

Pastor's Tip – Travel Expenses – Part Two

When attending campmeetings, conventions, seminars, etc. pastors are often accompanied by their spouses. Some churches reimburse the travel expenses for the pastor's spouse. It is imperative that reporting of these reimbursements met IRS regulations.

IRS section 274(m)(3) states that:

No deductions shall be allowed for the travel expenses paid or incurred with respect to a spouse, dependent, or other individual accompanying a taxpayer on business travel, unless –

- 1. the spouse, dependent, or other individual is an employee of the taxpayer,*
- 2. the travel of the spouse, dependent, or other individual is for a bona fide business purpose, and*
- 3. such expenses would otherwise be deductible by the spouse, dependent, or other individual*

IRC Section 274(m)(3)

The pastor's spouse is usually not his/her employee. Most of the time, the pastor's spouse does not have a bona fide business reason for accompanying the pastor. Therefore, many church treasurers assumed that reimbursement of the spouse's expenses were taxable income for the pastor. This may or may not be accurate.

To try to clarify whether or not reimbursement of spouse travel expenses are taxable income, the IRS released Treas. Reg. 1.132-5(t). This states that the spouse's expenses may be a nontaxable working condition fringe benefit. For the reimbursement to remain nontaxable the following three conditions must be met:

- 1. the employer has not treat the amount paid or incurred travel expenses of the spouse as compensation;*
- 2. the expenses would be deductible because the spouse has a legitimate business reason for being present; and*
- 3. the expenses are substantiated under an accountable reimbursement system.*

Treas. Reg. 1.132-5(t)

It is important to understand that if any of these conditions are not met then the reimbursement would be taxable income to the pastor.

Some churches have created policies that require spouses to travel with the church's pastors. This may or may not help meet the above conditions. Such policies should be reviewed by a tax attorney to verify whether or not the IRS will accept the policy. If the church has such a policy, it must be followed consistently by all pastors and staff.

The IRS will impose strict penalties if the spouse's travel expenses are not handled properly. Improper handling can cause substantial excise taxes to be assessed against the pastor and board members. The IRS considers spouse travel expenses as automatic excess benefit. It cannot be recommended strong enough that the church has a competent tax attorney review its policies and/or practices for reimbursement of spouse travel expenses.