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## MMS Position Paper: FICA for Pastors

MMS position papers are a compilation of our staff's research, education, training classes and seminars attended, 20 years field experience and interpretation of current laws as we understand them. The information contained in this paper is not legal advice and is intended to be used as general information to help your organization formulate your organization's guidelines. It is understood that your organization is legally responsible for all policies and procedures, and their legal basis.

Application: We are asked on a regular basis to discuss our opinion regarding pastor's compensation packages and the payment of FICA tax (Social Security). The following is an attempt to clarify the decision-making criteria that churches may want to consider when formulating pastor's compensation packages.

The standard we recommend when formulating pastor's compensation is to be certain there is a level playing field among all church staff. When paying custodians, secretaries, and other non-ordained staff, the church treats those people as "regular" employees. FICA tax of 7.65% is deducted from their paychecks, and the church is then required to match 7.65% and pay that in to the federal government with what was deducted from the employee's check.

Ordained pastors are considered "dual status" employees. They are employees for benefits purposes and self-employed for taxation purposes. We believe that the special status should not alter the amount of compensation. We further believe pastors, regardless of what they chose to do with their retirement or benefits, should be compensated on an equal basis, just like all other employees.

Although the church is not permitted to directly pay in matching FICA funds for pastors, they should be given the matching amount, just as all other employees are receiving through the mandatory matching FICA that the church pays on behalf of the employee. This would equate to a pastor receiving 7.65% of their salary and housing, as added compensation to his/her paycheck. It will be considered taxable income, but it should not be considered a part of their wage package unless the employer FICA contribution is considered a part of a secretary or custodians compensation package. The church is simply giving matching FICA tax directly to the pastor instead of to the government. At this point, all staff would be treated equally.

Another commonly held opinion is that if a pastor elects, for religious objection reasons, to opt out of the Social Security system, then why should the church have to give them the 7.65%?

Again, we believe that what a pastor chooses to do with their personal finances is not related to the decision of treating employees equally. The pastor, after receiving equal compensation, is then responsible for providing benefits and retirement income for his/her family. If they choose, for religious reasons, not to participate in the Social Security system, then it is still their responsibility to find and implement benefits and retirement income for themselves and/or their family. This decision should not impact how the church compensates them.