

Paying a Pastor's Medical Expense

Q: We allow our pastor to pay his medical expenses with the church's credit card. We don't have an established policy or reimbursement limits. Is this a nontaxable fringe benefit?

A: Providing medical insurance or medical expense reimbursements is a complex, if not confusing, issue. Depending on how these are handled, though, will determine whether it results in taxable income.

Here are some points to consider about medical payments:

Premiums: Employer-paid medical insurance premiums (for the employee and their family) are not taxable to employees, with the following conditions:

- Employers can pay the premiums directly to the insurer.
- Employers can reimburse the employee for the cost of the premium if the church requires proof the employee paid the premium (i.e. an accountable reimbursement plan).
- However, if the church provides the employee with cash to pay the premium, it is taxable (i.e. a non-accountable reimbursement plan).

Reimbursements: Reimbursements for medical expenses are not taxable to employees if they come from an employer-financed accident and health plan.

- The employer must establish an accident or health plan, which includes a (1) commitment recorded in board minutes; (2) employer is committed to certain rules and regulations governing payment; (3) rules must be made known to employees; (4) must be called an "accident or health plan", and (5) must be operated on a consistent basis.
- Plan must be in effect before reimbursements are made.
- However, if the plan discriminates for highly-compensated individuals, it may be taxable to those highly-compensated individuals.

In short, employers are allowed to pay medical insurance premiums and reimburse medical expenses for their employees. These payments can be excludable from income if the church has established an appropriate health plan as described above.

With regard to the question posed, it is clear that using the church credit card to pay the pastor's medical expenses would result in taxable income, if there weren't any prescribed limits or guidelines, because the church failed to have an established accident or health plan in accordance with IRS regulations.

For more information on this topic, see [IRS Publication 525](#) (Taxable and Nontaxable Income) or Richard Hammar's annual *Church & Clergy Tax Guide* which can be purchased [here](#).