

## A guide to Clergy Allowances, Honoraria and Koha

### 1. Introduction

This document has been produced by the InterChurch Bureau (ICB) as a guide to the tax treatment of allowances, honoraria and koha for churches.

### 2. General Tax Rules for Allowances

The tax rules for allowances were revised in 2014 and specific tax rules now apply to accommodation, travel, meals and clothing. The exempt allowances set out in the new rules include:

- accommodation provided when a clergyperson is required to attend a meeting, training course or conference as part of their service that requires at least an overnight stay;
- certain meal payments linked to work travel;
- meal payments and light refreshments outside of work-related travel;
- payments provided to cover the cost of distinctive work clothing, such as uniforms;
- the clergy housing allowance.

These allowances are not treated as exempt if a higher salary would have been paid where the clergyperson had not chosen to receive the allowance.

If the allowance paid is not an amount referred to in the specific provisions on accommodation, travel, meals and clothing allowances, the general rules apply when determining if the allowance is exempt from tax.

Under the general rules a non-taxable allowance or reimbursement must be for expenditure connected with the employee's employment or service. To establish that such an allowance or reimbursement is not taxable, a church must be able to establish that expenditure is incurred as result of an obligation required by the clergyperson's service, is necessary in performing this obligation and the clergyperson derives income through the performance of the obligation.

#### **Maintaining Records**

The clergyperson's expenses supporting the payment of an exempt allowance or reimbursement should be retained.

In addition, the level of any non-taxable allowances should be regularly reviewed, e.g. on an annual basis, to ensure their appropriateness, based on the likely expenditure of the clergyperson. If the allowance is more than the employment related expenses, the excess is taxable and should be included in the Church's PAYE returns. It may be likely that a clergyperson would be under-reimbursed, in which case the allowance can be increased where circumstances justify it.

More details on the tax rules on allowances can be found in the "Employers Guide" (IR335) on the Inland Revenue website.

#### **GST on Allowances**

A parish cannot claim a GST credit for the payment of a general allowance. A parish may be able to claim a GST credit for reimbursement of an employee's actual expenses, if the parish is registered for

GST and the clergyperson incurs the expenditure in the course of the Church's taxable activities for GST purposes.

### **3. Non-Taxable Allowances for the Clergy**

#### **i. Hospitality Allowance**

Clearly a clergyperson has a duty of care to the congregation and the Church and can be considered to be obliged to provide hospitality, as appropriate. A non-taxable allowance or reimbursement for hospitality expenditure can be provided for this expenditure.

A non-taxable annual allowance for hospitality could be within the range of \$600 to \$1,500 per annum. The actual allowance should be based on a reasonable estimate of the likely expenditure to be incurred by the clergyperson.

The specific rules for meals and refreshments (discussed below) will apply to determine the extent that the costs of the clergyperson's own meals or light refreshments can be reimbursed tax free, or included in a general hospitality allowance.

#### **ii. Reimbursement of a Clergyperson's meals or light refreshments**

The payment of an allowance or reimbursement of the cost of a clergyperson's meals should generally be a taxable benefit, unless a specific exemption applies. As a clergyperson will be required to provide their services away from the church premises, the specific exemptions for the costs of a clergyperson's meals could apply where:

- incurred when a clergyperson's duties require them to travel in the performance of their duties;
- incurred as part of a working meal arranged as an alternative to a formal meeting for church business;
- incurred at a conference or training course;
- incurred on light refreshments such as biscuits, fruit or liquid refreshments such as tea, coffee, water, or similar refreshments, but only if—
  - the clergyperson's duties require them to be away from their employment base for most of the day; and
  - the church or parish would normally provide these refreshments to the clergyperson; and
  - it is not practicable for the church to provide the refreshments on the day.

#### **iii. Books**

An allowance or reimbursement for the costs of book would be free from tax where the expenditure is incurred as result of an obligation required by the clergyperson's service and is necessary in performing this obligation. If there is any doubt as to whether these requirements are met, it would be preferable for the church or parish to meet these costs directly.

Currently the allowance for books could be up to \$1,100, based on a reasonable estimate of the likely expenditure obliged to be incurred by the clergyperson.

#### **iv. Clothing**

Tax free payments or allowances can be provided to clergypersons to cover the cost of distinctive work clothing, e.g. vestments. For tax purposes, distinctive work clothing means clothing, including

a single item of clothing, that is worn by a clergyperson as, or as part of, a uniform that can be identified with the church:

- because the colour scheme, pattern, or style is readily associated with the church; and
- it is worn in the course, or as an incident of, the clergyperson's service; and
- it is not clothing that the clergyperson would normally wear for private purposes.

#### **v. Computers/Cell phones/Tablets**

The acquisition of assets such as computers, tablets and cell phones, is classed as capital expenditure where the cost exceeds \$500.

If a clergyperson receives a reimbursement from a parish for capital expenditure, the amount would need to be included in the parish payee returns as a taxable allowance.

If the cost is less than \$500, a non-taxable allowance can be paid where the asset is required for the clergyperson to provide their services. It is possible that there is a private benefit where the computers, tablets and cell phones are not only used for church business. If so, part of the reimbursement could be treated as a taxable allowance.

#### **vi. Software**

Annual software upgrades can be reimbursed as a non-taxable allowance where required for the clergyperson to provide their services. One-off purchases of a software packages over \$500 will generally be a capital expense and any reimbursement would be treated as taxable.

#### **vii. Other Expenses**

A clergyperson may incur other costs while performing their services on work related travel or on home office costs. These can also be reimbursed tax free, where the costs are incurred as a result of an obligation required by the clergyperson's service, and are necessary in performing this obligation.

### **4. Motor Vehicle Mileage rates**

Mileage rates for clergy and church workers are reviewed annually (July/August) by the Anglican Legislative Unit. Based on the Auto Association's annual running cost calculations, with adjustments reflecting the circumstances of the churches, the new rates are calculated in line with a methodology agreed by Inland Revenue specifically tailored to reflect motor vehicle usage by the church.

Reimbursement rates for vehicle mileage can also be based on the Inland Revenue rules, and are then based either on total annual kilometres travelled or on a casual rate as applicable.

### **5. Clergy Housing tax provision**

In 2014 the long-standing tax concession for housing provided to ministers of religion was formalised in the *Income Tax Act 2007*. Section CE 1 E of the Act applies where clergy accommodation is an integral part of performing their duties and provides that the taxable benefit is calculates as:

$$\text{remuneration} \times (1 - \text{adjustment}) + \text{excess rental}$$

*Remuneration* is the amount that equals 10% of the stipend or salary a minister receives for the performance of their duties. *Adjustment* is the part of value of the accommodation apportioned to work-related use, which is wholly or mainly used for work or parish purposes.

The *excess rental* is the difference between the actual market rental of the accommodation provided and that for accommodation “*that is reasonably commensurate with the duties of the person as a minister and for the location in which they perform their duties*”.

Please refer to the separate ICWPT booklet, *The Taxation of Housing for Ministers of Religion*, published February 2015, for more information on taxation and clergy housing.

## **6. Honoraria**

Payments of honoraria are schedular payments for tax purposes. Where an honorarium is paid by an employer (an organisation filing PAYE returns), the payment will need to be included in their PAYE returns. (Refer Appendix 1).

If the organisation is paying honoraria to:

- an employee, use the PAYE tables or calculator to work out the amount of tax;
- for someone who is not an employee, the payment is taxed at a flat rate of 33% (or at 45% where no tax code declaration form (IR330) has been completed by the recipient).

If the organisation paying honoraria is not an employer, and not required to file PAYE returns, there will be no obligation to deduct PAYE from payments of honoraria.

Where an honorarium is paid to a volunteer, the organisation can make a reasonable estimate of the expenses to be incurred by the volunteer and classify the payment as partly a reimbursement of these expenses and partly honorarium. PAYE would only be deducted from the part of the payment that is honorarium. In this situation, an organisation should put in place a process for making a reasonable estimate of the amount of expenditure likely to be incurred by a volunteer and ensure that the reimbursement amount is clearly identified.

If a volunteer is provided with free or discounted accommodation this may also be viewed by Inland Revenue as an honorarium.

**A volunteer** is a person who freely undertakes an activity in NZ that is:

- chosen either by themselves or by a group of which they are a member; and
- that provides a benefit to a community or another person; and
- for which there is no purpose or intention of private pecuniary profit for the person.

### **Implications for the recipient**

Recipients of honoraria exceeding \$200 will be required to file an IR3 income tax return in the year the honorarium is received and include the honoraria in the return as taxable income. Honoraria derived by a person in undertaking a voluntary activity is considered to be taxable income except to the extent it is paid as reimbursement payment to cover actual expenses incurred by the recipient.

The recipient will be able to claim expenses incurred in deriving the honorarium payment (except to the extent that a reimbursement payment for this expenditure has already been paid).

## **7. Payments to Overseas Speakers**

Generally, a voluntary payment to an overseas resident for services provided in NZ would be exempt from NZ tax, provided:

- the individual is not present in NZ for more than 92 days during the year; and
- the payment would be taxable in the country they are resident.

Specific tax rules apply to non-resident entertainers who perform in public and this includes lecturers and speakers, whether on a casual or regular basis. A visiting lecturer performing in New

Zealand may be subject to tax of 20% of the amount paid to the lecturer, or any other person on their behalf.

If your organisation is an employer (filing PAYE returns), the organisation is required to deduct PAYE withholding tax of 20% of the amount paid to a visiting lecturer who is considered to be a non-resident entertainer, unless the non-resident entertainer has provided an exemption certificate.

## **8. Payments of Koha**

The income tax treatment of koha depends on the situation. Generally, a koha payment is not liable for income tax if it is classed as a gift, i.e.

- it is made voluntarily;
- the payer doesn't receive a benefit or advantage in return; and
- it is not a regular payment that it is income to the person receiving it.

To find out more go to <http://www.ird.govt.nz>(search keyword: koha).



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## Appendix 1: Guide to paying Honoraria

