

Auto Expenses and Church Employees

By Dan Busby

MANY CHURCH EMPLOYEES incur business expenses for autos—especially the pastoral staff. It seems simple enough—reimbursing employees for business miles driven or deducting miles not reimbursed. But with the ever-changing tax rules, a correct deduction or reimbursement one year may be different for the next year.

Here are four key challenges for handling auto expenses:

■ **Accounting for driving your own auto.** If an employee is not reimbursed by the church for the auto use, the expenses are deductible on Schedule A (Form 2106) as unreimbursed employee (related to church employment) expenses or on Schedule C for auto expenses related to self-employment income.

If the church reimburses the auto expense under an accountable plan, neither the reimbursement nor the expenses are reported on the minister's income tax return. Reimbursements for car expenses received under a nonaccountable plan are treated as taxable wages on Form W-2.

Although a minister may qualify to claim auto expense deductions or reimbursements using the actual expense method, this is rarely practical or perhaps advantageous. The simplicity of the mileage rate method is compelling. The business mileage rate for 2006 is 44.5 cents per mile.

The standard mileage rate is not available when the car has been depreciated under any method other than straight-line over its estimated useful life, the Section 179 expense allowance was claimed, or the car has been depreciated under ACRS or MACRS.

■ **Accounting for an auto owned by the church.**

When a church provides a car to an employee that is available for the employee's personal use, the value of that availability is generally considered to be a taxable fringe benefit. However, when an employee pays the church the fair market value for the personal use of the car, no income results to the employee.

If a church-provided car is used 100% for business reasons of the church and its use can be substantiated by the employee with acceptable evidence, then the use of the car is considered a "working condition fringe benefit" and no portion of the value of the use of the car need be included in the wages of the employee.

However, when a car is used for both business and personal purposes, an allocation between the two types of use is

required to be made on the basis of the number of miles driven.

The annual lease value method, based on a lease value table provided by the IRS, is most often used to value the fringe benefit of providing a car to an employee.

■ **Reimbursement of auto expenses under an accountable plan.** To meet the accountable plan rules, a reimbursement arrangement of a church must meet the following three requirements:

- The reimbursements must be for deductible business expenses of the employer that are paid or incurred by the employee in the performance of services as an employee.
- The employee must be required to substantiate the elements of amount, time, use, and business purpose of the reimbursed expenses to the church. In order to do this, the employee should submit an account book, diary, log, statement of expense, trip sheet, or similar record, supporting each of these elements, recorded at or near the time of the expenditure. The documentation must be recorded at a time when the taxpayer has full present knowledge of each element of the expenditure or use. For example, a log in which business mileage is recorded each day or week will generally meet the substantiation requirements.
- The employee must be required to return to the employer any excess of reimbursements over substantiated expenses within a reasonable period of time.

■ **Treatment of commuting mileage.** Auto expenses incurred commuting between an individual's home and the individual's main or regular place of business are nondeductible and nonreimbursable personal expenses. Example: A minister is employed at a church that is located in the same city as his or her home. The minister always drives to and from the church to perform his or her duties. No portion of these commuting expenses is generally deductible or reimbursable. (Ministers seldom meet the office-in-home requirements, which could qualify commuting miles as deductible or reimbursable instead of personal.)

Summary. Auto expense is typically a minister's most significant business expense. If business mileage is reimbursed under an accountable plan using the maximum IRS rate, stewardship of the funds of the church and the minister will generally be maximized.

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