

## Leaflet X03: Taxation Frequently Asked Questions

### Who is this leaflet for?

This document is for churches and ministers and contains examples of frequently asked questions (FAQs). These FAQs are given for guidance purposes only. Every individual case is different and needs to be considered on its merits in accordance with HMRC taxation guidelines.

### Minister Tax Matters

#### 1. Who has to complete an annual tax return?

A minister of religion is an office holder and is required by HMRC to file an annual tax return. This could include accredited or recognised ministers, ministers who are in training or unaccredited ministers of a Baptist church.

This would usually involve filing the annual Core Tax Return (SA100) together with the HMRC Ministers of Religion Schedule (SA102M). Other schedules may need to be completed under the HMRC self assessment criteria.

A person who is employed by the church and is not deemed to be an office holder (such as a Children & Youth Worker) is **not** required by HMRC to file an annual tax return, **but** it can sometimes be **best practise** to do so.

A person who is an employee (such as a church administrator or cleaner) is **not** required by HMRC to file an annual tax return. They would usually have a contract of employment and be paid by PAYE in the normal way.

#### 2. Does a minister need to appoint a tax advisor?

No, a minister does not need to appoint a tax advisor **but** dealing with HMRC and the nuances of a minister of religion holding office is not always straightforward. A tax advisor who specialises in this area will be able to guide a minister through the process and advise them on the expenses which can be claimed.

#### 3. Our minister has a contract with their suppliers for mobile phone and broadband provision and receive a monthly amount from the church, which is less than their monthly tariff. This has not been treated as earnings (i.e. not subject to tax or national insurance each month), but as P11D

**benefits. However, no Class 1a NIC has been paid for these benefits. Is it right not to include the monthly amounts in their taxable pay?**

Our current tax advisors recommended that this is included in the stipend and the minister deducts up to 90% of their mobile phone and broadband usage through their HMRC Minister of Religion Schedule expenses and receive the appropriate income tax refund. This solves the Class 1a NIC issue.

A gross profile method of payment is recommended where a stipend is paid including ALL expenses and then the minister of religion holding office claims a refund through his HMRC Minister of Religion Schedule.

This method is simpler and easier for the church to operate.

- 4. Is it possible to claim back the tax on any courses, training or retreats I have paid for as part of my work as a minister, through my self-assessment tax return?**

Yes, a minister can claim this back through their HMRC Minister of Religion Schedule.

## **Long Term Sickness/Garden Leave**

- 1. Our minister has been long term sick and continues to live in the manse. Are there any tax implications that we need to be aware of?**

The usual PAYE guidelines apply. Each case is considered on its merits therefore we recommend HMRC should be consulted. HMRC may be sympathetic to such circumstances for up to 12 months beyond the period of statutory sick pay. HMRC would be uncomfortable with the situation continuing long term beyond say a time bounded 2-year period.

Pastorally, in terms of long-term sickness, a local church usually wishes to financially care for their Pastor as long as possible. This is often financially unsustainable by a local church for a period exceeding 12 months.

If your minister is in the Baptist Union pension scheme, informing the scheme managers within 4 weeks of the first day of absence or as soon as possible is advisable.

- 2. Our minister is on garden leave and is unable to carry on their normal duties but will continue to live in the manse. Will their salary, sick pay and manse expenses be taxable?**

Yes, PAYE and NIC's will be payable in the normal way. There are no exemptions.

## **Manse/Housing Allowance**

- 1. Does a P11D entry need to be made for any repairs or improvements to a manse?**

Repairs and improvements to the manse need to be reported on the P11D whilst the Minister is living in the manse. We would advise written dispensation from HMRC on any works undertaken whilst the Minister is living in the manse.

Please also note that the utility bills for gas and electricity also need to be reported on the P11D. Council tax and water rates paid by the church are generally not taxable and would not need to be reported on the P11D.

The minister should also ensure they complete a Minister of Religion annual tax return, and we recommend that the minister seeks appropriate advice from a professional tax advisor.

**2. I live in a manse but own my own property which I am going to sell when I retire. Do I need to pay Capital Gains Tax (CGT)?**

CGT liability is a complex area dependent on individual circumstances and ministers should consult a tax specialist who has experience of minister of religion tax matters.

**3. Is there any guidance available on the best way to compensate (pay) a minister who is living in their own home rather than the church manse?**

Where it is not possible for the church to provide a manse, or if the minister prefers, a housing allowance should be provided instead. This allowance will be subject to tax and national insurance in the same way as though it was additional stipend. The housing allowance should comprise of the cost of renting a suitable property in the local area plus the council tax and water charges.

**4. Our minister owns their own house, for which we pay them a housing allowance. They have been claiming council tax and water rate reimbursement via expenses, and we have not been including these amounts on their P11D returns. What is the correct way of paying housing allowance, council tax, and water rates?**

We recommend that these are paid as part of the housing allowance. Council tax and water rates are usually covered in full through this arrangement. If other utilities are included, we recommend that the minister speaks to a professional tax advisor.

**5. Are payments for travel included in the taxable amount or is this just the stipend and the housing allowance alone?**

Travel is reimbursed @ 45p per mile which is the AMAP (HMRC Approved Mileage Allowance Payments). The minister should keep mileage records. The minister can be reimbursed for other travel expenses e.g. train, bus, plane, ferry. These **do not** have to be included on the P11D.

Unclaimed travel expenses can be included through the minister HMRC Minister of Religion Schedule expenses, and they will receive the appropriate income tax refund.

## Church Related Matters

### 1. Does our church qualify for NIC Relief after becoming a CIO?

Yes, if the church is continuing as an employer with the same PAYE reference.

### 2. Should our church be registered for VAT?

The church does not need to be registered for VAT unless it has trading activities with a turnover above £90000 over a rolling 12-month period.

### 3. As a charity are we able to claim back any of the VAT for large purchases made on behalf of our church?

Ordinarily, it is not possible for charities to recover the VAT incurred on goods and services purchased to support non-business activities. In certain circumstances, however, there are schemes to reimburse this otherwise irrecoverable VAT and advice from a professional tax advisor should be sought.

### 4. We have been asked for a valuation of our church and manse for our accounts. Where can I get these?

You can usually include the figures included in your annual insurance statement.

## Gifts and Gift Aid

### 1. One of our church members wants to give a significant anonymous donation to a named missionary through the church and Gift Aid it. Are we allowed to do this?

**No.** We strongly advise against personal donations being processed through a local church. The local church needs to be careful about the money laundering regulations and Charity Commission guidelines. Further, Gift Aid cannot be processed for personal benefit especially from an anonymous donor.

These notes are offered by way of general information for Baptist churches and ministers. Whilst every effort is made to ensure that the information is correct at the time of publication, neither the compiler nor the Baptist Union can accept liability to any party who has either taken or refrained from taking action in reliance on these notes and they should therefore not be regarded as a substitute for seeking professional or specialist advice in any particular situation.

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