

2.1 CLERGY REMUNERATION

1. Introduction

These guidelines apply to clergy in the Anglican Diocese of Newcastle. (These guidelines make use of material developed in the Diocese of Adelaide and in the Diocese of Canberra and Goulburn.)

1.1 Terminology

For the purposes of these guidelines -

fringe benefits exemption means the exemption from fringe benefits tax for the benefits provided to a member of the clergy deployed predominantly in pastoral or related duties.

member of the clergy excludes, in this document, clergy who are deployed on a non-stipendiary basis, and covers –

- (a) a Priest licensed by the Bishop of the Diocese as the incumbent of a parish or a chaplain of an institution who performs pastoral or other duties or activities that directly relate to the practice, study, teaching or propagation of religious beliefs, and
- (b) a Deacon or Priest licensed by the Bishop of the Diocese as an assistant (by whatever name called) to carry out pastoral or other duties or activities that directly relate to the practice, study, teaching or propagation of religious beliefs.
- (c) a member of the clergy serving in a Diocesan role such as bishop, assistant bishop, archdeacon, chaplain, ministry development officer where such roles involve carrying out pastoral or other duties or activities that directly relate to the practice, study, teaching or propagation of religious beliefs.

pastoral or related duties means, in general, duties associated with the spiritual care of members of the congregation of a religious body and includes –

- (a) communication of religious beliefs;
- (b) teaching and counselling adherents and members of the surrounding community;
- (c) providing adherents and members of the surrounding community with spiritual guidance and support;
- (d) attendance at an in-service training seminar provided the seminar is of a spiritual nature and related to ministerial duties; and
- (e) meeting with and visiting adherents, the sick, the poor, or persons otherwise in need of emotional and spiritual support.

religious practitioner means a bishop, priest or deacon and can also refer to a lay person who holds an authorisation for lay ministry from the Bishop.

The definitions in clause 1 reflect that these guidelines apply primarily to the remuneration of parish clergy. Nothing in these guidelines is intended to limit the meaning of terms used in tax legislation, particularly in other contexts.

In these guidelines

ABN means Australian Business Number

ATO means the Australian Tax Office

FBT means Fringe Benefits Tax

GST means Goods and Services Tax

PAYG means Pay As You Go Tax

2. Elements of remuneration

The remuneration paid or provided to a member of the clergy for their pastoral or related duties usually consists of one or more of the following elements –

- (a) the payment of a stipend or salary,
- (b) the provision of a travelling allowance for a motor vehicle,
- (c) the provision of housing, or the provision of housing benefits in lieu,
- (d) the payment of utilities such as telephone, electricity and gas,
- (e) other benefits such as the making of contributions to a superannuation fund, and the provision of annual leave, long service leave and parental leave.

3. Income Tax

Since July 2000 clergy have been subject to PAYG withholdings under Australian Income Tax Law. All religious practitioners for PAYG, FBT, ABN and GST purposes are treated as employees. It is essential to realise that this treatment is for the described purpose only and the change does not affect the legal status of religious practitioners in other parts of the law.

The Diocese will withhold tax (PAYG deductions) from stipend payments. The amount of taxation withheld will depend upon the threshold and any other rebates set out in the Employment Declaration Form completed by the clergy.

The Diocesan records will maintain details of gross stipend payments and PAYG deductions. Clergy will be provided with a summary of this information on a PAYG Payment Summary on or before 14 July each year.

The payment summary includes the cash stipend and reportable employer superannuation contributions. Fringe benefits provided to clergy are not reportable through the PAYG Payment Summary.

4. Fringe Benefits and Fringe Benefits Tax

A fringe benefit is a 'payment' to an employee, but in a different form to salary or wages. FBT legislation gives a wide definition to fringe benefits. The definition includes such things as providing a cheap loan, paying gym membership, giving free tickets to concerts or paying school fees. The FBT legislation provides a means of levying tax on fringe benefits.

Under section 57 of the Fringe Benefits Tax Assessment Act 1986 fringe benefits provided to religious practitioners are exempt from tax provided that the religious practitioner is involved in pastoral duties or duties or activities that are directly related to the practice, study, teaching or propagation of religious beliefs.

Religious practitioners are not the only people who are provided with exemptions from fringe benefits taxation. However they are the only group of people for which limits are not set by the legislation. The Dioceses of the Anglican Church across the nation have established limits on the extent to which the benefit exemptions will be utilised. The limits applicable in the Diocese of Newcastle are outlined in these guidelines.

5. Stipend or Salary

Payment of a stipend or salary

5.1 A member of the clergy in stipendiary ministry should be paid the cash stipend as determined by the Diocesan Council (see Section 2.2) .

Tax treatment of stipend or salary

5.2 Stipend or salary paid to a member of the clergy is assessable income and PAYG deduction is to be deducted and remitted to the ATO in accordance with the requirements of the tax legislation.

What are stipend or salary sacrifice arrangements?

5.3 A stipend or salary sacrifice arrangement is one where a member of the clergy agrees to forego the payment of a portion of their cash stipend. In return, the diocesan payroll will make payments to third parties on behalf of the member of the clergy or will provide other non-cash benefits. If it is agreed that the value of the payments made, or the value of the benefits provided, equals the amount of the cash stipend foregone (or "sacrificed"), the salary sacrifice arrangements do not add to the overall cost of remunerating the member of the clergy.

5.4 Stipend sacrifice arrangements benefit the member of the clergy because they have the effect of increasing his/her "take home pay". This occurs because of the different tax rules which apply to the payment of a stipend and the provision of non-cash benefits. Payments of stipend

are liable to tax, and the party paying the stipend must deduct and remit tax to the Tax Office at the appropriate marginal rate of tax. However, under current tax legislation, the value of non-cash benefits provided to a member of the clergy is exempt from tax. Therefore, if non cash benefits are provided in lieu of stipend, the member of the clergy receives an increase in their “take home pay” of an amount equal to the additional tax which would have been paid had part of the stipend not been foregone or sacrificed. (It is important to note that while noncash benefits made to a member of the clergy are exempt from tax and payment summary reporting, social security legislation takes the value of many exempt benefits into account when assessing eligibility for various social security payments.)

Limits on stipend or salary sacrifice arrangements

- 5.5** Currently, the tax legislation does not limit the amount of the stipend which can be sacrificed under stipend sacrifice arrangements. It is important however that the Church observes reasonable limits on the use of those arrangements. In this Diocese a member of the clergy may sacrifice up to 100% of their cash stipend into superannuation. The threshold for non-superannuation salary sacrifice is 30% of the cash stipend and any supplementary allowance forming part of long service leave together with 100% of exempt benefits such as continuing ministry education payments, housing and the provision of a motor vehicle.
- 5.6** Currently, the tax legislation does not limit the types of expenses which can be paid to third parties on behalf of a member of the clergy. In general the Diocesan Payroll makes loan and credit card payments as part of salary sacrifice arrangements. The general rule is that these payments should be made directly to a third-party.
- 5.7** All members of the clergy in the Diocese of Newcastle are paid through the Diocesan Payroll. At the time a member of the clergy is added to the payroll they are asked to stipulate the level of stipend sacrifice they wish to implement bearing in mind the provisions spelt out above.
- 5.8** A member of the clergy is not entitled to claim a personal tax deduction for an expense that has been met as part of a stipend sacrifice arrangement.

[Note: See Section 7.7 concerning the salary sacrifice of 100% of Clergy Housing and Utilities Allowance.]

6. Motor vehicles and travelling

6.1 To assist clergy in their ministry they will receive payments to cover the fixed and variable costs of maintaining and using a motor vehicle. The amounts are set out in section 2.2. The member of the clergy should advise the number of kilometres to be reimbursed each year or each quarter to the Parish Treasurer who will advise the Diocesan Payroll. Travel benefits paid in this way are exempt benefits and not subject to tax under current tax legislation. Travel allowances paid as part of the cash stipend are to form part of the PAYG statement.

7. Housing and accommodation

7.1 A member of the clergy should be provided with the use of a residence or be paid a housing allowance or benefits in lieu as determined under Diocesan guidelines.

7.2 In most cases the parish or other deploying body will pay for home utilities of the member of the clergy such as gas, electricity and telephone accounts. The payment of such accounts should be treated as exempt benefits and are therefore not subject to tax under current tax legislation.

7.3 The provision of a residence to a member of the clergy is an exempt benefit and not subject to tax under current tax legislation.

7.4 Where a payment of a cash housing allowance is made it is taxable income in the hands of the member of the clergy and PAYG deductions are required to be made from this payment. Generally, it would be unlikely that a member of the clergy could claim deductions for many of the expenses for which a housing allowance is used.

7.5 As an alternative to the payment of a housing allowance; a member of the clergy may with the agreement of the parish and the Bishop be provided with accommodation benefits of an amount up to the value of the accommodation allowance that would otherwise have been paid. If accommodation benefits are provided in lieu of an allowance, these are exempt benefits and will not be subject to tax under current tax legislation. The following guidelines are suggested for the provision of accommodation benefits –

- (a) These payments should be made directly to a third-party.
- (b) Any amounts paid in cash to the member of the clergy other than to reimburse for the expenses which they have actually incurred, are treated for tax purposes in the same way as a stipend.
- (c) Payments must be fully and properly documented.

7.6 Any housing benefits above the value of the accommodation allowance which would otherwise have been paid would generally be regarded as being provided in lieu of stipend and should be paid from a stipend sacrifice account.

7.7 Diocesan Council has approved the salary sacrifice of 100% of the Clergy Housing and Utilities Allowances effective from 1 July 2015.

8. Clergy Supervision Expense Reimbursement

Clergy and parish workers are responsible for meeting the costs of their supervision, however the Diocese has made provision to refund one third of the cost of supervision (up to \$30 per 1 hour session, for a maximum of 10 sessions per annum). Clergy and parish workers are required to submit reimbursement form 1A with receipts in order to receive reimbursement. Parish Councils are invited to meet a further one third of the costs of supervision. Where a Parish Council is unable to meet these expenses a small fund has been established to ensure that clergy and parish workers are not financially disadvantaged.

Parish Councils may apply for assistance in writing to the Diocesan Ministry Development Officer. Approved parishes may claim back the fees paid in relation to professional supervision using reimbursement form 1B.

(Forms 1A and 1B are available on the Diocesan Website.)

9. Senior Australians Tax Offset

Members of the clergy over the pension age (65 for men and 62 for women) may be eligible for the Senior Australians Tax Offset. This may be discussed with the Diocesan Payroll. The burden of responsibility for disclosure rests with the member of the clergy and not with the Diocese.

10. Centrelink

Members of the clergy should be aware that the Australian Taxation Office and Centrelink adopt different definitions of income and benefits. In addition, Centrelink has a variety of income and benefit tests depending upon the support being obtained from Centrelink. For example, the Family Tax Benefit is based only on taxable income whereas various pensions and the health care card include a benefit test which takes account of many of the benefits provided through stipend sacrifice arrangements. Clergy wishing to apply for this support from Centrelink should ensure that they are familiar with the Centrelink requirements about reporting fringe benefits. In general, allowances, benefits or reimbursements paid to clergy for activities directly related to ministry are disregarded as income (e.g. home office expenses or ministry related travel). Allowances or benefits or reimbursements paid to clergy to meet expenses that are not directly related to ministry will be treated as income (e.g. school fees or health insurance). Where an allowance, benefit or reimbursement contains both private and

ministry components clergy will need to determine what proportion is for private purposes (e.g. in relation to motor vehicles). The burden of responsibility for disclosure rests with the member of the clergy and not with the Diocese.

11. Financial Advice

Diocesan Staff cannot give financial advice. Members of the clergy should seek independent advice. The Diocesan Payroll is not authorised to implement procedures which do not conform to these guidelines.