

Diocesan Priest's Taxable Income And Non-taxable Reimbursable Expenses

Bismarck Diocesan Priests who attended the Priest Tax Workshop in October of 2014 were provided expert advice from Mr. Wayne Lenell., C.P.A., Ph.D. Each priest was provided a copy of the current edition of the "Income Taxes for Priests Only" guide. Priests who have detailed questions regarding their taxes should seek a tax consultant familiar with working taxes for priests. For most situations the current year's edition of the "Income Taxes for Priests Only" guide will provide proper direction and advice.

First, let us begin by saying all the policies of the diocese must be in accordance with the Internal Revenue Code or any payment to the priest is taxable income. Any payment to a priest where business purpose is not adequately documented as defined by the IRS is taxable income to the priest

Mass Stipends and Stole Fees

Mass stipends are to be processed through the parish office. Every month, the parish priests should submit to the parish the Mass intentions and the parish office should determine the corresponding stipend amounts for those respective intentions to which he is entitled. The parish should include this as part of his payroll check. The total amount of Mass stipends for that year should be included as salary on the priest's W-2.

Prior to 2017 Stole Fees provided by the faithful had been processed through the parish office and added to the payroll of the respective priest. This changed with the Second Synod of the Diocese of Bismarck (effective January 1, 2017) as the Synod document states, stole fees are "...presumed to be given to the parish and is to be deposited in the parish account." For further information please see the diocese website.

Room and Board

The unique tax status of a priest allows a parish to compensate him by providing him with tax-free housing. However, tax-free does not mean social security tax-free. The fair value of the housing is to be determined each year by the Bishop of Bismarck and communicated to the parishes. The priest is required to report that amount and pay social security tax on the value.

Board works differently. The sustenance portion of room and board is subject to specific qualifications for the IRS to consider it a tax-free benefit. There are three main requirements for tax-free status of "Board".

- *The meals must be consumed on the premises of the parish. On the premises of the parish means the rectory or equivalent, not a restaurant.*

- *The meals are for the convenience of the parish.* This means that there must be a bona-fide business reason for the priest to dine at the rectory. If the reason is that he is "on call," then he must establish that he answers such calls and that he can reasonably expect to respond to future calls.
- *The meals are required as part of the priest's working conditions.* This means that the priest has no choice in residence location; he must reside at the rectory as part of his assignment.

Tax-free Reimbursements

If a parish reimburses a priest "after-the fact" for any out of pocket expense, including meals eaten away from the rectory, the priest must account to the parish the business (ministry) connection for the expenditure in order to be reimbursed by the parish and for the reimbursement to be tax-free. Proper documentation must always be provided (i.e. receipt noting business purpose and other appropriate information, mileage odometer reading log, etc.).

Say for example the priest, while traveling either to or from a diocese meeting or other legitimate out of town, visit incurs a meal cost. By providing the receipt and business purpose, he can establish a proper reimbursable expense. These comments represent what the tax law requires, and are in accordance with the Diocese guidelines and information provided the priests regarding taxation of benefits.

Special note: If your pastor is from Richardton Abbey or is a foreign priest, they may have taken the vow of poverty, which will significantly change the tax and reporting requirements the parish will have. Please, feel free to contact the Diocese of Bismarck Office of Parish Resources for further assistance.