CHURCH FINANCIAL CONFERENCE INTENSIVE

EMPLOYEE REPORTING REQUIREMENTS

CAPINCROUSE
A DIVISION OF Carr, Riggs & Ingram

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FEDERAL REPORTING REQUIREMENTS (PAYROLL)

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REQUIREMENTS FOR CHURCHES

- For most churches, the most important federal reporting obligation involves withholding and reporting employee income taxes and Social Security (FICA) taxes
- These payroll reporting requirements apply to nearly every church, and it is important to fully understand them
- Under federal law, any corporate officer, director, or employee who is responsible for withholding taxes and paying them to the government may be liable for a penalty in the amount of 100% of such taxes if they are either not withheld or not paid over to the government

COMMON SOURCES OF MISUNDERSTANDING

Unfortunately, many churches do not fully understand these rules due to a number of factors, including:

- Many church treasurers are unpaid volunteers who do not know the unique rules that apply to churches
- The high turnover rate among church treasurers affects church compliance with payroll tax reporting rules
- Some church treasurers mistakenly assume that churches are exempt from any reporting requirements

UNIQUE RULES FOR CHURCHES AND MINISTERS

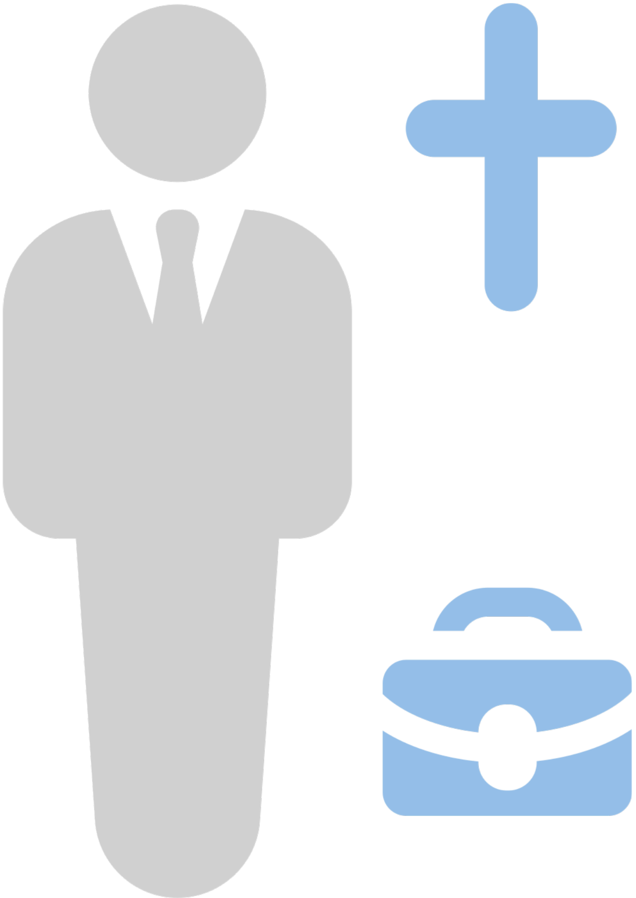
- Several unique rules apply to churches and "ministers for tax purposes"
- While churches may label some employees as ministers, those employees might not qualify as ministers for tax purposes under IRS criteria
- Identify which employees on your payroll are ministers for tax purposes so you can comply with the special payroll and reporting rules applicable to those taxpayers

"DUAL TAX STATUS" FOR MINSTERS

- Ministers are always self-employed for Social Security purposes with respect to their church compensation
- Most ministers are employees for federal income tax reporting purposes, with respect to their church compensation

  These ministers pay self-employment (SECA) tax rather than the employee's share of Social Security and

- Churches should not treat ministers as employees for Social Security purposes and withhold the employee's share of Social Security and Medicare (FICA) taxes



MINISTERS AND INCOME TAX WITHHOLDING

- A minister's compensation is exempt from income tax withholding whether a minister reports his income taxes as an employee or as self-employed (IRC 3401(a)(9))

- *This does not mean the minister is exempt from federal income taxes*
- *Ministers should use the estimated tax procedure to pay their federal income taxes, unless they have entered into a voluntary withholding agreement with their employing church (using Form W-4)*

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COMPLYING WITH FEDERAL PAYROLL TAX REPORTING

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PAYROLL TAX REPORTING REQUIREMENTS

1 Obtain an employer identification number (EIN) from the IRS if your church does not have one

This can be done by submitting Form SS-4, Application for Employer Identification Number (EIN), or online at **WWW.IRS.GOV** *(search for EIN).*

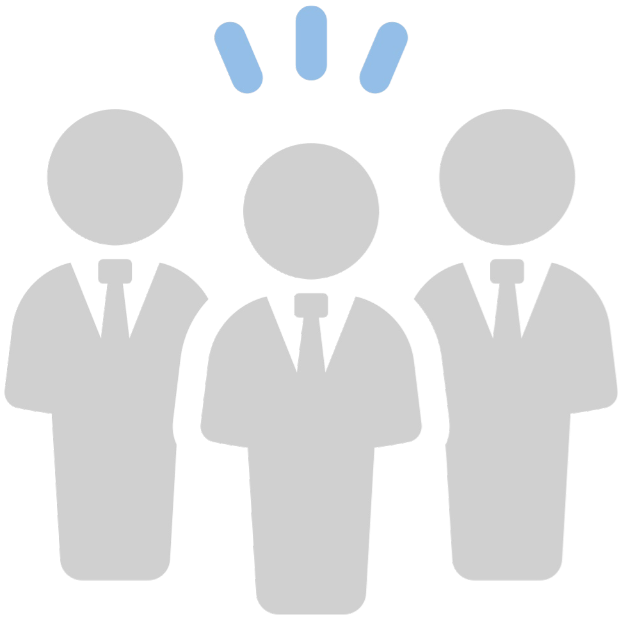
The church EIN is only used for official church purposes and bank accounts controlled by the church.

PAYROLL TAX REPORTING REQUIREMENTS *cont.*

2 Determine whether each church worker is an employee or independent contractor.

If in doubt, treat a worker as an employee to avoid potential penalties.

See IRS Publication 15-A, Employer's Supplemental Tax Guide, or Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Department of the Treasury Income Tax Withholding, for more information.



PAYROLL TAX REPORTING REQUIREMENTS *cont.*

2

Determine whether each church worker is an employee or independent contractor, (cont.)

Some employer-provided benefits are nontaxable only when received by employees, such as an employer-provided 403(b)(9) retirement plan. See IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits.

Only church employees (workers who receive a Form W-2 from the church) may participate in a church-sponsored 403(b) retirement plan. Other tax-qualified plans may be available from GuideStone Financial Resources.

PAYROLL TAX REPORTING REQUIREMENTS *cont.*

3 Obtain each worker's Social Security number

Have each employee complete a Form W-4 and each contractor complete a Form W-9

PAYROLL TAX REPORTING REQUIREMENTS *cont.*

4 Compute each employee's taxable wages

The amount of taxes you should withhold from an employee's wages depends on the amount of the employee's wages and the information on their Form W-4

You must determine the wages of each employee for withholding.

Wages subject to federal withholding include pay for services performed.

PAYROLL TAX REPORTING REQUIREMENTS *cont.*

4 *Compute each employee's taxable wages (cont.)*

The pay may be in cash or in other forms. Measure pay that is not in money (such as property) by its fair market value.

Wages often include a number of items in addition to salary. See IRS Publication 15, Employer's Tax Guide, and 15-A, Employer's Supplemental Tax Guide, for more information.

Some common examples are listed on the following slide and in the last step.

NON-SALARY ITEMS THAT MAY BE INCLUDED IN WAGES

- Bonuses
- Vacations
- Christmas and special offerings (including love offerings)
- Retirement gifts
- The portion of the minister's SECA tax paid by a church
- Personal use of a church-provided car
- Purchases of church property for less than fair market value
- Ministry-related expense reimbursements under a non-accountable plan
- Imputed interest on below-market-interest church loans
- Most reimbursements of a spouse's travel expenses

PAYROLL TAX REPORTING REQUIREMENTS *cont.*

5. Determine the amount of income tax to withhold from each employee's wages. Most financial software packages will help with correctly paying employees and submitting applicable taxes.

6. Withhold Social Security and Medicare (FICA) taxes from non-minister employees' wages.

PAYROLL TAX REPORTING REQUIREMENTS *cont.*

7 Deposit the taxes you withhold.

Churches accumulate three types of federal payroll taxes:

- *Income tax withheld from employee's wages.*
- *The employee's share of Social Security and Medicare (FICA) taxes (withheld from employees' wages).*
- *The employer's share of Social Security and Medicare (FICA) taxes.*

An employer's deposit status is determined by the total taxes reported in a four-quarter "look-back" period.

PAYROLL TAX REPORTING REQUIREMENTS *cont.*

8. All employers subject to income tax withholding, Social Security and Medicare (FICA) taxes, or both, must file Form 941, Employer's Quarterly Federal Tax Return, quarterly.

ABOUT FORM 941

Reports the number of employees and amounts of Social Security and Medicare (FICA) taxes and withheld income taxes that are payable

Due on the last day of the month following the end of each calendar quarter

May be filed electronically

ABOUT FORM 941 EXCEPTION FOR SMALL EMPLOYERS

A church/employer may make a payment with Form 941, Employer's Quarterly Federal Tax Return, or Form 944, Employer's Annual Federal Tax Return, if one of the following applies

Form 941 total tax liability for either the current quarter or the preceding quarter is less than $2,500. If you are unsure, make deposits using the semi-weekly or monthly rules to avoid failure-to-deposit penalties.

Employers who have been notified to file Form 944 can pay their fourth-quarter tax liability with Form 944 if the fourth-quarter tax liability is less than $2,500. Employers must have deposited any tax liability due for the first, second, and third quarters according to the deposit rules to avoid penalties.

PAYROLL TAX REPORTING REQUIREMENTS *cont.*

9 Prepare a Form W-2 for all employees, including ministers, and church staff.

If you have questions about filling out Forms W-2, W-3, 1099, or 1096, call the IRS toll-free at 1-866-455-7438.

The employee W-2 form must be mailed by January 31 of each year.

A copy of the W-2 and W-3, Transmittal of Wage and Tax Statements, must be sent to the Social Security Administration either in hard copy or electronic format by January 31. See www.socialsecurity.gov/employer.

You also can consult with an accountant or tax firm experienced in nonprofit and church tax reporting.

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REPORTING GROUP TERM LIFE INSURANCE

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GROUP TERM LIFE INSURANCE – REPORTING CONSIDERATIONS

Include in the income of church employees the imputed cost of group-term life insurance paid for by the church for coverage in excess of $50,000

If your church provides group-term life insurance on the life of a spouse or dependent that exceeds $2,000, also include the imputed cost of that coverage

See IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits, for additional information regarding calculating taxable benefit related to employer provided group-term life insurance

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APPLYING FOR THE HEALTH CARE TAX CREDIT

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HEALTH CARE TAX CREDIT DETAILS

- The 2010 Patient Protection and Affordable Care Act included a provision that provides a Health Care Tax Credit for small businesses, tax-exempt organizations, and churches
- The following is a summary of the requirements that can be found at **WWW.IRS.GOV**
- Additional is available at **WWW.GUIDESTONEINSURANCE.ORG**

ELIGIBILITY REQUIREMENTS

Provision	*Qualifying employer must cover at least 50% of the cost of health care coverage for some of its workers based on the single rate*
Size	*The church must have fewer than 25 full-time employees or equivalent part-time employees*
Average Wage	*Average wage of full-time employees must be under $66,600. (The average wage would exclude any minister's housing allowance.)*

AMOUNT OF CREDIT

- **Maximum Amount**
  For a church, the credit is worth up to 35% of premiums paid
- **Limitations**

The credit cannot exceed the actual amount of income taxes and Medicare taxes withheld and paid to the IRS

Refund payments issued to small tax-exempt employers claiming the refundable portion of credit are subject to sequestration

Most importantly, beginning in 2014, only employers who purchased insurance through the SHOP Marketplace are eligible †

† See **HEALTHCARE.GOV for more information**

CLAIMING THE CREDIT

To claim the credit, eligible organizations must file **IRS Form 8941**, *Credit for Small Employer Health Insurance Premiums*

To obtain the credit, churches must also file **Form 990-T**, *Exempt Organization Business Income Tax Return*

CONSIDERATIONS

Church leadership should decide whether it is wise to accept government involvement and assistance in running the ministry of the church

Financial leaders must assess if the church meets complex healthcare credit requirements and if its operations rely on the limited credit amount.

Claiming this credit incrementally increases the risk of IRS audit exposure

Determine whether the health care tax credit is worth the cost of hiring a qualified accountant to ensure compliance with IRS regulations

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HIRING INDEPENDENT CONTRACTORS

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FORM W-9, REQUEST FOR TAXPAYER IDENTIFICATION NUMBER AND CERTIFICATION

- When a worker who is determined to be an independent contractor (non-employee) of the church (e.g., evangelist, contract labor, guest musician, etc.) provides a service to the church and receives payment of $600 or more, the church must obtain a valid Social Security number or EIN prior to paying the individual, group, or organization (unless the payment is made to an incorporated business)
- The simplest way to acquire the necessary information is to have the individual or group complete a Form W-9

FORM W-9, REQUEST FOR TAXPAYER IDENTIFICATION NUMBER AND CERTIFICATION

- Keep the W-9 on file at the church
- **NOTE**: If the independent contractor does not provide the required information, the church must withhold 28% of the reportable payment due to the contractor and submit it to the IRS as federal tax withholding

INDEPENDENT CONTRACTOR FEDERAL TAX REPORTING: FORM 1099

Form 1099-NEC, Nonemployee Compensation: Used to report payments in the course of business to another person (non-employee) for rent, legal services, and other services in excess of $600 annually

Copies must be made available to workers by January 31 of the year following the applicable tax year

The IRS compares the payments shown on the information returns with each recipient's income tax return to determine whether the payments were properly reported as taxable income (1099-NEC forms do not generally have to be issued to incorporated businesses)

FORM 1099-NEC EXAMPLE

If an evangelist or guest speaker visited a church during the year and received $600 or more in payment from the church (net of any travel expense reimbursement under an accountable reimbursement plan), the church would be required to issue them a 1099-NEC

INDEPENDENT CONTRACTOR FEDERAL TAX REPORTING: FORM 1099

About Form 1096, Annual Summary and Transmittal of U.S. Information Returns

If you are sending 1099 Forms (NEC, MISC, etc.) to the IRS in paper format, this summary form must accompany them (generally due by January 31)

The Form 1096 should reflect the total from all the 1099 Forms your church issues

Form 1096 is used to transmit paper forms to the IRS, but if you e-file your 1099 forms, you do not need to e-file Form 1096

ADDITIONAL RESOURCES

Common Questions About Minister's Taxation
https://capincrouse.com/minister-taxation

Determining Worker Classifications
https://capincrouse.com/worker-classifications

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QUESTIONS?

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