

**DEFERRED COMPENSATION  
TEACHERS AND CERTAIN OTHER SCHOOL EMPLOYEES**

**Background**

Many teachers and salaried school employees who work ten months during the school year, but not during the summer months, opt to receive their annual salary for twelve months - from September through August. They work four months during one tax year and six months during the next tax year, but receive salary during four months of one year and eight months in the next. In the eyes of Internal Revenue Service receiving salary payments during these additional months constitutes "deferred compensation" because part of what is earned in one tax year is held over for payment during the next tax year. On the surface, this may have certain additional tax implications.

**IRS Ruling**

A recent ruling by IRS holds that this practice of deferred compensation, as it relates to teachers and other salaried school employees, may continue without the additional tax implications, provided certain policies are in place.

***Diocese of Covington  
Policy on Deferred Compensation***

***Teachers and other salaried school employees in the Diocese of Covington who work only during the school year may choose to receive their salary over a twelve month period, subject to the guidelines published by the Diocese.***

Employees of the Diocese of Covington are paid semi-monthly on the fifteenth and last day of each calendar month (or the last banking day prior to those dates).

The first salary payment date for teachers is September 15. Teachers on a ten month pay schedule are paid semi-monthly through June 30 of the following year. Teachers electing a twelve month pay schedule are paid semi-monthly from September 15 through August 31.

The Teacher and Administrator Contract forms specified by the diocese allow the teacher/administrator to elect a ten or twelve month pay schedule. No further notification to the Payroll Office will be necessary, provided the signed contract is received prior to the start of the school year.

Other salaried school employees must use the election form provided by the Payroll Office. The election document for salaried school employees other than teachers must state that the salary is to be paid in a specified number of equal semi-monthly installments (e.g. twenty or twenty-four equal semi-monthly installments). Because some salaried school employees work beyond the ten month school year, all salaried school employees will be required to submit an election form. (See: New Employee or Change Employee Information Form)

The election of a twelve month pay schedule by the teacher or other salaried school employee must be communicated to the Payroll Office, in writing (or electronically), prior to the first day of the school calendar in effect for the school of employment. In all, or almost all cases, this date will be prior to the first day for students.

An employee who fails to file an election notice, or files the notice after the first day of the school year, will be paid on a semi-monthly basis for the period of employment during the school year, not to exceed semi-monthly payments through June 30.

Once the school year begins, the election notice will be considered irrevocable for the remainder of the current school year.

A teacher or other salaried school employee hired after the school year has begun and who will not work beyond the end of the school year will be paid through the months of employment during the school year, but not beyond June 30.

A teacher who terminates employment before the end of the school year will be paid 1/187<sup>th</sup> of the contract salary for each school day employed to the point of termination. Final payment will be made on a regular pay date.