



Diocese of Western Massachusetts

2012 PARISH BUDGETARY ITEMS & YEAR-END FINANCIAL CONSIDERATIONS

Parish Support for Common Ministry

First and foremost, the Bishop and members of Diocesan Council would like to express their deep gratitude to you, the churches of the Diocese of Western Massachusetts, for fulfilling your assessment in support of our common ministry. We are dependent on each other to fund the work that needs to be done to support the ministries of all the congregations of the diocese and provide outreach to the greater church and to the world. Thank you for putting your trust in us and giving us the opportunity to serve you, God, and the world.

The Diocesan budget is funded roughly half by the contributions of the parishes and half by income from the investments managed by the Trustees for the Diocese. We are very fortunate to have had such generous people come before us. As a result, the percentage of income that the parishes give to the Diocese is lower than average. The average assessment rate in Western Mass is just under 11%. This is the lowest assessment rate of the seven New England dioceses, which vary from 11.5-17.5%.

A listing of each congregation's Assessment for Common Ministry is enclosed with this mailing. Following Diocesan Convention, we will send the Rector, Wardens and Vestry an acceptance form, **one copy of which we ask be returned to us by December 31, 2011**. Some parishes think they cannot return their acceptance form until after their parish Annual Meeting under the belief that the parish budget does not become "official" until approved by the Annual Meeting. In the Episcopal Church, the canons of the church provide that the Vestry can approve the parish budget. Once your Vestry has approved the budget for 2012, kindly return the acceptance form just as soon as possible.

Most congregations now fulfill their support for Common Ministry using our Electronic Funds Transfer (EFT) Option. If you would like to sign up for this option, please contact Carol LaPlante of Financial Services, 1-800-332-8513, Ext. 16 or email your request to claplante@diocesewma.org and she can arrange for a form to be sent to you.

Central Diocesan Payroll

Our final payroll for the year 2011 will be run on Monday, December 19, 2011. Our payroll processor, Checkwriters, does not permit changes, such as terminations, after this payroll is run, as the figures from this payroll are those that will appear on the 2011 Form W-2. Therefore, we must be informed of payroll changes--especially terminations--before this date.

The first payroll for 2012 will be run on Monday, January 10, 2011. If possible, please advise us of January 1, 2012 salary changes prior to this date. It greatly reduces our workload to get salary changes for the first payroll of the year rather than making adjustments later on.

Clergy Salaries

We are pleased to include with this packet the 2012 salary guidelines and a listing showing which salary range is appropriate for your parish. The Diocesan Human Resources Committee researches comparable clergy salary data each year and makes recommendations to Diocesan Council concerning the salary ranges. These ranges are designed to ensure that clergy in our diocese are compensated fairly when compared to clergy in other dioceses.

Clergy Salaries(continued)

We hope your parish will give serious consideration to the compensation level you pay your clergy. We encourage each congregation to consider the **midpoint** for the salary range for your congregation as an appropriate level of salary for a priest who is performing in a fully satisfactory manner. People who are performing well should receive compensation that is at least equal to the midpoint. In years past, we have recommended that parishes budget a percentage for salary increases. For 2012, given current economic realities, we recommend that parishes be mindful of a set of principles and take great care and consideration to determine the best course of action for each individual employee. For instance, if you have an employee who was recently hired, it may not be necessary to budget a salary increase. On the other hand, if you have an employee who is a good performer and/or being paid below the mid-point of their salary range, we encourage the parish to budget for a merit increase if warranted and sustainable.

Clergy Pension Premiums

Enclosed is a worksheet (orange) with the formula for your use in computing the 2012 Church Pension Fund assessment as well as Social Security Add-On.

The self-employed social security rate for 2012 remains at 15.3% (0.153).

Once we have received the completed worksheet and payroll form indicating changes for 2012, we will indicate the change on the benefits billing statement included with the second payroll mailing of each month. The Diocesan office remits the clergy pension assessments to the Church Pension Fund on a monthly basis.

Clergy Social Security Add-on

While clergy are employees for income tax purposes, they are considered self-employed for Social Security tax purposes. Each parish and mission pays one-half of the cost of the social security obligation of their clergy staff. For purposes of calculating the proper figure for Social Security "Add-On", each clergy person living in a rectory should obtain a letter from a local realtor stating the fair market value of their rectory (unfurnished plus utilities). Once you receive a copy of the realtor's letter, please use the following method of calculation to determine the "Add-On":

If a rectory is provided:

Cash Salary + Fair Market Value of Unfurnished
Rectory **plus utilities** = Total Salary
Total Salary X 7.65% = Amount Paid Toward Social Security
on Clergy's behalf.

If clergy own their own home:

Cash Salary + Vestry approved Housing Allowance = Total Salary
Total Salary X 7.65% = Amount Paid Toward Social Security
on Clergy's behalf.



Clergy Housing Equity Allowance

A number of years ago, our diocesan convention adopted a resolution recommending that clergy living in church-owned rectories be provided an equity allowance. This allowance is really a tax-sheltered annuity, known as a 403 (b) plan for employees of non-profits, to recognize their need for housing upon retirement. The recommended formula is to double the amount of the priest's contribution. The priest can contribute from 1 to 3% of compensation and then the parish is to contribute an amount equal to two times the clergy contribution. The maximum contribution from the parish is 6% (if the priest contributes 3%).

We ask the vestry/executive committees of those congregations that do not currently provide an equity allowance to those clergy living in a church-owned rectory or rental property to recognize the intent and fairness of an equity allowance and discuss its prompt implementation for their clergy.

Clergy Study Leaves

Parishes are encouraged to budget \$500 per year for a study leave for their rector. Clergy are encouraged to take a study leave after five years as rector just as Bishop Scruton took a study leave after 5 years serving as Bishop. Under the proposal, the diocese will partner with parishes and clergy in funding study leaves. Parishes are encouraged to set aside the budgeted funds in an escrow account until such time as the rector takes a study leave.

Lay Salaries

We encourage each parish to give serious consideration to the compensation levels being offered to lay employees. A copy of the 2012 lay compensation guidelines is enclosed. You are encouraged to pay attention to the **midpoint** for the appropriate salary range. Those individuals who are performing well should receive compensation that is at least equal to the midpoint. In years past, we have recommended that parishes budget a percentage for salary increases. For 2012, given current economic realities, we recommend that parishes be mindful of a set of principles and to give great care and consideration to determine the best course of action for each individual employee. For instance, if you have an employee who was recently hired, it may not be necessary to budget a salary increase. On the other hand, if you have an employee who is a good performer and/or being paid below the mid-point of their salary range, we encourage the parish to budget for a merit increase if warranted and sustainable.

We hope that each parish will also consider a system of performance appraisal/ministry review and annual salary review for all lay employees. Please contact Susan Olbon, Ext. 20 or Steve Abdow, Ext. 21 to obtain a sample copy of the performance appraisal/ministry review materials used for lay members of Diocesan Staff. This information can also be obtained from the Diocesan website www.diocesewma.org, see the **Human Resources Manual, Section 3.02**.

Lay Pensions

A number of years ago, beginning with a resolution of the 1991 General Convention, each parish and mission was required to provide lay employees working 1,000 hours per year (20 hours per week on a year-round basis) with a lay pension benefit. At the most recent General Convention held in 2009, this pension requirement is now a **mandatory benefit** for those lay persons working a minimum of 1,000 hours annually as follows:

Resolution A138

Establishing a Lay Employee Pension System

Resolved, the House of Deputies concurring, That this Church establish a mandatory lay employee pension system for employees who are scheduled to work a minimum of 1,000 hours annually for any domestic Diocese, Parish, Mission or other ecclesiastical organization or body subject to the authority of the Church, in accordance with the following principles:

1. The lay employee pension system shall provide benefits that shall, initially, include defined benefit plan(s) and defined contribution plan(s);
2. If a defined benefit plan is selected, the employer assessment and/or contribution shall be not less than nine (9) percent of the employee's compensation; if a defined contribution plan is selected, the employer shall contribute not less than five (5) percent of the employee's compensation and match at least four (4) percent of the employee's contributions. The Trustees of The Church Pension Fund shall have the authority to increase or decrease the assessment and/or contribution percentages required for the lay pension system;
3. Existing defined benefit plans will be permitted to continue as long as their plan design delivers pension benefits not less than the pension benefits required by this Resolution, as determined by the plan administrator. If the plan does not provide the pension benefits required by this Resolution, such plan shall be amended to provide for such pension benefits no later than January 1, 2013.
4. The lay employee pension system shall be designed and administered by the Trustees and officers of The Church Pension Fund; the investment managers of the system shall initially include, but not necessarily be limited to, The Church Pension Fund and, in the case of a defined contribution plan offered to school employees, TIAA-CREF;

5. The lay employee pension system will be operated on a financially sound basis, as determined by the Trustees of the Church Pension Fund;
6. Other societies, organizations, or bodies in the Church not mandated to participate may, under the regulations of The Church Pension Fund, elect to come into the lay employee pension system;
7. No right or obligation to have assessments paid on compensation paid prior to plan participation will be part of the mandatory lay employee pension system;
8. Service in the Episcopal Church prior to plan implementation shall be recognized for vesting purposes;
9. **The implementation of the mandatory lay employee pension system shall be completed no sooner than January 1, 2011 and no later than January 1, 2013.**

If you have lay persons employed by your church that work 1,000 or more hours per year and who are not currently enrolled in the lay pension benefit, please contact Susan Olbon at Diocesan House at 1-800-332-8513, Ext. 20 or via email solbon@diocesewma.org for more information.

Lay FICA

Rates for your lay employees will remain at 7.65% for 2012. The maximum amount of annual earnings on which Social Security taxes are calculated in 2011 *is \$106,800*. (the maximum for 2012 is not yet available), 1.45% continues to be paid for Medicare coverage with no earnings limit.



Flexible Spending Account Benefit

This benefit is available for employees working 20 or more hours per week. Such a program allows eligible employees to pay out-of-pocket medical and dental expenses and dependent care expenses with pre-tax dollars, thereby providing the ability to stretch the “purchasing power” of their income. A summary of the plan appears below:

- Enrollment based on Plan Year (January 1)
- Plan will include both Medical/Dental option as well as Dependent Care
- **\$3,000** payroll deduction cap for medical/dental
- Employees working 20 or more hours per week are eligible
- Participation in Diocesan group insurance is not required

Each parish will be billed \$5.00 per month, per participant in the plan. Should one of your participating employees leave during the year, the \$5.00 monthly administrative fee will continue through the end of the calendar year. The reason that the administrative fee is billed through the end of the year is that the Plan is fully funded. This fully funded option means that if an employee leaves the employ of the parish during the year, the balance of the employees’ contribution is taken from their final pay which allows them to use the full benefit through the end of the year. The billing amount for the Flexible Spending Account will be incorporated in your monthly billing for benefits. For employees that participate in the plan, the amount that they designate as a contribution will reduce the FICA and/or Social Security Add-On liability to the parish. **Here is an example of how it works:**

Employee earns \$20,000 and elects to contribute \$1,000 to the Flexible Spending Account in 2012.

Without Flexible Spending Account Election

Salary \$20,000 x 7.65% FICA/Social Security Add-On= \$1,530.

With Flexible Spending Account Election

Salary \$20,000

FSA - 1,000

\$19,000 x 7.65% FICA/Social Security Add-On = \$1,454.

Annual FICA/Social Security Add-On Savings the Parish: \$ 76.

Life Insurance

As of this writing, we have not received any updates to the group life insurance premium rates for 2012. Each parish and mission is required by resolution of Diocesan Convention, to provide lay employees working 1,000 or more hours per year with life insurance coverage. The cost of the coverage is paid 100% by the employing parish. Lay employees are provided life insurance coverage through the Church Insurance Company at a level of **\$50,000** for those employees working 28 to 40 hours per week **at a monthly cost in 2012 of \$24.00** or **\$25,000** coverage for those working 20 to 27 hours per week **at a monthly cost in 2012 of \$12 .00**. As soon as the rates for 2012 become available, we will notify you.



2012 Medical and Dental Rates

For clergy employees, the Diocesan Convention passed a resolution requiring parishes to pay 85% of medical and dental insurance costs.

For lay employees, the amount of the medical and dental insurance premium that is paid by the church is determined at the parish level.

The Diocese changed its policy several years ago with respect to the share of medical and dental costs it pays for members of diocesan staff. Rather than pay 85% of the cost of all plans, it now pays 100% of the lowest cost EPO or HMO plan offered. If the employee enrolls in another plan, they pay the difference. Your parish may wish to consider adopting a similar policy.

The 2012 monthly medical and dental rates are listed on the next page for your 2012 budget planning.

2012 Monthly Group Medical Rates (rates reflect a average increase of 5.7%)

Empire Blue EPO

| | |
|---------------|-------------|
| Employee Only | \$ 766.00 |
| Employee+ 1 | \$ 1,379.00 |
| Family | \$ 2,145.00 |

Empire Blue PPO

| | |
|---------------|------------|
| Employee Only | \$ 941.00 |
| Employee +1: | \$1,694.00 |
| Family: | \$2,635.00 |

Aetna Select EPO

| | |
|----------------|-------------|
| Employee Only: | \$ 766.00 |
| Employee+ 1 | \$ 1,379.00 |
| Family | \$ 2,145.00 |

Aetna National HMO

| | |
|----------------|------------|
| Employee Only: | \$ 673.00 |
| Employee+ 1 | \$1,211.00 |
| Family: | \$1,884.00 |

2012 Monthly Group Dental Rates (rates reflect a 5.23% increase)

\$50/\$150 CIGNA Basic Dental PPO Plan

| | |
|-------------|----------|
| Single: | \$ 54.00 |
| Employee+1: | \$100.00 |
| Family: | \$155.00 |

Property/General Liability/Boiler/Crime/Directors and Officers/Umbrella Insurance Coverage

✓ **Insurance Market/Rates for 2012**

We have received preliminary information from our Provincial Insurance Broker that it would be prudent for the parishes to budget for a 6% increase for 2012. This is encouraging news in light of the volatility that is occurring in the financial markets. Our broker, Willis of Massachusetts, continues to do a superb job obtaining insurance coverage that is comprehensive and offers broad coverage limits while also negotiating premium rates that are as low as possible, being mindful of the financial pressures our parishes are experiencing.

Your actual insurance premiums are a factor of the rates our carriers issue and your appraised insurance values. We have been in the process of reappraising all parishes in the Provincial insurance program. **If your insured values have increased due to renovations or other changes in your property values, those higher values will have an impact on your premiums for 2012 but not proportionately.**

✓ **Billing**

An additional benefit for participants in the Province I program is that you are able to pay the annual premium in twelve level installments. Other insurance programs often require that certain lines of coverage be paid at the BEGINNING of the year or quarter. We bill you in twelve equal monthly installments; in other words, the diocese extends credit to every participating parish to give you better cash flow.

✓ **Policy Changes – Please read this carefully**

If for any reason your parish is considering leaving the Provincial program, you must notify this office prior to December 1, 2011 before final coverage is bound. If you are considering such a change, please speak with Susan Olbon or Steve Abdow. We can help you do a comparison to make sure the coverage you are considering meets the diocesan minimum standards. If we do not hear from you, we will proceed with the renewal including your parish as no changes to the group policy are allowed during the year and we are obligated to pay the premium.

➤ **Limits of Coverage/Certificates of Insurance**

✓ **Limits of Coverage**

The Canons of the Diocese require that each parish maintain insurance with limits of coverage prescribed by Diocesan Council. Parishes are encouraged, under Canon 20, to participate in the Province I Program. All parishes that are part of the Provincial program comply with this canon. **The Canons state that any parish that does not participate in this program must submit a Certificate of Insurance annually to the Diocese by February 1st showing its coverage and carriers and naming the Diocese as “additional insured and loss payee” on the insurance for comprehensive, general and umbrella liability coverage.** The Diocese must also be named as “additional insured and loss payee as its interest may appear” on the insurance for all real and tangible personal property. **Any parish that fails to comply with the requirements of the canon may be required to participate in the Provincial program at the sole cost of the parish.**



Workers Compensation Insurance

At this time, we believe that there will be no substantial increase to workers compensation premium in 2012. The workers compensation premium for 2012 is determined by using actual payroll figures from the prior year payroll reports. We suggest that you budget an additional percentage increase to your workers comp premium based on the percentage of salary increases granted to your employees for 2011. As with the property and liability insurance coverage, we will notify you in December of this year with the final figure.

Diocesan Convention

Just as the Diocese has historically budgeted for the expenses associated with sending deputies to General Convention, parishes are encouraged to budget for the expenses associated with sending clergy and lay delegates from your parish to Diocesan Convention each October. These expenses include the registration fee for each delegate, and may include mileage reimbursement and lodging expenses (depending on your location). This year the registration cost for delegates to the 2011 Diocesan Convention is **\$30.00** per person.



Pastoral Staff

The *Pastoral Staff* is an important way in which we stay connected and in touch with one another. In years past, each congregation was asked to participate with the diocese in the underwriting expenses associated with *The Pastoral Staff* by contributing \$2.00 per household. Beginning in 2010, we discontinued billing to parishes for Pastoral Staff. We do provide an opportunity for voluntary contributions as individuals may feel called. This is a small way in which we hope to provide relief to parishes while still continuing this vital ministry.



Clergy Professional Expense Reimbursement

Use this account to budget for such expenses as business lunches and entertainment, professional dues, conferences and meetings, clergy days, books and journals, etc.

It is important for the congregation to develop formal policies and procedures concerning expense reimbursement because the Internal Revenue Service has developed new regulations concerning expense reimbursement. Failure to develop formal policies and procedures concerning such reimbursements may have negative consequences either for the congregation or for the clergy it employs.

We encourage congregations to offer the clergy a full reimbursement policy covering professional expenses. A reimbursement policy should be in writing, and it should clearly specify what expenses the church will reimburse. It should also describe the documentation and reporting that will be required to protect both the parish and the clergy person.

Stated simply, if a vestry adopts a reimbursement policy satisfying the requirements for an adequate accounting, then a clergy person (or lay employees that may be included in the policy) in effect “reports to the church” rather than to the IRS concerning professional expenses. The church does not include the amount of reimbursements on the W-2, and the clergy person does not report them as part of his/her wages on Form 1040. This can cost the church nothing, once it identifies a line item in the church budget for clergy professional expenses, yet it may result in significant tax savings for the clergy person.

Clergy Professional Expense Reimbursement(continued)

A sample resolution that the vestry might use to adopt an Accountable Expense Reimbursement Policy appears below:

The following resolution was duly adopted by the vestry of (name of parish) at a regularly scheduled meeting held on (fill in the date), a quorum being present:

The Church hereby adopts an accountable expense reimbursement policy upon the following terms and conditions:

1. **Adequate accounting for reimbursed expenses.** Any employee (as defined below) now or hereafter employed by the Church shall be reimbursed for any ordinary and necessary business and professional expense incurred on behalf of the Church, if the following conditions are satisfied: (1) the expenses are reasonable in amount; (2) the employee documents the amount, date place, business purpose (and in the case of entertainment expenses, the business relationship of the person or persons entertained) of each such expense with the same kind of documentary evidence as would be required to support a deduction of the expense on the employee's federal tax return; and (3) the employee substantiates such expenses by providing the church treasurer with an accounting of such expenses no less frequently than monthly (in no event will an expense be reimbursed if substantiated more than 60 days after the expense is paid or incurred by a employee). Examples of reimbursable business expenses include local transportation, overnight travel (including lodging and meals), entertainment, books and subscriptions, education, vestments, and professional dues. Under no circumstances will the church reimburse a employee for business or professional expenses incurred on behalf of the Church that are not properly substantiated according to this policy. Church and staff understand that this requirement is necessary to prevent the Church's reimbursement plan from being classified as a nonaccountable plan.
2. **Excess reimbursements.** Any Church reimbursement that exceeds the amount of business or professional expenses properly accounted for by a employee pursuant to this policy must be returned to the Church within 120 days after the associated expenses are paid or incurred by the employee, and shall not be retained by the employee.
3. **Tax reporting.** The Church shall not include in an employee's W-2 form the amount of any business or professional expense properly substantiated and reimbursed according to this policy, and the employee should not report the amount of any such reimbursement as income on Form 1040.
4. **Retention of records.** All receipts and other documentary evidence used by an employee to substantiate business and professional expenses reimbursed under this policy shall be retained by the Church.
5. **Employees.** For purposes of this policy, the term "employee" shall include the following persons:_(i.e. any minister and any other lay employee identified by job title or classification)

Attest:

Secretary of the Vestry

The source of this suggested resolution is from *Church Law & Tax Report: Church & Clergy Tax Guide, 2010-2011* edition, published by Christian Ministry Resources.

Clergy Travel Expense Reimbursement vs. Automobile Allowance

We strongly encourage parishes to stop the practice of Clergy Automobile Allowance, given the unfavorable tax consequences of handling them that way. When an Automobile Allowance is provided, the IRS requires the priest to claim the allowance as income and file a Form 2106, Employee Business Expenses, to report business mileage and other costs. The problem with this method is that these expenses may or may not be fully deductible because of the 2% floor.

A far more desirable alternative is for the church to adopt an Accountable Expense Reimbursement Policy with respect to the business use of one's personal auto. Under an Accountable Plan, the parish would establish an annual amount that it would budget for the clergy automobile reimbursement. Under such a plan, the clergy would submit monthly reimbursement requests. To meet the IRS requirements, the reimbursement request must list the date on which the travel took place, the number of miles traveled, and the business purpose for the travel. It should also be noted that the IRS does not allow miles driven commuting from home to the regular place of work as a reimbursable expense. To conform to the IRS law, if the parish chooses to reimburse clergy for such travel, those reimbursements must be reported as income and included on a Form 1099. The Accountable Expense Reimbursement Policy is described more fully in the preceding section entitled "Clergy Professional Expense Reimbursement." As of this writing, the mileage rate for 2012 is not yet available, **the mileage reimbursement rate set for 2011 is 55.5 cents per mile.**

Rector's/Vicar's Discretionary Funds

The subject of discretionary funds often raises questions from both clergy and lay persons. The answers to the questions can have significant consequences for the priest, the church and persons who contribute to the discretionary fund.

Since clergy can unknowingly run afoul of IRS tax regulations the diocese has a responsibility to suggest some guidelines for these funds that will encourage proper stewardship of monies intended for those in need. These guidelines have been prepared to assist clergy and parish treasurers in managing discretionary funds.

Suggested Guidelines

1. The Canonical Basis for Discretionary Funds **The Rector's Discretionary Fund is an account of the parish.** Although the Rector may write the checks and maintain the confidential records of the fund, the fund itself should belong to the parish. The bank account should be in the name of the church, (i.e., "Christ Church Rector's Discretionary Fund") with the church's tax ID number on the account. The account should not be in the name of the individual cleric. To preserve confidentiality, the priest can be the only signer.
2. An interpretation of the Canons suggests that monies expended from the fund should be for "charitable and pious purposes". Hence, gifts to the poor, gifts to any recognized charitable organization and gifts to the church itself, are within the general intent of discretionary funds. Discretionary funds are not intended for the business expenses of the priest. (A separate line item in the operating budget of the parish should be established for the business or professional expenses related to the rector's ministry).
3. Because discretionary funds should be the property of the parish, gifts to them should be made to the church, rather than to the rector as an individual. A gift to the church is deductible to the donor, whereas a gift to the priest is not.
4. A gift to a priest, not payable to the church, is not deductible by the donor. Further, if given in return for services rendered, such as for funerals, weddings, etc., it is taxable income to the priest.
5. A gift to the discretionary fund may be unrestricted, or if restricted, should be designated for one of the legitimate purposes of the church. In other words, one cannot "run money through" a discretionary fund to send one's children to school or pay for Aunt Hattie's stay in the nursing home, even though there may be a need. Such a gift would not be deductible to the donor.
6. Because discretionary funds should be the property of the church, they should remain at the church when the rector is called elsewhere.

Rector's/Vicar's Discretionary Funds (continued)

7. A separate bank account should be set up for discretionary funds. All gifts intended for discretionary funds, whether delivered to the church or to the rector, should pass through this account. The majority of checks written from this fund may not be of a confidential nature. On the other hand, when money is to be used for financial aid to individuals in situations that should be kept confidential, then a check can be written to cash. The priest should however keep a private record whenever this is done to record just what is done with the proceeds of such a check. This is a protection to the priest in case of an IRS audit.
8. Since the discretionary fund is an account of the parish, it should be audited annually as part of the parish audit. Given the confidential nature of the transactions, arrangements should be made for someone to review the discretionary fund on a confidential basis.
9. Congregations are encouraged to include an item in the budget that goes to the discretionary fund on a monthly basis. Another way to encourage contributions to the discretionary fund is to develop a policy that the loose offering from Sunday once a month goes to the discretionary fund. This kind of extra giving to the discretionary fund should be encouraged by the wardens and vestry.
10. The person administering discretionary funds is in a position very similar to that of a trustee, managing funds that belong to the church. She or he is handling funds that are not her or his own property. That person is therefore obligated to do so with a high degree of care.

The purposes for which discretionary funds may be used are outlined in the national Canon, cited below; that is, for the poor and for other “charitable and pious purposes”. Obviously gifts to the poor are its primary purpose. Within “other charitable and pious purposes” would certainly be included gifts to any recognized charitable organization (the same ones to which an ordinary individual could make a deductible gift), the church itself and for certain items such as vestments, books, and other professional items which will remain the property of the church when the priest leaves. (These are examples only, and not intended as an exclusive list. Furthermore, as suggested elsewhere, such items such as vestments, books, and other professional items would be more appropriately paid for from a separate expense line item for Rector’s Professional expenses). The Canons of the Church say nothing about Discretionary Funds by name. The origin of discretionary funds apparently lies in Title III, Canon 14(f) of the National Church, dating back to 1814, which states:

“The Alms and Contributions, not otherwise specifically designated, at the Administration of the Holy Communion on one Sunday in each calendar month, and other offerings for the poor, shall be deposited with the Member of Clergy in charge of the Congregation or such other Church officer as the Member of the Clergy in charge shall appoint to be applied to such pious and charitable uses as shall be thought fit by the Member of the Clergy. When a parish is without a Rector, the Vestry shall appoint a responsible person to serve as Almoner”.

While it is now often customary to supplement the discretionary fund with gifts from individuals and also from the church’s general operating funds, one item is of particular importance in the Canon. The words “alms”, “contributions” and “offerings” are used, which clearly mean that these are funds given to the church and which therefore belong to the church.

Clergy Business Expense Accounts

Many of the expenditures that have heretofore been made from discretionary accounts are not discretionary for pastoral purposes. These expenditures, such as those for continuing education, entertainment for business purposes, magazine and subscriptions, vestments, etc., are ordinary operating expenses of doing the priest’s job. Such expenditures are better handled by a budget line item called “Rector’s expenses”. The amount budgeted should be worked out annually between the vestry and its rector. The discretionary fund should be saved for pastoral expenditures that must be kept discrete. This will give the parish the opportunity to understand what the expenses of its rector are, and to provide the necessary funds as other employers do.

Conclusion

In conclusion, the discretionary fund is not now, nor was it ever, intended to be the personal property of the rector. These are monies that belong to the parish and are entrusted to the rector for proper distribution. With regard to taxes, money flowing from the church to the priest for the priest's personal use is generally taxable as income to the priest. Money given in exchange for services is taxable as income. Gifts are deductible only if given to an exempt organization, such as the church, but not if given to an individual, either directly or indirectly.

Portions of the above text regarding discretionary funds is adapted from the following two documents for use in the Diocese of Western Massachusetts by Bruce Rockwell, Assistant to the Bishop for Stewardship: (1) Memorandum dated September, 1989, written by Michael P. Porter, Chancellor of the Diocese of Hawaii, and (2) Presentation notes of the Rev. William F. Geisler, Controller of the Diocese of California.