

Tax and Legal Guide for Elders: *Business Ethics for Church Leaders*

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I. The church has business elements.

A. Many object to discussion of *business concepts in the context of church*, but Jesus frequently used business concepts in his parables to teach how to live as disciples:

1. day laborers complain about their wages,
2. a builder is to count the cost of his planned building,
3. trustees are given bars of silver (talents) to invest or at least deposit in a bank.

B. Plainly, *business concepts are valid and proper* in the affairs of the church, although no one would suggest that the church should be run as a business.

C. And yet *many excellent businessmen leave their good business sense at home* when they conduct church business.

1. As a result, some churches have lost hundreds of thousands of dollars unnecessarily, many preachers have retired penniless, and some preachers have been guilty of tax fraud.
2. Churches routinely pay far too much interest when they borrow, and elders routinely take on unnecessary liability risks.
3. For that matters, we conduct business at church in ways that are considered unethical in the world. Surely our standards should be at least as high as the world's!

D. Taking the extra effort to do sound legal and tax planning is just *good stewardship*.

(Matt. 10:16) "I am sending you out like sheep among wolves. Therefore be as shrewd as snakes and as innocent as doves."

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E. Churches are subject to tax laws and many of the same laws that regulate businesses, especially employers.

1. While the government cannot regulate the spiritual conduct of a church, *the “secular” aspects of a church are subject to oversight by the civil authorities*, and failure to recognize this can be disastrous.
2. The line isn't perfectly clear, but it's normally clear enough.

F. *Saving money on lawyers/failure to use experts*

1. It's often very unwise to try to cut costs by skimping on the legal, tax, and human resource advice your church needs.
 - a) This is penny wise and pound foolish, especially in an age of high stakes litigation where suing a church is no longer unthinkable
2. It's fine to let a member lawyer donate services, but few lawyers are expert in all church issues. Sometimes, you need to pay for expertise.
 - a) The elders of a larger church may need to find a member, retain an administrator, or take the trouble to learn employment law, for example, much as a human resources director must.
 - b) Some churches have over 20 employees and must take the same level of care as a small business.
 - c) It may be wise for the preacher, a deacon, or an elder to attend management classes. The local Chamber of Commerce or community college may be helpful.
 - d) You may need to include an HR expert in deciding your personnel issues.
3. In my congregation, the top experts in hiring practices are *women*.
 - a) It is astonishing that so many churches deny women who are true experts in hiring practices the privilege of donating their expertise to help the church obey the law and avoid liability.

(Rom. 13:1-7) *“Everyone must submit himself to the governing authorities, for there is no authority except that which God has established. The authorities that exist have been established by God. ... 5 Therefore, it is necessary to submit to the authorities, not only because of possible punishment but also because of conscience. 6 This is also why you pay taxes, for the authorities are God's servants, who give their full time to governing. 7 Give everyone what you owe*

him: *If you owe taxes, pay taxes; if revenue, then revenue; if respect, then respect; if honor, then honor.*”

II. Business ethics for churches

A. It's surprising that churches often violate fundamental principles of business ethics.

1. Churches should be at least as ethical as the surrounding business community.
2. However, churches often lower themselves to the ethics of the world, rather than holding themselves to a higher standard.
3. Of course, the mere fact that Christians are dealing with people outside the church hardly justifies violating our Christian principles!
4. The employment relations with ministers and others should be as redeemed by our relationship with Jesus as any other relationship.
 - a) Elders are Jesus-bound to treat their employees fairly and compassionately.
 - b) It's not a truly arm's-length arrangement, and God is not honored when we take advantage of a man's commitment to the church or naïveté.

B. Examples

1. *Last look.*
 - a) Churches often allow a church member or favored supplier to have a last look and don't tell the other bidders.
 - b) When a business requests bids or proposals, it's dishonest and unethical to allow a favored bidder a "last look," that is, the opportunity to match or beat the best bid—unless you plainly advise all bidders that this will be your practice, in advance of the bidding.
2. *Intellectual property.*
 - a) If you invite an attorney or other person who sells ideas or services to make a proposal, it's dishonest to take his ideas and give them to a member to use.
 - b) You see, saving the Lord money does not allow you to steal.

3. *Profiteering on the church.*

a) It is wrong for a member to insist that the church do business with him so that he can profit based on his church membership.

b) A member should either gladly bid for the privilege, so the Lord will get the best deal possible—or donate his commission or profit.

c) It's outrageous—

(1) that our members expect to make money on the church while the church gets less than the best deal and

(2) church leaders allow this.

4. *Giving away the Lord's money.*

a) Elders and deacons are fiduciaries for the church, that is, the Lord.

b) Therefore, they should not buy insurance or invest money with a member when they could get a better deal for the church from a non-member.

c) Members are called to *give* to the church, not to *steal* or even to profit from the church.

5. *Imprudence.*

a) Church members should certainly be able to trust one another, but not all members have attained great spiritual maturity.

b) We are remain weak and sinners despite being members.

c) Therefore, ordinary accounting controls should be used.

d) Anyone with an accounting degree can advice the church on how to set this up. For example, don't let the same person who counts the money make the deposit. No one should count the money alone. Why would we tempt our members to sin?

6. *Minimum wage.*

a) Churches are subject to the law, and we're repeatedly commanded in the New Testament to honor the laws of the land when not inconsistent with the laws of God.

b) Therefore, we have to pay minimum wage, even if our members are willing to work for less. Even baby sitters are covered.

c) They may contribute as much as they like back to the church, but we have to pay a fair wage.

d) *Don't rationalize.* Calling an employee, such as a secretary or babysitter, an independent contractor to avoid the law rarely really works.

e) Don't violate the law just because your members are unlikely to turn you in.

7. *Overtime.*

a) Churches are much more likely to violate the overtime laws.

b) Although ministers are exempt, church secretaries, janitors, and preschool teachers are not.

c) If they work more than 40 hours, they are entitled to time-and-a-half.

8. *Opting out of Social Security.*

a) It is sin to take a false oath, and opting out of Social Security usually requires a preacher to take a false oath.

b) It costs him money, of course, but the Ten Commandments aren't limited to obeying God when it doesn't cost anything.

c) Nor should elderships encourage preachers to opt out. Conspiring to sin is sin.

9. *Failure to provide proper benefits.*

a) It's wrong to prevail on the good nature of our ministers to come to work for you and then not pay wages and benefits that are customary for professional employees.

b) Professionals are entitled to a fair wage, health insurance, and retirement benefits.

c) If they've opted out of Social Security, consider group disability.

d) Don't "save" the Lord money by refusing to pay his servants. He is not honored by parsimony.

(1 Cor. 9:7-10) Who serves as a soldier at his own expense? Who plants a vineyard and does not eat of its grapes? Who tends a flock and does not drink of the milk? 8 Do I say this merely from a human point of view? Doesn't the Law say the same thing? 9 For it is written in the Law of Moses: "Do not muzzle an ox while it is treading out the grain." Is it about oxen that God is concerned? 10 Surely he says this for us, doesn't he? Yes, this was written for us, because when the plowman plows and the thresher threshes, they ought to do so in the hope of sharing in the harvest.

10. *Lying about former employees.*

a) We'll discuss how to better handle this later, but for now, consider this: Lying about former employees is *lying*.

b) If you fire a preacher, it's bearing false witness to give him a good recommendation—unless you honestly explain why he was fired.

c) Nor is it a kindness to lie, because you are being unkind to the church and all its members and all the people that church might help and serve!

d) Stop lying!

11. *Cheating on the housing allowance.*

a) The tax laws require that housing allowances be declared in advance in writing with a church official other than the minister.

b) If it's under-declared, it's tax fraud to amend the minutes or claim a housing allowance in excess of the declared amount.

12. *Cheating on deductions.*

a) Preachers may not deduct the cost of their suits.

b) They are employees and so subject to the 2% AGI reduction in expenses incurred by an employee.

c) They may not deduct the value of volunteered services.

13. *Insisting on owning the preacher's house.*

- a) It's a huge financial advantage to a preacher to own his own home.
- b) He receives a double tax benefit, as well as the ability to build up equity that will serve him well in his retirement.
- c) Therefore, a church should be willing to sell the parsonage to the preacher or get rid of it altogether unless the preacher is extremely well paid.
- d) (What business would be so callous as to insist on owning its employee's homes in hopes of making a buck off its employees?)

14. *Failure to care for the preacher's widow.*

- a) The scriptures are very, very clear on our duties to widows.
- b) And yet when the preacher dies, the church often makes no provision for his wife—even though the church interfered with the preacher's ability to save for retirement by—
 - (1) paying too little,
 - (2) owning the parsonage, and
 - (3) encouraging him to opt out of Social Security in order to avoid the match.
- c) Churches who do this owe the widow a retirement and can fund it with life insurance.
- d) Churches who do not care for widows are in serious jeopardy of their souls.

15. *Violating the copyright laws.*

- a) It's theft to download music without a license.
- b) With some exceptions, it's theft to copy music from a song book and distribute to the congregation.
- c) It's theft to use copyrighted cartoon characters to decorate your children's wing.
- d) Some people have been criminally convicted and fined many thousands of dollars.

C. Much of the temptation to cheat and steal and lie is due to the severe budgetary pressures churches can be under.

1. Many churches just don't have the resources to pay their ministers as they should and to otherwise strictly comply with the law.
2. They can't close their doors!
3. But they can merge with other churches.
4. One of the greatest failures of Churches of Christ is a failure to merge into congregations large enough to have the resources to serve Jesus as he deserves to be served.