

## National Anglican Resources Unit

General Synod Office  
PO BOX Q190, QVB Post Office  
Sydney NSW 1230

### Centrelink Income Assessment of Clergy

#### Executive summary

This briefing paper has been developed to provide clarification about the way Centrelink assess income of clergy to determine eligibility for various income support payments and low income health cards.

The treatment of income differs significantly between the Australian Tax Office and Centrelink. Each system has a definition of reportable income to determine eligibility for various taxation and social security benefits. The Australian Taxation Office determines income according to A New Tax System Act 1999 and Centrelink determines income on the basis of the Social Security Act 1991.

The interpretation and application of these two acts as they apply to religious practitioners has caused much confusion for diocesan administrators and clergy. The main difference is around the valuation of exempt benefits, allowances or amounts provided under salary sacrifice arrangements. In determining the total reportable income for religious practitioners; the ATO only assess income that is included on the individual payment summary. Centrelink however, determine income on the basis of income disclosed on the payment summary plus any personal benefits received by the religious practitioner.

Centrelink use the following principles when assessing the remuneration of clergy;

- Allowances or benefits paid to clergy for activities directly related to ministry are disregarded as income. For example: home office expenses, parish resources and job related travel
- Allowances or benefits paid to clergy to meet expenses that are not directly related to ministry will be treated as income. For example: school fees or personal travel
- If an allowance or reimbursement contains both private and ministry components; clergy will need to determine what proportion is for private purposes. For example: housing allowance or provision of a motor vehicle will include ministry and private components

The contents of this paper provide guidance on how Centrelink will treat various elements of a typical remuneration package for Anglican clergy and how clergy can determine the ministry and private usage component of various benefits. Summary information is also contained in Appendix B.

**Prepared by Tracey Matthews with the assistance of Damien Arnold  
May 2005**

## 1. **Background**

The treatment of income differs significantly between the Australian Tax Office and Centrelink. Each system has a definition of reportable income to determine eligibility for various taxation and social security benefits.

Amendments to the Social Security Act 1991 and the introduction of the A New Tax System Act 1999 led to the consolidation of Family Payments into two types;

- Family Tax Benefits administered by the Australian Taxation Office under the A New Tax System Act 1999, and
- Parenting Payment, administered by the Department of Social Security under the Social Security Act 1991

The interpretation and application of these two Acts as they apply to religious practitioners has caused considerable confusion for some time. The confusion has mainly centred on the value of non-cash benefits provided to clergy in their ministry roles. These benefits are exempt from income tax and are not reported on payment summaries. The ATO under tax law do not include these benefits to calculate income.

Centrelink assess eligibility for various benefits according to Social Security legislation. This legislation includes non-cash benefits in the income definition and this also includes exempt benefits provided to clergy.

This briefing paper seeks to clarify the income assessment rules under the two systems and dispel the confusion that has existed for many years. Clergy are strongly recommended to disclose all income, allowances and exempt benefits to Centrelink. Failure to declare this information can result in severe penalties and/or repayment of benefits and allowances.

## 2. **Clergy Remuneration**

Parish Clergy and authorised stipendary lay ministers receive a remuneration package which is made up of the following elements;

- Cash Stipend;
- Superannuation;
- Provision of Housing;
- Housing allowance if a rectory is not provided;
- Salary sacrifice into fringe benefits;
- Use of a fully maintained motor vehicle or the provision of a travel payment;
- Payment of utilities such as telephone, electricity and gas; and
- Other allowances.

Fringe benefits made to religious practitioners (by a religious institution) in the performance of predominantly pastoral related duties are exempt from fringe benefits tax and do not have to be reported on the individual's payment summary. These benefits are therefore not included in the definition of income for ATO income assessment purposes. Eligibility for Family Tax Benefits A & B is based on the Income Tax Act and as such; exempt benefits and benefits exempt from fringe benefits tax are excluded in the calculation.

Eligibility for other government payments and allowances is administered by Centrelink and subject to the Social Security Act. This has been the source of much confusion and frustration for clergy, diocesan administrators and Centrelink Officers. The major difference between the definitions of reportable income under the two acts is the inclusion of exempt benefits and fringe benefits exempt from fringe benefits tax for Centrelink assessments. The application of the Social Security Act to religious practitioners is explained below.

### **3. Centrelink Income Assessment**

Under Section 1.1.M.150 of Centrelink's internal staff guide to Parenting Payment details: '*A Minister of religion under a contract for service is neither an employee nor self-employed, but is a 'holder of a religious office'. A number of allowances and reimbursements of ministry related expenses may be deducted from the minister's gross income, but fringe benefits which are for the minister's own private benefit are "valuable consideration" and MUST be included*'.

The Social Security Act defines income as "an income amount, earned, derived or received by the person for the persons own use or benefits."

Income may consist of;

- Valuable consideration;
- Personal earnings;
- Money; or
- Profits

Valuable consideration is defined as; "*Receipts not in money form but capable of being valued in money terms. This occurs when a person receives goods, services or some other benefit in exchange for some item, action or promise.*"

### **4. How will Centrelink assess income of clergy?**

Tracey Matthews and Damien Arnold met with Centrelink officials in late 2004 to obtain clarity on a number of income assessment issues in regard to Anglican clergy. The meeting was helpful and the parties involved reached a common understanding in regard to Centrelink income assessment of clergy and how income is defined. Information contained in this paper is based on the outcomes of this meeting and subsequent written confirmation recently received from Centrelink. The following is a summary of how clergy benefits and allowances are considered by Centrelink and details about the treatment of various benefits is covered in section 5.

- Allowances, benefits or reimbursements paid to clergy for activities directly related to ministry are disregarded as income. For example: home office expenses, parish resources and job related travel
- Allowances or benefits or reimbursements paid to clergy to meet expenses that are not directly related to ministry will be treated as income. For example: school fees, groceries or personal travel

- If an allowance, benefit or reimbursement contains both private and ministry components; clergy will need to determine what proportion is for private purposes. For example: housing allowance or provision of a motor vehicle will include ministry and private components

## **5. Treatment of various benefits**

### **5.1 Housing**

Centrelink deem provision of free accommodation in Church owned property to be exempt from income calculations. This means that the value of rectory accommodation or the provision of a rental property leased in the name of the relevant diocesan legal entity will be exempted from any income assessment.

Centrelink take a different approach to the payment of housing allowances or payment of third party housing benefits. This would include; housing allowances, payment of mortgages or payment of rental properties leased in the name of the religious practitioner. In these circumstances Centrelink will include the value of any housing allowance or housing benefit as clergy income.

*Example 1: A clergyperson receives a housing allowance of \$10,000 per annum as they live in their own home rather than the rectory. Centrelink will include the \$10,000 as income of the clergyperson.*

*Example 2: The parish does not have suitable rectory accommodation so it leases a rental property for the rector to live in. The lease is in the name of the Diocesan legal entity. Centrelink would not include the value of the weekly rent in the income assessment as it is deemed to be the provision of free accommodation.*

### **5.2 Travel**

Travel allowances and/or benefit payments will be considered income for Centrelink purposes. However, the business or ministry related usage component will be deductible from the income assessment.

Clergy will either be provided with a fully maintained motor vehicle to perform duties or be paid a travelling allowance. It is particularly important to make a distinction between ministry and private usage and ministry travel should be treated as a parish expense.

#### *a) Clergy use their own car and receive a travel allowance*

Payment of a cash travel allowance should be reported on the individual payment summary and will be considered income for tax and Centrelink purposes. However, the work related or ministry usage component will be deducted from the income calculation. It is therefore essential that an appropriate valuation method is undertaken to ascertain the private and ministry usage. All travel should be recorded in a log book over a thirteen week period to determine the proportion of ministry and private travel. These figures should be reviewed on an annual basis.

*Example 1: A rector operates her own vehicle and receives a set cash travel allowance of \$5,000 per annum (This is not reimbursement of travel expenses or a payment to a 3<sup>rd</sup> party). She keeps a log book for thirteen weeks to record all travel. During this time she travels 5,000 km's of which 4,000 km's is ministry related. Her ministry related usage is therefore*

80% and she can claim a deduction of \$4,000 for both income tax and Centrelink income assessment.

*Example 2: A rector receives reimbursement or direct 3<sup>rd</sup> party payment of travel expenses including insurance (\$600) and registration (\$400). A log book has determined that 90% of travel is ministry related. In this case 10% of \$1,000 = \$100 will be included as income for centrelink assessment purposes.*

b) *Clergy are provided with a fully maintained vehicle owned by the parish or diocese*  
When clergy are provided with a fully maintained motor vehicle they should disclose the value of any private usage component of the motor vehicle to Centrelink. In order to determine the private usage component it is necessary to calculate the taxable value of the vehicle under the operating cost method. This is calculated by determining the annual operating costs of the vehicle such as; fuel, insurance, registration, maintenance, deemed interest and depreciation. This is then multiplied by the private usage proportion to determine the value of the personal benefit. In order to determine the private usage proportion; a log book should be kept for a thirteen week period to determine the percentage of ministry and private usage.

If the Diocese provides a car fleet scheme, it is recommended that they provide recommended assumptions of costs to the participants.

*Example: A rector is provided with a fully maintained motor vehicle. The depreciated value of the vehicle is \$25,000 and the operating costs are as follows;*

*Annual operating costs of fuel, insurance, registration and repairs = \$3,500*

*Depreciation = \$25,000 x 22.5% = \$5,625*

*Deemed Interest at ATO statutory rate = \$25,000 x 7.05% = \$1,762.50*

*Private Usage as determined by logbook = 20%*

*Car benefit value = (\$3,500+\$5,625+\$1,762.50) x 20% = \$2,177 per annum*

### **5.3 Utilities and Telephone**

These benefits are treated according to the accommodation which is provided. If utilities are paid for a Church owned property; the amount will not be treated as income. If utilities are paid for a private residence, the payment will be treated as income; however any ministry related component will be deducted from the income amount.

### **5.4 Groceries**

Payments by way of fringe benefits for groceries that are private use of the rector and his/her family will be treated as income by Centrelink.

### **5.5 Private Health Insurance and other personal insurances**

Payments by way of fringe benefits for personal insurances will be treated as income by Centrelink.

### **5.6 Children's School Fees**

Payment of children's school fees will be treated as income by Centrelink.

### **5.7 Holiday Home Payments**

Holiday home payments will be treated as income by Centrelink.

## **5.8 Personal Loan Repayments**

Personal loan payments will be treated as income by Centrelink.

## **5.9 Superannuation**

Superannuation which is either diocesan or personal contribution will not be treated as income by Centrelink.

## **6. What are ministry related expenses?**

Ministry Related Expenses (MRE's) are parish expenses that clergy are able to deduct from their income which is to be reported to Centrelink. The definition of Ministry Related expenses is not determined by Centrelink and therefore this must be considered by each Diocese and each individual cleric. ATO guidelines for work related expenses can be used to provide guidance in this area.

The following information is an attempt to provide guidance on what should be considered ministry related expenses. The information contained in this paper is based on the ATO view of work related expenses.

### **6.1 Work Related Expenses (Australian Taxation Office)**

The Australian Taxation Office has defined a work related expense as, "payments incurred in the course of earning assessable income and must not be private, domestic or capital in nature". For example, the costs of normal travel to and from work or buying lunch each day is private. If you incur an expense that is both work related and private or domestic, you can only claim a deduction for the work related portion of the expense.

Basic rules to consider before claiming a payment as work related include:

- The payment must 'match' the year of income. For example, if claiming a deduction for the income year 2004-2005 you must have incurred the expense in the same year.
- You cannot claim an expense which has been or will be reimbursed to you by your employer or any other person.
- If you incur an expense for services paid in advance, some or all of the expense may be allowable this year.
- You must be able to substantiate your claims with written evidence for the total expenses claimed.

### **6.2 Ministry Related Expenditure**

The following items are considered to be Ministry Related Expenses.

#### Motor Vehicle Expenses (related to the role and responsibility in the Parish)

- Insurance;
- Parking fees (not parking fines);
- Petrol/gas and oil;
- RACV service Fee - if not provided with a vehicle;
- Registration and insurance;

- Repairs and maintenance;
- Tyres;
- City link fees; and
- Job-related hire of motor vehicle.

#### Continuing Education

Professional development (related to resources, training, conferences and seminars that are required to develop the role within the Parish)

- Subscriptions (religious or other job-related newspapers and periodicals);
- Secular, spiritual papers and journals required to assist clergy in their vocation and/or professional development; and
- Audio, visual or audio-visual material for bible studies, addresses for research or study, or for use in worship.
- Conference fees;
- Conferences papers, cassettes etc.; and
- Accommodation and meals whilst attending conference.
- Memberships of Professional Bodies;
- Membership of societies and associations intended to equip for support, or eligible ministry.

#### Resources

Books, journals and magazines for Parish related business and will remain the property of the Parish.

#### Home Expenses/Utilities

Vicarage expenditure including:

- Light, heating, telephone etc. where not reimbursed or paid for;
- Cleaning and maintenance;
- Garden expenses, gardener, lawn mowing etc;
- Hardware expenses;
- Council fees;
- Utility fees – gas, water and electricity; and
- Internet connection/usage fees where used for Diocesan purposes.

\* Please note that expenses incurred in maintaining a vicarage or Church Owned property are to be reported as Ministry Related Expenses. Expenditure associated with maintaining a private residence will be considered private expenditure.

#### Stationery

Allowable expenditure for purposes of stationery is outlined as follows:

- Stationery in general;
- Printing costs for letter heads, business cards, posters etc.;
- Paints;
- Pens;
- Postage costs for job related items posted or dispatched

### Ministry Related Travel

Travel associated expenditure

- Accommodation;
- Meals;
- Public transport fares; and
- Taxi Fares

### Hospitality for Parish Related Business

- Catering;
- Restaurant meals; and
- Other Hospitality items as agreed by the Parish.

## **6.3 Private expenditure**

Private expenditure is considered income; as this expenditure is not incurred in the course of earning assessable income. It can be private, domestic or capital in nature.

Private expenditure includes:

### Housing

- Home loan repayments for owner occupier and/or investment property house. (caution required where repayment is made to a loan that has a redraw facility as it may not qualify as a fringe benefit);
- Retirement or investment housing;
- Light, heating, telephone, cleaning, maintenance etc. relating to a private residence;
- Garden expenses such as gardener, lawn mowing and tree lopping relating to a private residence;
- Home maintenance items relating to a private residence;

### Travelling Expenses (Personal)

- Motor vehicle(s);
- Car washes, insurance, car loan repayments, license fee (car and driver), parking fees, petrol/gas and oil, R.A.C.V. service fee, registration, repairs and maintenance etc.;
- Public transport fares;
- Interstate and overseas fares; and
- Hire of motor vehicle(s).

### Children's Education

- Pre-school, primary, secondary, tertiary and adult learning school fees; and
- Uniforms, books etc.

### Clothing

- All clothing for the family;

### Holidays

- Expenses and contribution towards provision and maintenance of holiday housing; and



- Holiday expenses would include accommodation at motels including the provision of meals taken at the motel.

#### Hospitality (Personal) & Entertainment

- Hospitality includes restaurant dinners with family and friends, cinema, theatre.

#### Insurance Premiums

- Stipend Continuance;
- Private Health Insurance;
- Term Life Insurance;
- House Contents; and
- Motor Vehicle.

#### Professional Bodies

- Membership of societies and associations intended to equip for, support, or enable ministry not paid by the parish.

**APPENDIX A – INCOME ASSESSMENT FOR VARIOUS GOVERNMENT BENEFITS**

<b>PAYMENT TYPE</b>	<b>INCOME ASSESSED</b>	<b>ADDITIONAL NOTES</b>
<p><b>FAMILY TAX BENEFIT</b> (including Family Tax Benefit Part A &amp; B and Child Care Benefit)</p> <p>(Maternity allowance, Maternity Immunisation allowance also)</p>	<p>Taxable Income only.</p> <p>All payments are made based on an estimate of income for the current financial year. At the end of the year to FAO (Family Assistance Office) compares it's customers estimates with actual taxable income for the year. It's generally best to be high on estimate as any further entitlement can be claimed through the tax system.</p>	<p>Based on income tax for the tax system only.</p> <p>Family Tax Benefit Part B is a payment made to the secondary earner in the family if their income is below a certain figure. This figure varies depending on age of child, amount of income etc but generally, if the secondary earner has estimated income less than about \$10,000 there may be some entitlement.</p>
<p><b>PENSIONS</b> (including Age Pension, Disability Support Pension, Widows Allowance, Bereavement Pension, Wife Pension and Carer Payment)</p>	<p>All sources if income and/or in kind payments or donations are considered. i.e. Taxable Income plus other benefits received at 'valuable consideration'</p>	<p>Valuable consideration is derived as receipts not in money form but capable of being valued in money terms. i.e. a person receives goods, services or some other benefit in exchange for some item, action or promise.</p> <p>Ministers of religion can have reimbursements for out of pocket expenses such as books, telephone calls and petrol disregarded in calculating their income. (this is not an obtrusive list and is a guide to the type of expenses allowed)</p>
<p><b>ALLOWANCES</b> (Including NewStart Allowance, Mature Age Allowance, Mature Partner Allowance, Parenting Payment but not Youth Allowance, see below.)</p>	<p>As for Pensions.</p> <p>The Income test for Allowances are applied differently in that for couples each individual's income are identified and applied separately but can if high enough effect each partners payments.</p>	<p>As above.</p>
<p><b>YOUTH ALLOWANCE</b></p>	<p>There are several different income and assets tests that can be applied to youth allowance. If the youth allowance claimant is considered to be dependent on their parents there are three parts to a parental means test that will be applied.</p> <p>1/ Parental Income test – based on taxable income of the parents. 2/ Assets test – again of the parents 3/ Parental Actual Means tests – Looks at the actual spending of a household and relates this to a level of income.</p> <p>On top of this the "youths' own income can affect their own payments and if they earn enough they can be found to be independent and not subject to the above parental test.</p>	<p>As can be seen from the previous column Youth Allowance can be a complicated area. There are many issues that can relate to ministers in particular. Too many in fact to relate here.</p>

**APPENDIX B – CENTRELINK INCOME ASSESSMENT FOR VARIOUS CLERGY BENEFITS / ALLOWANCES**

<b>BENEFIT / ALLOWANCE</b>	<b>ASSESSIBLE</b>	<b>EXPLANATION</b>
Rectory provided	No	Centrelink consider free housing exempt
Rental house leased in parish name	No	Centrelink consider free housing exempt
Cash housing allowance to cover mortgage or rental property in clergy name	Yes	Payment should appear on payment summary and is assessable for income tax and Centrelink purposes. Portion of floor space used for ministry may be deductible
Third party payment of mortgage	Yes	Payment considered to contribute to asset accumulation of clergy. Portion of floor space used for ministry may be deductible
Third party payment of rent when lease is in clergy name	Yes	Rental payment deductible only if the lease is in the parish name. Portion of floor space used for ministry may be deductible.
Travel Allowance (cash)	Yes	Payment should appear on payment summary and is assessable for income tax and Centrelink purposes. Portion used for ministry use is deductible
Payment of running costs for clergy owned vehicle e.g. fuel, insurance, registration	Yes	Personal component is assessable and work related component is deductible. For example: Clergy determines ministry use is 90% of total usage. If total running costs are \$2,000 then \$1,800 is deductible and \$200 will be assessable
Provision of a fully maintained motor vehicle owned by parish or diocese	Yes	Log Book must be kept to determine personal usage component. The operation cost method could be used to determine annual operating costs. Personal usage amount would then be calculated and treated as assessable
Motor Vehicle Replacement Fund	No	This is not assessable provided clergy do not receive any cash payments from the fund
Utilities	Yes	Personal usage component is assessable
Telephone	Yes	Personal usage component is assessable
Groceries	Yes	100% assessable
Private Health Insurance	Yes	100% assessable
Other personal insurances	Yes	100% assessable
Children's School Fees	Yes	100% assessable
Holiday Payments	Yes	100% assessable
Personal Loan Repayments	Yes	100% assessable
Superannuation	No	Not treated as income

