

Per Diem Provision for ATMN Workers

The IRS allows those who work away from home to deduct the cost of travel, etc. related to their work. In general, it is a significant benefit for a Transitional Pastor to use the per diem allowance from the IRS. This *does not* mean any additional cost to the church budget. Rather per diem provides a means to structure the salary to allow for a maximum tax advantage.

1. What is per diem?

“Per diem is an allowance paid to your employees for lodging, meals, and incidental expenses incurred when travelling. This allowance is in lieu of paying their actual travel expenses” (<https://www.irs.gov/pub/irs-regs/perdiemfaq&a.prn.pdf>).

2. Restrictions for using per diem. The most significant restriction relates to the length of the work assignment. The IRS website describes the restriction as follows:

Length of Assignment: “In determining your main place of business, take into account the length of time you normally need to spend at each location for business purposes, the degree of business activity in each area, and the relative significance of the financial return from each area. However, the most important consideration is the length of time you spend at each location.

“You can deduct travel expenses paid or incurred in connection with a temporary work assignment away from home. However, you can't deduct travel expenses paid in connection with an indefinite work assignment. Any work **assignment in excess of one year is considered indefinite**. Also, you may not deduct travel expenses at a work location if you realistically expect that you'll work there for more than one year, whether or not you actually work there that long. If you realistically expect to work at a temporary location for one year or less, and the expectation changes so that at some point you realistically expect to work there for more than one year, travel expenses become nondeductible when your expectation changes” (<https://www.irs.gov/taxtopics/tc511>)

Because expenses related to an indefinite work assignment are not deductible, it may be best to create the Memorandum of Understanding (MOU) as an 11.5 month assignment, or less, to be renegotiated *at the end of that period of time*. This will fulfill the requirement stated above. If at any point in that 11.5-month period, it is determined best for the health of the church, to extend the MOU beyond 12 months, then at that point per diem allowance ends.

3. How do I use per diem?

First, determine if per diem is being paid for the combination of lodging, meals and incidentals (M&IE), or just M&IE. If, in other words, the church provides housing then only M&IE is paid.

Next, calculate the amount to be paid. “A per diem rate can be used for the combined costs of Lodging and M&IE. However, the rates vary depending on location. Use the rate for the area where your employee spends the night. The rates for the different cities are available in IRS Publication 1542.” (<https://www.irs.gov/pub/irs-prior/p1542--1998.pdf>) or you can use <http://www.gsa.gov/perdiem>

4. An Example per diem Budget.

For ease of calculation it is best to start from the “bottom line” – what the church intends to pay as a total salary or contract (1099) amount.

Using the above calculator for Minnesota (M&IE = \$55/day + Lodging \$96/day) here is an example salary breakdown:

	Item	Monthly Amount
1	Salary	\$ 100.00
2	Housing Allowance (provided housing)	
3	Per Diem Lodging and M&IE	\$ 4,530.00
4	Per Diem M&IE	
5	Accountable Ministry Expense account	\$ 100.00
	Total Salary and Benefits	\$ 4,730.00

Note: if Lodging is included as per diem then no housing allowance is paid.

	Item	Monthly Amount
1	Salary	\$ 2,000.00
2	Housing Allowance (provided housing)	\$ 450.00
3	Per Diem Lodging and M&IE	
4	Per Diem M&IE	\$ 1,650.00
5	Accountable Ministry Expense account	\$ 100.00
	Total Salary and Benefits	\$ 4,200.00

In this example, the church provides housing and the pastor pays utilities etc. and is therefore provided a housing allowance. He is still able to receive the M&IE allowance. An Accountable Ministry Expense account is for ministry expenses *not* living expenses.