, or may be assigned to a specialized ministry within the Diocese. This policy governs their compensation. Whenever reference is made to "parish," other employing entities (e.g., BWS, the Retreat Center, the Diocese) are included. Other priests hold ministerial positions approved by the Bishop, but are under contract with a non-diocesan institution (e.g. a hospital, Gonzaga University, the Military Services). While their compensation is not directly addressed by this policy, they may make use of it in negotiating salary and benefits with an employing entity. Incardinated priests engaged in studies, on sabbatical, on leave of absence or in other exceptional circumstances are to consult the Vicar for Finance regarding financial arrangements. Unless specifically mentioned or intended by the text or context, this policy does not apply to retired or senior status priests.

b) Non-incardinated priests with a ministerial assignment from the Bishop of Spokane are governed by this policy with due regard for any provisions made with the priest's proper ordinary.

By virtue of his office, the Vicar for Finance has the executive power which belongs to the diocesan bishop with respect to the area of ministry entrusted to him (cf. can. 479). With due regard for the authority of the Bishop to reserve a particular matter to himself, the Vicar for Finance is the usual agent to be consulted for interpretation and application of this Policy. In light of expert consultation, the Vicar for Finance believes that the provisions of this policy are in conformity with the Internal Revenue Code (IRC) as of 2016. These laws and regulations change periodically and are normative in what they legislate. They are permissive or advisory in what they allow the Diocese to do if it so chooses. Since this Policy cannot address every possible contingency, when there is need for clarification, the Vicar for Finance may be consulted.

### **1. EMPLOYMENT STATUS, TAXES, AND SOCIAL SECURITY**

a. For civil tax purposes, priests are dual tax status management employees. The priest is an employee of the parish to which he is assigned by the Bishop or of the entity which the Bishop has approved for his employment. With regard to Social Security taxation, the priest considered self-employed, and pays tax according to the Self Employment Contributions Act (SECA).

b. As a citizen or legal resident of the United States, the priest is obligated to pay Federal Income Tax on his salary and additional income that qualifies as taxable income.

- c. When filing his annual Federal Tax Return, the priest is advised to seek professional assistance from someone who is familiar with tax provisions for members of the clergy. The *Income Tax Guide for Clergy* published by the National Federation of Priests Council is a useful resource. IRS Publication 517 provides official tax guidance for members of the clergy.
- d. Although IRC regulations permit a dual tax status employee to opt out of Social Security, every priest is obligated to participate in Social Security coverage. He must make full payment of the Social Security Tax in accord with SECA.
- e. The priest is responsible also for the payment of Social Security Tax owed for taxable income gained separate from his assignment.
- f. In order to ensure that the priest will qualify for Social Security benefits when he retires or is disabled, this Policy requires that the parish is to reimburse the priest for the total amount of Social Security Tax related to his assignment.
- g. The priest cannot seek reimbursement for Social Security Tax that he pays for income gained from a source other than his assignment.
- h. The computation of the Social Security Tax is based on the priest's salary plus the amount determined for the housing allowance and food allowance.
- i. In order to ensure that the parish's reimbursement for the priest's payment of Social Security Tax is accurate, when the priest submits his annual Employment Agreement to the Vicar for Finance, he will include a copy of the Self-Employment (SE) form of his previous year's Federal Tax Return. The page will be shredded once verification is made. Priests (either newly ordained or beginning a pastoral assignment for the first time) will not have a form SE from the prior year. Those priests consult with the Bishop's office to determine the amount of concurrent SE tax reimbursement.

## **2. EMPLOYMENT AGREEMENT**

- a. By July 15, each priest is to complete an Employment Agreement with the parish. The Employment Agreement is to be reviewed by the Parish Finance Council. The pastor is to approve and co-sign the Employment Agreement for the parochial vicar(s). The Employment Agreement governs the fiscal year beginning July 1 of the current year. The Employment Agreement form is appended to this policy. The pastor (or priest administrator) maintains a copy of each agreement in the office of the parish and submits a copy to the Vicar for Finance.
- b. Priests on sabbatical, those assigned to specialized ministry, or those who have been assigned to further studies must complete an Employment Agreement adapted to their circumstances and approved by the Vicar for Finance.

## **3. COMPENSATION SCALE**

- a. The Bishop shall establish a monthly salary/compensation scale (inclusive of longevity increments) for priests.
- b. The current compensation schedule is appended to this Policy.
- c. By April 1, the Priests' Compensation Committee of the Diocesan Finance Council will review the salary scale and the associated benefits' package, and make recommendations for any revisions to the Bishop.

## **4. MONTHLY PAYROLL MANAGEMENT**

- a. Catholic Administration Services (CAS) will administer the monthly payroll for parish priests. In accord with the priest's Employment Agreement (#7) indicating the gross monthly salary, CAS will deduct the amount of tax specified in the Employment Agreement, add the *non-accountable* food and mileage allowances specified in the Agreement, and add 1/12<sup>th</sup> of the amount of the Social Security tax paid by the priest during the previous year. The net amount of the priest's compensation is electronically deposited (EFT) in the priest's bank account on or before the last work day of the month.

- b. CAS calculates and pays health insurance premiums and Washington State Industrial Insurance premiums.
- c. The parish pays reimbursement to the priest for *accountable* mileage, food and professional expenses.
- d. The Fiscal Services Office administers payroll for priests not in parochial ministry, and administers payments for retired priests.

## **5. PRIEST'S RESIDENCE**

- a. The parish or an employing diocesan institution is responsible for providing a residence for the priest(s) assigned to it. The pastor and parochial vicars are to live in a rectory near the parish church; the Bishop's permission is required for an "out-of-parish" residence. When a parish-owned residence is not available, in consultation with the Finance Council of the parish and with the permission of the Bishop, the parish may rent/lease a residence for the priest and provide its furnishings.
- b. The parish has a rightful interest in the vested equity it holds in the residence it provides. A housing payment to the priest in lieu of the provision of housing is permitted only with permission of the Bishop.
- c. The parish is responsible for ensuring that the residence is comfortable, clean, and adequately furnished. The parish is responsible for ensuring that household appliances are in working order. A television with basic cable service for the rectory common room or for common use is provided by the parish. Any additional television or entertainment electronics are the personal expense of the priest and would be his personal property. Unless purchased by the priest's personal funds, household furnishings and appliances are property of the parish and do not accompany the priest when he transfers to another assignment or retires. Likewise, the priest may not acquire, dispose of or replace significant parish-provided furnishings without consultation with the Parish Finance Council.
- d. The pastor (or priest administrator) may make arrangements in consultation with the Parish Finance Council for house cleaning services.
- e. Where the parish owns or rents the priest's residence, the parish is responsible for payment of utilities (water, electricity, gas, sewer, and refuse).
- f. The parish is responsible for the repair and maintenance of a parish-owned residence. Lawn and yard care, fence and walkway repair, and snow removal are considered maintenance. Upon presentation of a receipt, the priest is to be reimbursed for materials he has purchased in the reasonable maintenance or repair of the residence.
- g. Any remodeling or significant repair of the residence is to be carried out in accordance with Diocesan Building Commission policies.
- h. Expenses of a pet are the priest's responsibility. No pets are allowed in a residence for more than one priest unless all agree.
- i. At the time of priest's departure from the residence, the normal cleaning, painting and repairs required as maintenance are to be done at the expense of the parish. If the departing priest had a pet, he must cover the expense for pet-related cleaning and damage.
- j. When a priest is assigned to a new parish, the parish to which the priest is moving pays moving expenses. When a priest moves out of parish assignment, he pays moving expenses.
- k. No one other than the priest may reside in housing provided by the parish.
- l. Housing arrangements for priests not assigned to a parish are determined by the priest in consultation with the Vicar for Priests and the Vicar for Finance.

## **6. HOUSING ALLOWANCE**

The tax value or fair market value of parish owned housing varies from location to location. Federal tax law requires that the claimed amount must be calculated according to the local market. Because the parish is required to reimburse the priest for the Social Security Tax paid on the value of his housing, the pastor in consultation with the Finance Council of the parish and the Dean of his deanery is to calculate the housing allowance (cf. also the appended fair rental value worksheet).

There are three typical housing arrangements.

- a. A rectory (or a shared-use building) on or near the parish grounds is provided. The priest includes the fair rental value as part of his income for Self-Employment tax, but not as income for which income tax must be paid. The pastor calculates the fair rental value in accordance with fair rental value worksheet. In instances of multiple priests sharing the rectory, the total fair rental value of the priests' housing generally is divided by the number of priests in order to compute the fair rental value assigned to each priest.
- b. A parish-owned or rented residence either on or off the grounds that is exclusively for the priest's use. The property (or lease) is in the parish's name. The parish pays the rent or mortgage and utilities directly, and not as a reimbursement to the priest. The fair rental value is the sum of costs (rent, utilities, etc.) paid by the parish, or if there is no rent, then the fair rental value is determined according to the fair rental value worksheet. In instances of multiple priests sharing the residence, the total fair rental value divided by the number of priests is the fair rental value assigned to each priest. The priest includes the fair rental value in calculating his Self-Employment tax.
- c. The priest owns or rents private housing. This housing option is generally not available to priests in the Diocese of Spokane. If the Bishop grants permission for this arrangement, the priest should obtain expert advice and consult IRS Publication 517. He can then propose to the Parish Finance Council a housing allowance paid by the parish.

## **7. FOOD ALLOWANCE**

Each priest is provided a Food Allowance that is just and equitable both for the priest and for the parish.

(A) After consultation with the Parish Finance Council, the pastor designates the monthly amount of his food allowance on the annual Employment Agreement. The Food allowance is limited to \$4,800 per year. The IRC considers a food allowance as "wages" subject to self-employment tax and income tax.\*

Rather than a standard monthly *allowance*, a priest may submit receipts for food and beverage purchases and receive *reimbursement from the parish*, with due regard for the \$4,800 annual limit. The amount of reimbursements is taxable income. When priests are on personal travel or vacation, food/beverage purchases are not reimbursable.

(B) \*Section 119 of the IRC stipulates that under certain conditions meals furnished to an employee on the business premises for the convenience of the employer do not create taxable income for the employee. This Priests' Compensation Policy does not recommend using this method. It may be applicable in certain circumstances, but the priest should seek expert guidance in these instances.

(C) Business meals, i.e. meals at which church business is the principal reason for the meal (e.g., parish or school business, a council/committee meeting, a diocesan meeting) are treated as a professional expense. The parish reimburses the priest for this expense.

i. These reimbursements are non-taxable.

ii. The priest must submit a receipt to be reimbursed. When the priest claims a "business meal," he must include the names of the persons with whom he dined or the name of the group, and the purpose of the meeting.

## **8. MINISTERIAL EXPENSES**

(A) The parish is to reimburse the priest for ministerial or professional expenses incurred in the performance of his duties. Ministerial expenses may include books and subscriptions; fees and other expenses for classes, workshops or meetings; fees for an annual retreat and days of prayer; office supplies,

a computer and computer equipment. The priest is to inform the Finance Council with regard to ministerial expenses that he normally incurs and anticipates, and he is to account for these expenses by receipts from vendors or providers.

(B) The annual reimbursement for ministerial expenses is limited to \$3,600.

(C) If the Finance Council or the priest himself needs clarification concerning the legitimacy of an expense, the Vicar for Finance may be consulted.

#### **9. MOBILE CELLULAR TELEPHONES**

a. If the priest purchases a cell phone as a professional expense, the parish provides a cellular plan sufficient for ministerial duties.

b. Shared data plans, cell phone service, and similar items are under the discretion and supervision of the pastor (or priest administrator).

#### **10. PERSONAL AUTOMOBILE/TRANSPORTATION**

c. Unless approved in writing by the Vicar for Finance, the parish may not provide an automobile or other vehicle for business or personal transportation. The priest is personally responsible for the purchase/lease of his own means of transportation.

d. Any vehicle driven by a priest must be registered and licensed. It also must be insured as stipulated by law and diocesan policy.

e. The priest is to observe all laws that regulate the use of a motorized vehicle. Regardless of the driving regulations of a particular state or nation, because the priest is covered by the Diocese's insurance plan, he is required to wear a helmet when riding a motorcycle.

f. The payment for driving or parking infractions is not a reimbursable ministerial expense.

#### **10. ALLOWANCE OR REIMBURSEMENT FOR AUTOMOBILE AND TRAVEL EXPENSES**

This Policy allows two options regarding automobile travel expenses: (a) a *non-accountable vehicle allowance* that is taxable income; and (b) an *accountable mileage rate reimbursement* as defined in IRS Publication 463 and is non-taxable.

a. Taxable vehicle allowance: a priest may designate up to \$400 per month in the annual Employment Agreement to be added to his salary for all of his business vehicle expenses. In addition, the parish will reimburse the priest for liability insurance with a cap of \$600.

b. Accountable mileage *reimbursement paid by the parish* and non-taxable: a detailed mileage log must be maintained (see worksheet appended to this policy); business mileage is reimbursed according to the IRC mileage rate (\$.54 per business mile for 2016) with no cap on reimbursement amount. In an accountable mileage reimbursement plan, reimbursable business mileage includes, e.g.: visiting parishioners at home, hospital, nursing home, participating in liturgical ceremonies of the Church; travel between/among parishes to which he is assigned; attending meetings and conferences; consultation with a spiritual director or with diocesan officials; providing administration of the facilities of the parish.

c. When warranted, reimbursement may be granted for special Church business travel outside the Diocese. Terms of reimbursement are to be approved ahead of time by the Vicar for Finance. In special travel circumstances that warrant it, reimbursement may be made on the basis of the lesser expense: by air travel or by surface travel (vehicle, train, bus).

d. According to the IRC, reimbursement cannot be claimed for mileage to and from home and office/place of work, inclusive of travel for respite/lunch breaks.

e. If a motorcycle or similar motorized vehicle is used by the priest for Church business, reimbursement for mileage is to be calculated at the amount given in accordance with IRC regulations.

**11. VEHICLE LIABILITY INSURANCE**

- a. A priest selecting the taxable vehicle allowance is reimbursed by the parish-entity to which he is assigned for liability insurance with a cap of \$600 (see 10.a).
- b. The accountable mileage reimbursement option (see 10.b) encompasses the cost of liability insurance. The priest is not additionally reimbursed when he pays for coverage. He may request that the parish to which he is assigned reimburse him for the liability portion of vehicle insurance, in which case, the amount reimbursed must be reported as taxable income.
- c. The priest is responsible personally for payment of comprehensive and collision insurance and other coverages available from the insurer.

**12. VACATION, DAYS OFF, AND RETREATS**

- a. In order to maximize the effectiveness of his ministry, each week the priest should designate one full day (a 24-hour period, any day Monday through Friday) as a personal day of respite, free from his regular obligations and duties. The day is not an earned, transferable day; however, on occasion, when pastoral need intervenes or dictates, a substitute day, or cluster of days (exclusive of weekends), may be selected.
- b. Where there are multiple priests assigned to one parish, the pastor (or priest administrator) approves each priest's day off.
- c. Travel, housing, and meals taken outside the rectory on vacation or days off are not reimbursable as Ministerial Expenses.
- d. In addition to a day off, vacation days, or retreat time, the priest may use one day each month for attending a Jesus Caritas type gathering or for personal prayer/reflection and/or spiritual direction.
- e. During the course of each fiscal year, a priest earns an accumulated total of 30 days of vacation time (inclusive of four weekends), which is used at the discretion of the pastor (priest administrator). The maximum accrual of vacation time is 30 days.
- f. Every fiscal year, a priest is permitted five days for spiritual retreat (Monday through Friday). The expense of the retreat is considered a Ministerial Expense.
- g. The parish/entity is responsible for payment of substitute priests in instances of the assigned priest's authorized absences. The pastor (or priest administrator) is to establish with the Finance Council of the parish/entity the application of the diocesan rate for substitutes on other occasions when the configuration of ministerial responsibilities necessitates substitution.

**13. MEDICAL AND DENTAL INSURANCE**

- a. The parish/entity will provide the priest with medical and dental insurance, per the diocesan plan.
- b. Upon presentation of documentation to the Vicar for Finance, the Diocese will provide reimbursement to the priest for medical or dental expenses if, under the terms and within the fiscal year of the Diocese, the priest is required to pay medical or dental expenses in excess of one month's salary.

14. **INDUSTRIAL INSURANCE** – As permitted by applicable tax law, the parish/entity shall pay both the employer's and employee's portion of the Washington State Industrial Insurance premiums for the benefit of the priest.

15. **RETIREMENT/DISABILITY** – Priests incardinated in the Diocese of Spokane are included in the retirement/disability plan approved by the Bishop.

16. **PERSONAL GIFTS** – The solicitation of personal gifts or personal loans from parishioners is prohibited. Personal loans are to be procured from a lending institution. A priest may retain personal gifts.

17. **EXCEPTIONS** to this policy, interpretation of its provisions or other special financial arrangements are under the supervision of the Vicar for Finance. These approved modifications of the policy are retained in the priest's personnel file and made known to the offices, councils or administrators who need this information.