



**Baptist Churches**  
of South Australia

## What are Pastoral Exempt Benefits?

## How can a Pastoral Exempt Benefits Account be set up?

# USING A PASTORAL EXEMPT BENEFITS ACCOUNT

BCSA's Pastoral Stipend Recommendations propose that a pastor's stipend be split into two parts:

- A taxable wage component, and
- A tax-free exempt benefit component

Normally, employees receiving benefits that are not salary or wages have Fringe Benefits Tax applied. However, as part of the ATO tax ruling TR 2019/3 where:

- A benefit is provided by a registered religious institution
- To an employee religious practitioner, or their spouse or child
- In respect of the practitioner's pastoral duties or directly related religious activities then the benefit is a Fringe Benefit Tax (FBT) Exempt benefit – also known as an Exempt Benefit.

For more detail on the above ruling, refer to our information sheet "Exempt Benefits 101 - ATO TR 2019-3".

There are two main ways an account can be set up.

### **Managed by the church:**

- A specific church bank account for this purpose is set up that can only be accessed by church bank signatories. The account needs to be separate from the church's main operating account/s
- The agreed amount of Exempt Benefit funds is deposited into the account in each pay period
- The pastor presents invoices for payment to the admin team / treasurer
- The invoice is paid directly from the church account by the admin team / treasurer
- The church may claim back the GST paid on these expenses via its BAS submissions. Any GST returned shall be retained in the main church operating account

### **Managed by the pastor:**

- A specific church bank account is set up by the church that can be accessed by the pastor.
- The pastor personally manages expense payment directly from this account. The account may have a card facility attached which can be pre-loaded with funds from the account.
- The church needs to monitor that this account is compliant and used correctly.

## **What percentage of the stipend can be transferred into the Pastoral Exempt Benefit Account?**

The ATO has not legislated a minimum or maximum amount that can be transferred to an Exempt Benefit Account.

Baptist Churches SA recommends a 50/50 split between normal taxable income and exempt benefits. It is our view that this is a reasonable compromise position that provides the advantages of this benefit while not pressing so hard as to make it feel like it is being abused. Across many denominations and states, these recommendations are very similar to one another.

## **What can the Pastoral Exempt Benefits Account be used for?**

Simply put, any **expense** for goods or services incurred by the pastor for themselves or their immediate family can be paid from the Pastoral Exempt Benefits Account.

## **What can't the Pastoral Exempt Benefits Account be used for?**

Pastors cannot take exempt benefits as cash. If a pastor wishes to carry cash then this needs to be taken from their personal bank account.

Pastors cannot surreptitiously (secretly) take exempt benefits as cash. The most common such option is to use exempt benefits to make home loan repayments into a mortgage facility with a line of credit or draw-down facility which provides the ability to re-access the funds. The exempt benefits have correctly been used to fund the housing repayment, but drawing them back makes the payment non-compliant.

The money cannot be given away. This includes a tithe or offering to the church. These must be made out of the pastors' normal after tax pay, NOT from the exempt benefit account. The reason is that a gift does not receive anything in exchange – there is no good or service the pastor receives for that gift.

The money cannot be used for tax deductible purposes. This can include monetary gifts, as above, or where the pastor might claim a personal tax deduction through their annual ATO tax return. For example, motor vehicle expenses, use of a computer or internet expenses.

## **Can the Exempt Benefit be paid towards the balance of the employee's personal credit card?**

Yes, as long as they are paying the credit card debt.

Care needs to be taken in the following situations:

- Where a payment is made and then immediately withdrawn, as it can be considered salary and wages and therefore becomes taxable income.
- Where the credit card debt includes donations or monetary gifts, these should be excluded from any payment from the Exempt Benefit Account. This debt needs to be repaid from the pastor's personal account.

## **Can the Exempt Benefit be paid towards a home loan?**

Yes, this is an acceptable use of the funds. However, care must be taken if the home loan has a redraw facility. If Exempt Benefits are paid into this type of account and then the pastor redraws cash this would be considered salary and wages and therefore becomes taxable income.

Exempt Benefits should not be paid into an offset account as this is a personal bank account.

## **Will the Exempt Benefit amount reported through STP Phase 2 be included as assessable income by the ATO?**

No it will not. An Exempt Benefit is not part of a pastor's assessable income.

## **Will the Exempt Benefit amount reported through STP Phase 2 be included as assessable income by other government agencies?**

Possibly yes. The Government and/or other Agencies may want to know what a pastor's full remuneration is. Therefore, they want to know not just the salary and wage income a pastor earns, but also what else they earn including salary sacrifice, superannuation and Exempt Benefits. For example, Centrelink needs to know the entire gross income received (including Exempt Benefits and Allowances) which it then uses to calculate eligibility for payments.

## **Can the pastor save up funds in the Pastoral Exempt Benefit Account?**

The account is intended to be used to pay for personal and household expenses. Therefore, there should not generally be a build-up of funds.

However, if there is a specific large expense that needs to be saved for then this should be done in consultation with and approval by the church leadership.

Exempt Benefits accounts ought not be used as "savings accounts" with the balance increasing over time. Earning interest on the account could be deemed to be taking a cash benefit.

## **If the pastor leaves their pastoral role at church can they get the Pastoral Exempt Benefit Account paid out?**

The pastor can get the amount paid out as a lump sum, but this will then become part of their standard wage as it becomes an Employment Termination Payment (ETP) and therefore will become fully taxable.

In agreement with the church leadership, access to the Pastoral Exempt Benefit Account should be allowed for a reasonable period of time to enable all the funds to be expended.