



State of Church Compensation 2023

A webinar presented by:

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Payroll Spending Changes | 2023 | Predicted v. Actual

The only significant difference between last year's predictions and actual changes to 2023 budgets was in the area of salary. As a whole, churches spent around 0.8% more than they predicted on salaries (which in turn increased total payroll spending by 0.8%).

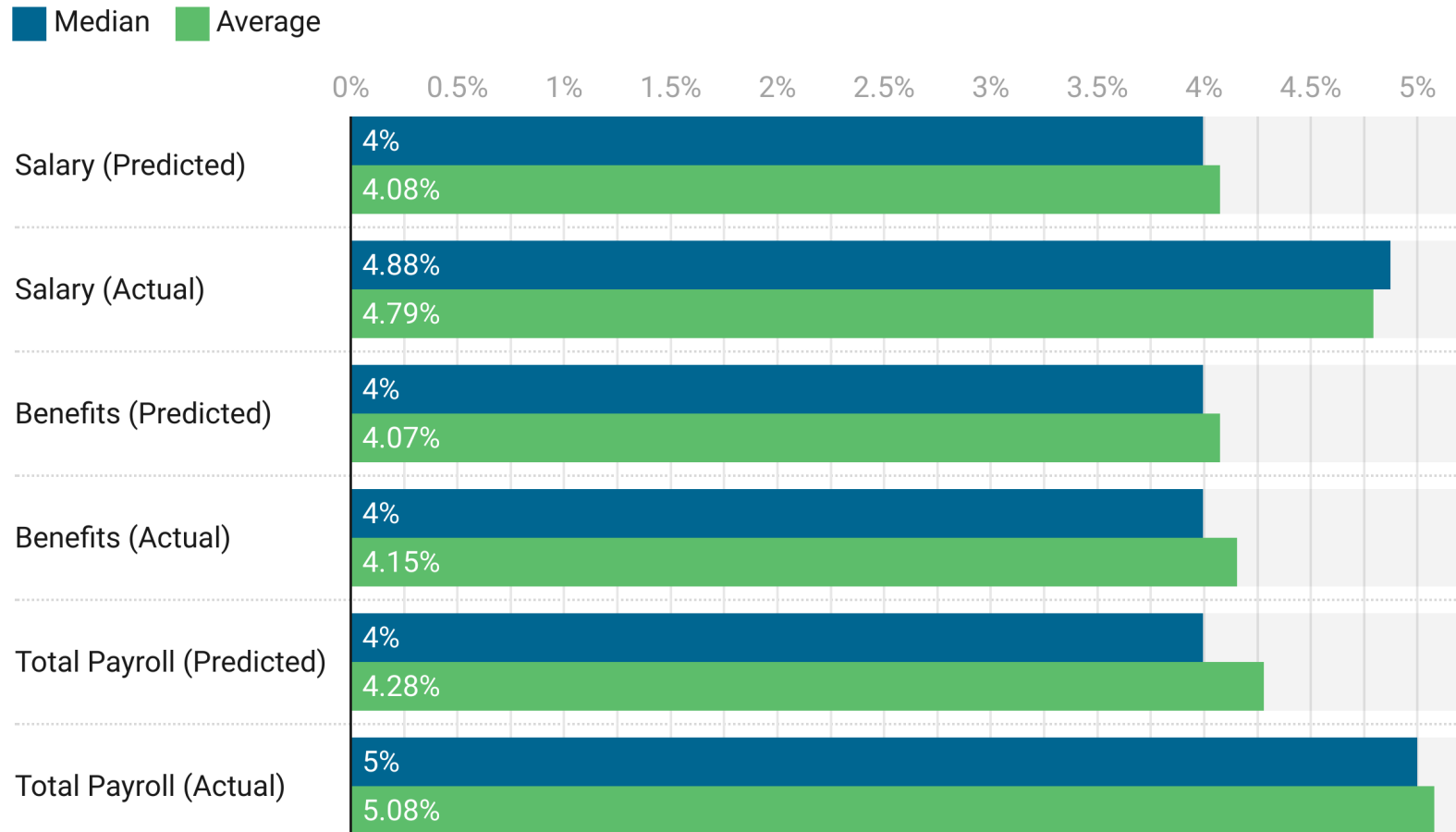
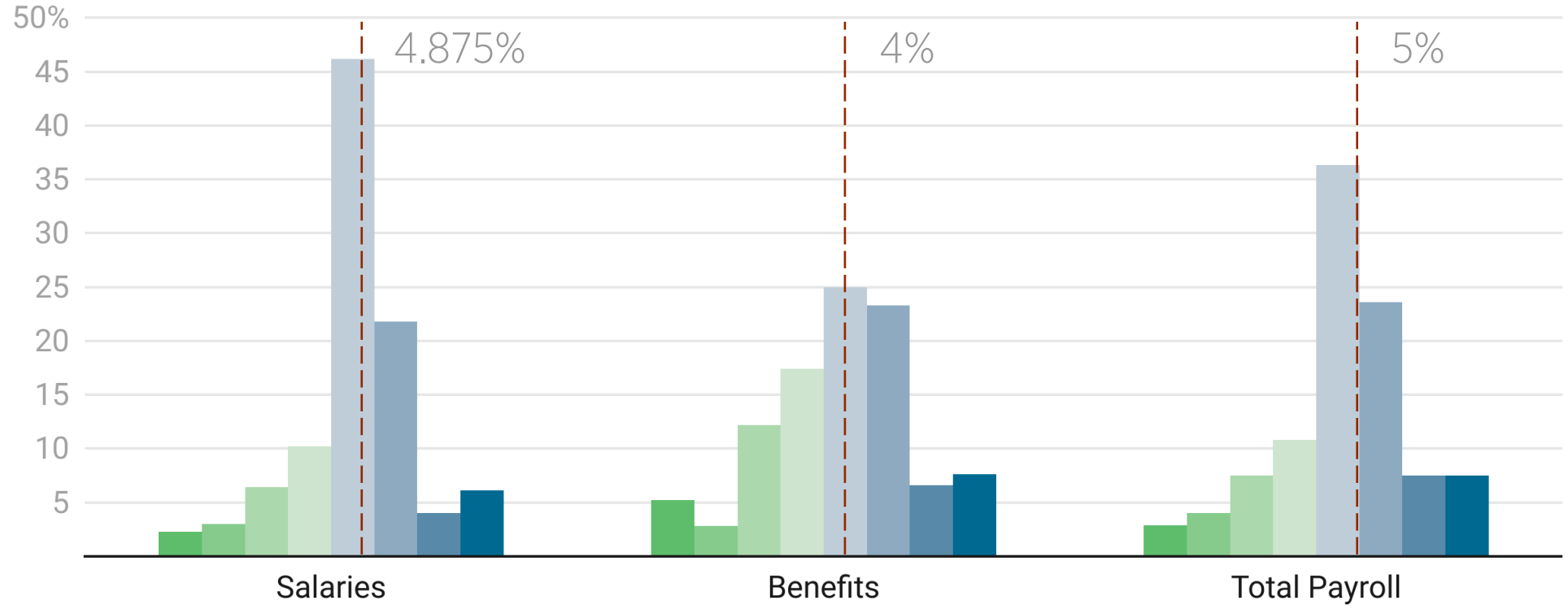


Chart: Aaron M. Hill • Source: ChurchSalary and Church Law & Tax, 2022-2023 • Created with Datawrapper

Percentage Changes | 2023 Budget

Legend: -11 to -20% (darkest green), -6 to -10% (medium-dark green), 0 to -5% (medium-light green), 0 to 2% (lightest green), 3 to 5% (lightest blue), 6 to 10% (medium-light blue), 11 to 15% (medium-dark blue), 16 to 20% (darkest blue)



Based on 472 responses to the State of Church Compensation Survey (Aug. 21-Sept 7, 2023).

Chart: Aaron M. Hill • Source: ChurchSalary and Church Law & Tax • Created with Datawrapper

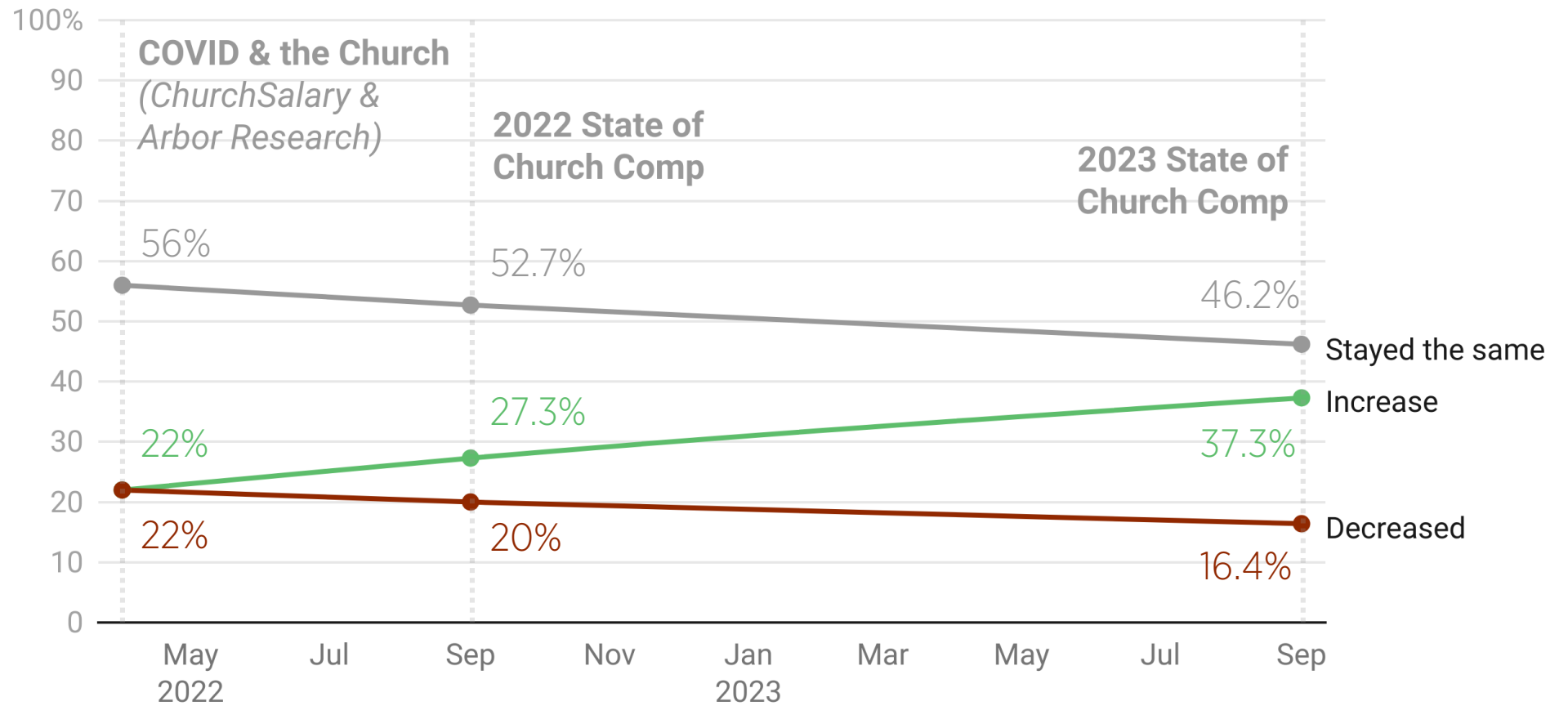
How did your staff and payroll budget change in 2023?

Category	Increased	Stayed Same	Decreased
# of Employees	37%	46%	16%
Hours Worked	30%	62%	8%
Salaries/Wages	77%	20%	3%
Benefits	35%	62%	3%
Overall Payroll Spending	74%	15%	11%

Based on 598 responses to the 2023 State of Church Compensation Survey (Aug. 21-Sept 7, 2023).

Table: Aaron M. Hill • Source: ChurchSalary and Church Law & Tax • Created with Datawrapper

How has the size of your church staff changed in the last year?



Based on data from over 2,000 churches captured by The Impact of COVID-19 on the American Church survey conducted by ChurchSalary and the Arbor Research Group (April 2022), the 2022 State of Church Compensation survey (Aug 2-5, 2022) and , and the 2023 State of Church Compensation survey (Aug. 21-Sept 7, 2023).

Chart: Aaron M. Hill • Source: ChurchSalary and Church Law & Tax, 2023 • Created with Datawrapper

Reasons for cutting wages, benefits, or total payroll in 2023

Decreased giving/income

53%

Smaller staff/attrition

26%

Staffing changes (FT to PT, PT to contract, etc.)

26%

Decreased attendance

22%

Benefit changes

7%

Ministry changes (new campus, fewer programs, etc.)

5%

Increased costs (utilities, facility/loan, etc.)

2%

Based on responses to the 2023 State of Church Compensation Survey (Aug. 21-Sept 7, 2023).

Chart: Aaron M. Hill • Source: ChurchSalary and Church Law & Tax • Created with Datawrapper

Benefit Changes | 2023

Roughly the same percentage of churches (34%) changed benefits in 2023 as the year before. Of the 203 churches who provided details, the biggest changes were again made to health and dental insurance plans and retirement matching.

How did your benefits change in 2022?	Increased	Stayed Same	Decreased
Retirement	28%	71%	2%
Health/Dental Insurance	54%	39%	6%
Life Insurance	14%	84%	2%
Disability Insurance	12%	86%	2%
Continuing Ed.	11%	86%	3%
Tech/Cell Allowance	10%	89%	1%

Based on 203 responses to the State of Church Compensation Survey (Aug. 21-Sept 7, 2023).

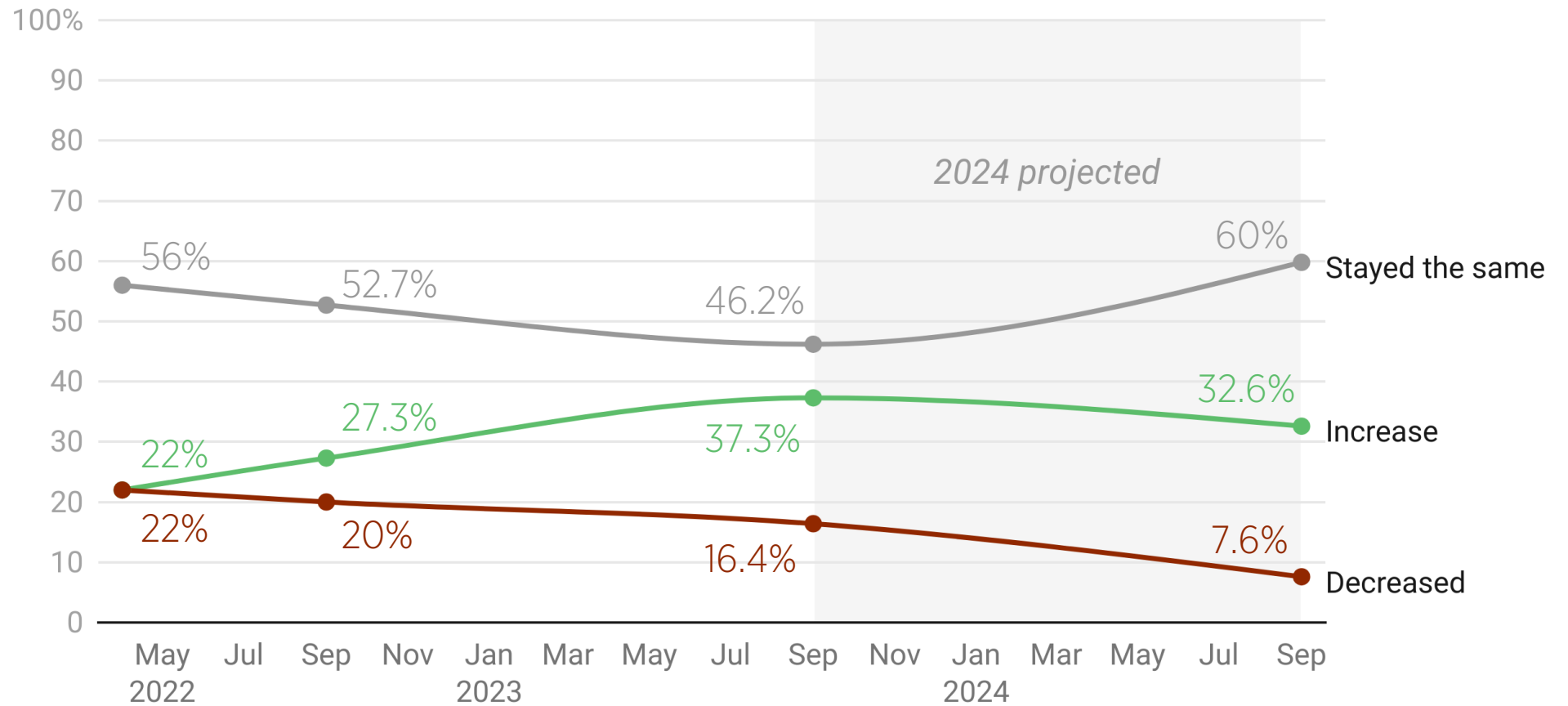
Table: Aaron M. Hill • Source: ChurchSalary and Church Law & Tax • Created with Datawrapper

How do you anticipate that staffing and payroll will change at your church in 2024?

Category	Increase	Stay Same	Decrease
# of Employees	33%	60%	8%
Hours Worked	22%	74%	3%
Salaries/Wages	72%	25%	3%
Benefits	35%	63%	1%
Overall Payroll Spending	70%	23%	6%

Based on 552 responses to the State of Church Compensation Survey (Aug. 21-Sept 7, 2023).

How has the size of your church staff changed in the last year?

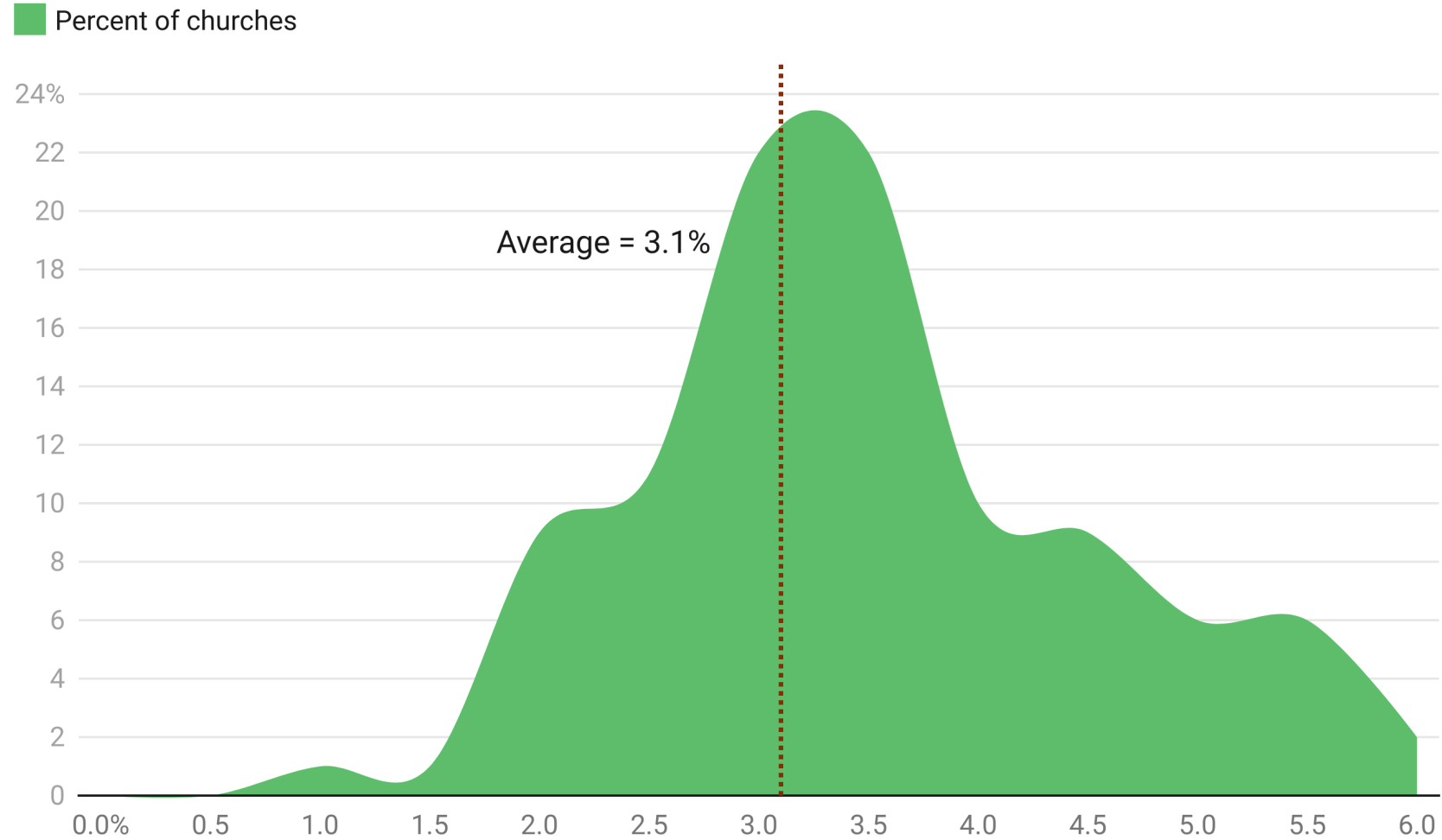


Based on data from over 2,000 churches captured by The Impact of COVID-19 on the American Church survey conducted by ChurchSalary and the Arbor Research Group (April 2022), the 2022 State of Church Compensation survey (Aug 2-5, 2022) and , and the 2023 State of Church Compensation survey (Aug. 21-Sept 7, 2023).

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Cost of Living Adjustment (COLA) | 2024 (Anticipated)

This year, for their 2024 budgets, churches are much more aligned on a COLA of 3%. Slightly less than half (44%) of churches plan on using a COLA of between 3% and 3.5% (average = 3.1%, median = 3%).



Based on 289 responses to the State of Church Compensation Survey (Aug. 21-Sept 7, 2023).

Chart: Aaron M. Hill • Source: ChurchSalary and Church Law & Tax • Created with Datawrapper

2024 Projections

- **Salary/Wages: 3.75%**
 - *Median = 3.5% | Average = 3.9%*
- **Benefits: 4.25%**
 - *Median = 4% | Average = 4.25%*
- **Total Payroll: 4.25%**
 - *Median = 4% | Average = 4.5%*



Payroll and Budget Changes for 2024



How Multisite Churches Pay Campus Pastors



How Multisite Churches Pay Campus Pastors



MODEL 1: Senior Pastor of a Campus-Sized Congregation

What does Model 1 offer multisite churches?

1. Creates a strong incentive for growth.
2. Competitive pay with similar-sized, standalone congregations.

MODEL 2:

Associate Pastor of the
Larger Multisite Church
(or Central Campus)

What does Model 2 offer multisite churches?

1. More cost-effective model & sustainable.
2. Possibly couple the role with a central role.
3. Growth doesn't always result in increased pay.



The Best of Both Worlds

Consider using a hybrid model

- **Phase 1:** Hire a CP and pay them like an Associate Pastor (Model 2).
- **Phase 2:** Shift the CP's pay as the campus grows— incentivizing growth (Model 1).
- **Be Specific:** “You have ____ years to grow this campus to ____ people, changing your pay scale to ____.”



Customized Salary Surveys

For larger churches...

- Consider using a Customized Salary Survey for each campus.
- Create Specific pay bands for each campus.
- Communicate your pay philosophy related to growth and compensation.

Contact

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Legal and Tax Updates Related to Compensation

1. Reasonable compensation
2. Excess benefit transactions
3. Going beyond the paycheck

1. Reasonable Compensation

- Is paying people too much really a problem?
- Yes—all churches can run into problems if they aren't careful about handling base pay, benefits, and various transactions with pastors and staff.
- By law, a church must formally analyze compensation paid to its pastor and any other senior leaders due to the “executive” nature of their roles.
 - *But doing this analysis for all paid staff is a best practice.*

1. Reasonable Compensation (cont'd)

- Use compensation surveys like ChurchSalary to determine reasonable compensation packages for each person based on relevant factors like the title, responsibilities, experience, education, setting, and so on.
- With a reasonable amount identified, review everything an employee receives.
- The review should identify the obvious (cash) and not-so-obvious (noncash) items, including:

- Salaries
- Fees
- Bonuses
- Deferred compensation
- Retirement plan contributions
- Housing allowance (and other allowances)
- Nonaccountable reimbursement plans
- Medical plans
- Dental plans
- Life insurance

- Automobiles
- Tuition
- Disability benefits
- Severance pay

KEY POINT: Anything benefiting an employee, whether from the church or an indirect arrangement with another organization related to the church, must be included.

1. Reasonable Compensation (cont'd)

- Establish the value for all items (use fair market value for all noncash items).
- Calculate the total and compare it with the reasonable compensation package identified for the position.
- Adjust what is provided, if necessary, to fall below what was determined to be reasonable.
- Document the compensation package.

2. Excess Benefit Transactions

- One blind spot for churches when it comes to reasonable compensation is excess benefit transactions.
- Common examples:
 - *Personal use of church property (including computers and mobile phones)*
 - *Payments of personal expenses*
 - *Reimbursements of business or personal expenses under nonaccountable reimbursement plans*

2. Excess Benefit Transactions (cont'd)

- Section 4958 of the Tax Code. Also see, IRS Publication 1828.
- The IRS imposes an excise tax on a “disqualified person” who engages in an “excess benefit transaction” with a tax-exempt charity.
- In other words, when the church provides an excess economic benefit to an insider (“mover, shaker, or decision-maker”), both are liable.
 - *It can also occur with a non-insider (private benefit).*

2. Excess Benefit Transactions (cont'd)

- Excess benefit transaction: “Any transaction in which an economic benefit is provided by an applicable tax-exempt organization directly or indirectly to or for the use of any disqualified person if the value of the economic benefit provided exceeds the value of the consideration (including the performance of services) received for providing such benefit.”
 - *It is considered “automatic” as soon as it happens.*
- Disqualified persons: Any person who at any time during the five-year period ending on the date of an excess benefit transaction was in a position to exercise substantial influence over the affairs of the tax-exempt organization, or any family member of such a person.
 - *Pastors, board directors, treasurers, finance directors, and their family members.*

2. Excess Benefit Transactions (cont'd)

- Penalties:
 - *Revocation of the church's federal tax-exempt status.*
 - *"First-tier" penalty of 25 percent of the amount of the excess benefit for the disqualified person, and an additional "second-tier" tax of 200 percent of the excess if it isn't timely repaid to the church.*
 - *An excise tax equal to 10 percent of the excess benefit (not to exceed \$20,000) may be imposed on officers or directors who knowingly and willfully approve an excess benefit transaction for a disqualified person.*

2. Excess Benefit Transactions (cont'd)

- Solutions:
 - *Calculate income tax for all benefits provided to disqualified persons.*
 - *An excess benefit is treated as compensation when paid if the exempt organization reports the benefit as taxable income on a Form W-2 or Form 1099-NEC issued to the recipient or if the recipient reported the benefit as taxable income on his or her Form 1040.*
- Set up an accountable reimbursement arrangement at your church.
 - *Business justification, receipt, and explanation, within 60 days.*

2. Excess Benefit Transactions (cont'd)

- Recent cases:
 - *Church's tax-exempt status revoked after IRS determines church's assets were used for the private benefit of its founder. IRS Private Letter Ruling 201926014.*
 - *Charity founder's wife assessed first- and second-tier penalties. Ononuju v. Commissioner, T.C. Memo 2021-94 (2021).*
 - *Church's tax-exempt status revoked partly because assets benefited officers and family members. PLR 202317022 (2023).*

3. Beyond the Paycheck

Scott Landon, executive pastor of administration for Wheaton Bible Church in Illinois, where he has served since 2004.

ChurchSalary

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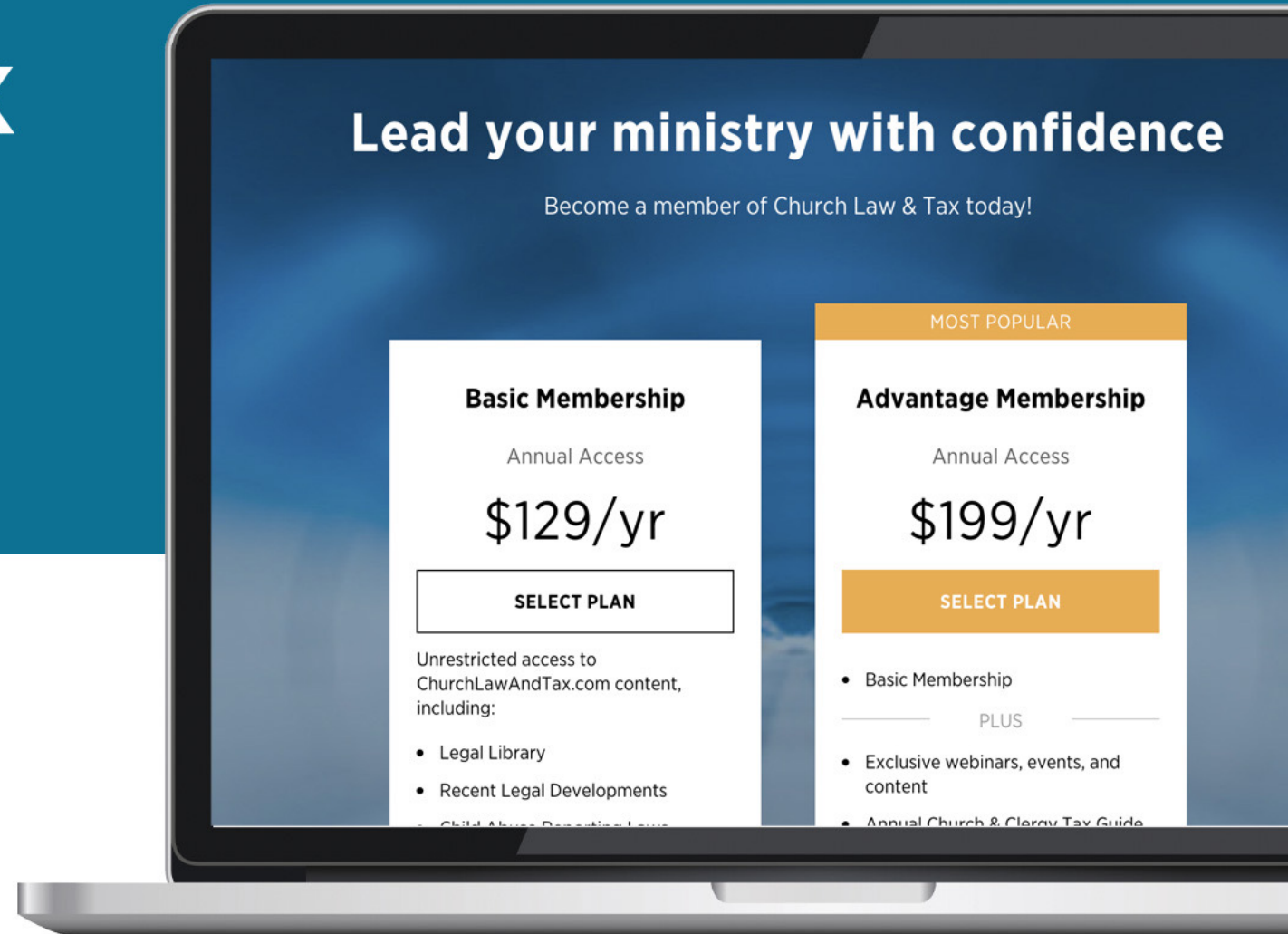
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