

# Church Payroll Do's & Don'ts

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# Classify Employees Exempt or Nonexempt

- ▶ Evaluate job duties to determine if employee should be classified as salaried(exempt) or required to be hourly(nonexempt). Exempt employees do not have specific number of hours and are managerial or executive roles. Nonexempt have specific hours and are clerical and laborer roles.
- ▶ Nonexempt covered by overtime laws and should be paid overtime if earned.
- ▶ Exempt aren't eligible for overtime (minimum salary fulltime \$35,568).
- ▶ Don't fail pay overtime or misclassify an employee.(DOL)
- ▶ Don't have to classify ministers.

# Determine if Workers - Employee or Contractor

- ▶ Key Factors: 1) Opportunity for profit or loss; 2) Investment by worker or employer; 3) Permanence of relationship; 4) Nature and degree of control; 5) Work performed integral part of employer's business; 6) Skill and initiative
- ▶ Weigh all factors to determine if employee or contractor. Employees can have benefits provided by employer.
- ▶ Employees receive a W-2 and independent contractors receive a 1099NEC
- ▶ If in doubt, treat worker as employee not the other way around. Substantial penalties can be assessed against a church for treating a worker as an independent contractor whom the IRS later reclassifies as an employee.

# Document and Administer Benefits Package for Employees Correctly

- ▶ Churches can and should provide benefits for staff when possible. Many employer benefits can be tax-free and help improve staff take home pay.
- ▶ Differing levels on staff may have different benefit packages, be sure to document what the church offers and administer according to the policy.
- ▶ Handle correctly taxable income exclusion or inclusion of church provided benefits.
- ▶ **Don't make ministry business expenses or reimbursements part of benefit package.**
- ▶ **Don't treat taxable benefits as tax-free. (i.e. wrong types of health insurance or cooperatives, universal/whole life, moving expenses or etc.)**

# Treat Ministers as Dual Status Employees

- ▶ Churches should report the minister's income on W-2 (Only exception is interim).
- ▶ Ministers are self-employed for social security purposes.
- ▶ The church should provide social security offset (taxable benefit) to assist the minister with SECA.
- ▶ Minister can have church withhold extra federal income tax from salary by requesting on W-4 in order to not need to forward 1040-ES (tax estimates) himself quarterly.
- ▶ Don't withhold Social Security and Medicare taxes on ministers. Section 3121(b)(8)(A) prohibits the church from withholding Social Security and Medicare tax on a minister.
- ▶ Don't treat non-ministers the same as ministers. Church must withhold and match Social Security/ Medicare for employees who aren't ministers.
- ▶ Don't give a 1099NEC to any minister that isn't temporary in nature(interim and revival).

# All Employees Including Ministers Need to Provide and Sign Employment Documents

- ▶ W-4 - Federal Income Tax Employee Withholding (Employer keeps securely onsite) <https://www.irs.gov/pub/irs-pdf/fw4.pdf>
- ▶ G-4 - Georgia Income Tax Employee Withholding (Employer keeps securely onsite) <https://dor.georgia.gov/g-4-employee-withholding>
- ▶ I-9 - Employment Eligibility Verification (Employer keeps securely onsite - use E-verify if 11 or more employees) <https://www.uscis.gov/i-9>
- ▶ New Hire Reporting Georgia (Employer prepares & submits) <https://ga-newhire.com/>
- ▶ Don't exclude any employee including ministers from providing these documents.
- ▶ Don't have contractors fill out these forms only need W-9.

# Minister's Housing Allowance Administered and Paid Properly

- ▶ Housing allowance needs to be requested by minister and approved by the church prior to any housing being paid. Legal to designate up to 100% of salary as housing.
- ▶ After approved the church needs to save signed request from minister and pay accordingly, receipts and burden of proof of expenses is between minister and IRS.
- ▶ Minister can adjust, if approved by church process, for a change midyear, but only for future months not back to previous month(s).
- ▶ Minister doesn't pay income tax on housing but does pay SECA.
- ▶ Don't adjust what was paid all year on W-2 even if minister didn't use all of housing allowance(adjusts on his personal 1040). Church doesn't need to see receipts from minister.

# Give W-2 to All Employees

- ▶ If the worker is employee, W-2 should be provided to the employee by January 31<sup>st</sup> of following year.
- ▶ Ministers' W-2 doesn't have anything in boxes 3-6. Self-employed for Social Security Medicare purposes.
- ▶ Housing allowance in box 14 (optional) or in letter.
- ▶ Salary reduction for Guidestone retirement box 12 E
- ▶ Don't report housing differently for ministers. Qualified housing is excluded from box 1.
- ▶ Don't put Guidestone contribution in box 1.
- ▶ Don't report properly eligible accountable reimbursements on W-2
- ▶ Don't withhold and submit FICA or Medicare on behalf of ministers.



# Provide Independent Contractors 1099NEC

- ▶ Church must get a W-9 to obtain tax identification number from contractor.
- ▶ If using social security number as tax ID provided, then \$600 or more in a year the church must provide 1099NEC
- ▶ If using EIN for tax identification number and incorporated, then 1099 not required.
- ▶ If the contractor refuses to submit the W-9, then the church should withhold 24% and submit the name of contractor and the tax withheld at yearend.
- ▶ Don't assume incorporated.
- ▶ Don't have to get a new W-9 every year.
- ▶ Don't provide benefits for contractors

# Taxable Income Reported Accurately

- ▶ Income is more than just salary.
- ▶ Low/No interest loan, vacations, moving expenses, trips to Holy Land, gift cards, love offerings, honorariums, some ineligible benefits, Christmas bonus, and benevolence that is more than would allocate for any other request are all taxable.
- ▶ Sabbatical pay, discretionary funds, nonaccountable reimbursements, severance, sick pay, personal use of employer provided vehicle, excess compensation and embezzled funds are also taxable.
- ▶ Don't include housing allowance, accountable reimbursements, or certain eligible benefits as taxable income on W-2.
- ▶ Don't include church or employee payroll deduction for Guidestone.

# Reimburse Ministry Business Expenses Correctly to Avoid Staff Being Unduly Taxed

- ▶ The church needs to have an approved and documented accountable reimbursement plan for staff ministry expenses.
- ▶ Expenses need to have itemized receipts and report within at least 60 days explaining business purpose for the expense.
- ▶ Automobile expenses should be based on mileage reimbursement and must include business purpose for expense.
- ▶ Accountable reimbursements must be budgeted on separate line item than salary. The church can use one line item for all staff business expense if church prefers.
- ▶ Don't provide a car allowance, gas receipts, book allowance or etc. that pays a flat amount per month, because all will be taxable.
- ▶ Don't use lump sum or pay from salary - taxable.
- ▶ Don't include in taxable income if reimbursements handled correctly.

# Reconcile All Documents Before Submitting Yearend Payroll Reporting Documents

- ▶ Form 941 Quarterly Reports (Match withholding deposits)-Form 944 annually when IRS notifies eligible not before even if church is within withholding threshold.
- ▶ Form G-7 Quarterly Reports (Match GA-V monthly for most employers, G-7)
- ▶ Forms W-2/W-3 -Individual employee earnings statement(W-2) & W-3 Summary all W-2s submitted by employer must match
- ▶ Form G-1003 State employer summary of all employees' W-2s and contractors' 1099s
- ▶ Forms 1099 NEC and 1096 (Yearend summary of all 1099s)
- ▶ **Don't electronically file or mail any documents before reconciling all previously submitted withholding, quarterly reporting and annual reporting forms.**
- ▶ **Don't file any documents before verifying all employee and employer information is correct.**

# Payroll Filings and Deposits Should Be Submitted by Due Dates

- ▶ Annually W-3, W-2, 1096, 1099 NEC, G-1003 and if IRS notifies eligible 944 - mailed or postmarked January 31<sup>st</sup>
- ▶ Quarterly 941, G-7 due on the last day of the month following the end of each quarter
- ▶ Monthly G-V and Federal withholdings EFTPS(unless bi-weekly) withholding payments and filing on or before 15<sup>th</sup> of following month
- ▶ Don't fail to file or make deposits late(Remember to accommodate for bank holidays in scheduling). If late, up to 15% of the past due amount, depending on how many days late the deposit is made.