

# The HR Gap

## *How Churches and Nonprofits Quietly Accumulate Risk, and What to Do About It*

*Most churches and nonprofits do not have an HR problem. They have an HR sequence problem.*

### **The Pattern**

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The mission gets built first. The board gets built second. The bank account, the website, and the launch event get built third. HR gets built somewhere in year two or year three, usually after a misclassified contractor, a separation that did not go cleanly, or a volunteer incident that should never have happened. By then it is being built under pressure, often with attorneys involved, and almost always at three to five times the cost of doing it at launch.

The order is wrong. HR does not need to be the last thing a ministry institution builds. Many of the documents that prevent the most expensive mistakes can be drafted in a week and signed in a single board meeting. Treating HR as a launch-stage discipline rather than a post-incident response is one of the highest-return decisions a leader will make.

### **Why HR Gets Deferred**

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*There are three reasons HR sits at the bottom of the launch list, and each reason is understandable.*

The first is mission urgency. The reason an organization exists is not its handbook. Founders are pulled toward work that feels mission-critical, and an Employee Handbook does not feel mission-critical until the day it is needed.

The second is capacity. The senior leader is doing eight jobs. Adding HR to the list reads as overhead. The most common HR title in a small church or nonprofit is "the executive pastor handles it," which usually means no one handles it.

The third is identity. Churches and faith-based nonprofits often see themselves as not-quite-employers. Volunteers feel like family. The first paid worker feels like a co-laborer rather than an employee. HR documents feel transactional in a way that the culture is trying not to be.

These reasons are real. They do not change the underlying obligations. The IRS does not care that the organization feels like a family. State unemployment agencies do not give exemptions for mission urgency. Insurance carriers do not extend coverage to ministries that meant well. The work has to be done, and deferring it does not make it cheaper.

## Five Costly Mistakes That Are Already Happening

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*Across the small churches and nonprofits we encounter, the same patterns of preventable loss show up again and again. Five stand out.*

### 1. Worker misclassification

The most expensive HR error in the nonprofit sector is paying someone as a 1099 contractor when they should have been a W-2 employee. The IRS test is not whether the parties agreed to the arrangement; it is whether the organization controls the work. A worship leader who shows up every Sunday, answers to the lead pastor, and uses church equipment is not an independent contractor, regardless of how the check is cut. When the IRS reclassifies a worker, the organization owes back payroll taxes, penalties, and interest, often years deep. A thirty-minute classification analysis at hire would have prevented every dollar of it.

### 2. Reimbursements without a written accountable plan

The IRS allows organizations to reimburse legitimate business expenses without those reimbursements becoming taxable wages, but only under a written accountable plan. No written plan means every reimbursement is technically wages, which means missed payroll tax, missed reporting, and a tax exposure for the employee that the employee did not know they had. The fix is a one-page document adopted by the board. The cost of not having it is measured in audits.

### 3. Housing allowance designated in arrears

Eligible ministers can receive a portion of compensation as a tax-free housing allowance, but only if the allowance is designated in advance, in writing, by official action of the church. Allowances designated retroactively are not eligible. Many small churches discover at tax time that the benefit they thought was in place was never properly recorded. The minister loses the benefit for the year, and the church has no clean way to give it back without restating prior compensation.

### 4. Volunteers with minors, but no screening

Most abuse claims against churches involve volunteers, not paid staff. Insurance carriers know this, which is why they increasingly require documented child protection programs as a condition of coverage. An organization that runs Vacation Bible School with volunteers who filled out a sign-up sheet and nothing else is one incident away from a coverage dispute that could end the ministry. A child protection policy, an application, references, and a background check are among the lowest-cost, highest-leverage HR documents a ministry can adopt.

### 5. Separations without documentation

Termination is the moment when every weakness in an HR system shows up at once. No job description means no clear performance expectations. No performance review means no record of conversations that already happened. No written discipline means no progressive correction, which means the only options are to keep the person or to part ways under conditions that look unfair. For ministerial roles, lack of documentation can also weaken the ministerial exception defense, the same defense that exists to keep these decisions out of court. The cost of separating without documentation is the lawsuit that should have been preventable.

*Insurance carriers do not extend coverage to ministries that meant well.*

## The Better Order

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*The cure is not complicated. It is sequence.*

Before a ministry institution opens its doors, ten HR foundations can be in place. Most can be drafted from templates. None of them require a full-time HR professional. All of them are cheaper to draft now than to retrofit later. The list, in plain language:

- A short Employee Handbook covering the core employment policies, written for a religious organization rather than copied from a secular template.
- A written job description for every paid role, including the senior leader.
- A standard offer letter that captures classification, compensation, and contingencies.
- A complete new hire paperwork packet, including I-9, W-4, direct deposit, statement of faith affirmation, and required acknowledgments.
- A background check policy that complies with the Fair Credit Reporting Act.
- A child and vulnerable adult protection policy, required from day one if there will be any contact with minors.
- A volunteer application and screening process tied to role.
- A short written compensation philosophy.
- A housing allowance designation form for any eligible minister.
- A named owner of HR, even if that owner has another job.

That is the launch list. It is not a complete HR system. It is the minimum required to bring a first-paid worker on board responsibly and to keep the organization out of the categories of preventable loss described above.

## What Maturity Looks Like

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The launch list is not the end of the story. As the organization grows, the HR function grows with it. Performance management, benefits administration, multi-state compliance, succession planning, and engagement measurement all enter the picture, but they enter on a foundation that has already been laid. The most expensive HR decisions are not the ones leaders make in year five. They are the ones leaders neglected to make in year one.

Mature HR does three things that immature HR cannot. It protects the people the mission depends on. It defends the organization when the inevitable difficult moment arrives. And it gives leaders the time and confidence to focus on the work they are actually called to do, rather than the documentation they wish they had.

## Where to Go From Here

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If you are leading a church or nonprofit, the next decision is straightforward. Either the launch list is in place, or it is not. If it is not, the question is not whether to build it; it is whether to build it before the first incident or after.

Stewardship Advisors publishes the HR Implementation Guide for Churches and Nonprofits as a planning tool for leaders who are ready to take the next step. The guide identifies every document and decision on the launch list, expands the framework into Phase 2 and Phase 3 as the organization grows, and provides a full customization checklist that turns the work into a sequence of decisions rather than a blank page. It also includes a one-page First Hire HR Checklist that can be used the first time the organization brings on a paid worker.

The Implementation Guide is available for purchase as a digital download. For organizations that want to compress months of work into a few weeks of customization, ready-to-adopt template packages, customized for ministry context and supported by an HR consulting partner, are available alongside the guide.

## **Take the Next Step**

The HR Implementation Guide for Churches and Nonprofits is the natural companion to this series. It walks leaders through every document on the launch list, the Phase 2 and Phase 3 additions that come with growth, the decisions that must be made before any document is finalized, and the professional reviews that should happen before any document is treated as final.

To purchase the Implementation Guide or request a sample of the template packages, contact Stewardship Advisors at [stewardshipadvisors.co](http://stewardshipadvisors.co).

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