



Presbyterian Church of Aotearoa New Zealand

FINANCE NEWSLETTER 165

TO: Parish Treasurers, Presbytery and Parish clerks
FROM: Brendan Sweeney, Manager, Financial Services
DATE: 25 August 2014

1.	Ministers Housing Allowance and Signed into Law
2.	Accounting Standards and Charities Registration
3.	Change in Mileage Reimbursement Rates

1 Ministers Housing Allowance Signed into Law

Further to items in the November and December finance newsletters (#158 and 159), I have been advised by the Inter Church Working Party on Taxation that the legislation relating to tax on ministers housing, has now been passed. This means that the 10% notional tax on housing supplied to ministers whether rented from a third party or owned by the church, agreed to since 1957 will apply in law from 1 April 2015 (but can be used for by parishes now and adjustments backdated to 1 July 2013). The ICWP communication is attached as an appendix.

You should be aware that there are a couple of changes to the law:

1. The automatic reduction of 15% on the allowance no longer applies. Instead the proportion of the house that is used “wholly or mainly” for work purposes should be calculated, and that proportion applied to the allowance. For example, if an office is used mainly for church purposes and is 6% or 10% or 12% of the floor area of the manse, that proportion may be deducted from the 10% of stipend allowance.

(note that this calculation may be difficult to achieve, and the adjustment makes little difference to the overall tax obligation of the minister. If it is decided that the cost or difficulty of an area analysis of a house does not justify the reduction on the taxable allowance, it does not have to be done and a simple 10% of stipend applied).

2. A new excess rental provision applies. This nullifies the 10% allowance if the accommodation is particularly luxurious or over and above what the minister requires to perform his or her duties. Please refer to the definition in the attachment.

Also please note that the Act provides a definition of 'minister of religion' as someone

- Who is ordained, commissioned, appointed or otherwise holds an office as a minister of religion or community that meets the charitable purposes of advancement of religion;
- Whose duties are related mainly to the practice, study, teaching or advancement of religious beliefs; and
- Whose accommodation is used as an integral part of performing their duties.

Please contact me if you require further information on any of these points.

2. Accounting Standards and Charities Registration

You should be aware that government accounting standards for charities has been signed into law, will be introduced in April 2015 and be applicable to Church financial reporting from 2016. There has been a fair bit of communication from this office on these standards but it is important to note that generally they are not very different from financial reporting structures already in place for many churches, and that most church's have the expertise and resources to adapt without too much disruption.

It is also important to note that in addition to financial reporting, the central PCANZ Charities registration will come to an end and all parishes will be required to register individually on the Charities register, and post their Church data and reports annually on the charities website. Again, this is well within the capabilities of most church's, however a clear communication and support strategy is required to inform treasurers and others of requirements, specifically:

- What will be required in terms of annual reporting of the financial position and performance
- What non-financial information will be required
- What tools and support are in place to easily achieve these reports
- How to register and report on the Charities Services register

The convenor of the Resource Subcommittee of the Council of Assembly and I am planning a treasurers roadshow late this year and early 2015.

3 Changes in Mileage Reimbursement Rates

I have also been advised by ICWP that recommended vehicle mileage reimbursement rates have been updated. Revised rates for each band are:

- up to 14,000 km annual running for all purposes - reimburse work running at 71 cents (69 cents).
- up to 20,000 km annual running for all purposes - reimburse at 58 cents (56 cents).
- up to 26,000 km annual running for all purposes - reimburse at 51 cents (49 cents).

The ICWP report is summarized:

How to use these rates:

- a) each employee who is expected to use their car for employment related purposes needs to provide, at the beginning of the tax year, a **reasonable estimate** of their annual running km for **all purposes** (i.e. personal, family and work related) for the year;*
- b) the odometer reading at the beginning of the tax year must be recorded;*
- c) that estimate determines The “chosen band range” e.g. if the estimate is 18,000kms the rate of reimbursement for **employment/work related km** will be 58 cents per km;*

Please let me know if you require the full ICWP report

Appendix 1: Inter Church Working Party on Taxation communication re Tax on Housing Supplied to Clergy, dated 6 August 2014



**INTER CHURCH
WORKING PARTY
ON TAXATION**

PO Box 12-287, Wellington, New Zealand. Anglican House, 32 Mulgrave Street, Wellington.

Phone 0-4-4739369 Fax 0-4-4739991. Email office@acpb.org.nz

6 August 2014

Dear Church Administrators,

Re: Clergy Taxation on Housing Provided by the Church

The Taxation (Annual Rates, Employee Allowances and Remedial Matters) Act is now law. As you know this includes accommodation provided by Churches to their clergy.

The Act has put on to the statute books the continuation of the long standing administrative practice that the churches have followed since 1957, but with two small variations.

These are as follows:

1. Previously, from 10% of stipend, there was a deduction of 15% to cover that portion of the house which was used for work purposes, e.g. a study/office. That will no longer be the case. Instead, as from 1 April 2015, any deduction must be calculated on a house by house basis, having regard to the area of the house which is used "*wholly or mainly for work purposes related to their duties as a minister*", with the 10% taxable amount "*apportioned between business use and private use*".

This will mean: (a) determining the area of the house which qualifies as "business" use and (b) measuring its area as a percentage of the total area of the house. If that apportionment is say 12%, then that percentage will be used instead of the traditional 15%. This apportionment will mean a bit of work, but you have from now until April next year to do the necessary measurements. Please note that, if more than one minister lives in the accommodation, the work related adjustment is to be apportioned equally between them, i.e. 6% each, where two ministers live in the house.

2. A new “*excess rental*” provision is introduced. This is intended to exclude from the “10% of stipend” rule a luxurious home provided by the church, which is over and above that “*reasonably commensurate with the duties of the person as a minister for the location in which they perform their duties*”. In such cases the difference between the actual market rental value of the house provided and the market rental value of an alternative house which meets the “*reasonably commensurate*” test will be fully taxable as part of the ministers remuneration. Hopefully such circumstances will be rare within the environment of the Church.

Although the commencement date for the new law is 1 April 2015, parishes that currently provide a house to clergy which has been rented in the marketplace and who are currently paying PAYE on the actual rent paid can now, until 1 April 2015, can revert back to the 1957 rules, i.e. “10% of stipend less 15%”.

In addition, in line with our previous advice, affected parishes/local churches, can claim overpaid tax which was paid after 1 July 2013. This can be done by submitting adjusted returns to the IRD.

Tax refunded in these circumstances will be to the account of the parish/local church, rather than the minister concerned, since it was the parish/local church that funded the extra tax by grossing up the Minister’s taxable income. In other words, the net take-home pay of the minister concerned remained the same when the tax payable increased from the traditional position in relation to rented houses provided, following our 14 November 2011 memorandum.

Please note carefully the various dates mentioned in this letter.

To summarise:

1. The 1957 rules, whether the accommodation provided is Church owned or rented by the church, apply until 1 April 2015.
2. From 1 April 2015 the two changes to the 1957 position as set out above come into effect.
3. Parishes/local churches, who have been paying tax on the total rental amount paid on houses rented for clergy, can file adjusted returns seeking a refund on tax payments made after 1 July 2013.

With all good wishes,

Chris Bethwaite

Chair

ICWPT