

Tax Year 2011 – Reporting Requirements for Churches

Year-end tax reporting can often be confusing, especially for churches who must file W-2's for ordained ministers.

For churches with employees that are non-ministers, payroll taxes are required to be withheld and the church must file a quarterly Form 941 (or annual Form 944) to report the wages and tax liability. Filing this form can often be complicated with questions about how to report minister's wages and other types of taxable income.

Although not a filing requirement, churches often overlook a critical step in 941 and W-2 reporting. There is a reconciliation process that should take place each January before any 941/944 or W-2's are filed.

The issue of employee versus independent contractor is one that many businesses and churches deal with on a regular basis. Once the independent contractor status has been determined, there are filing requirements a church must comply with.

Year-end contribution statements normally go out in January. What is and what is not a charitable contribution is an important question for those preparers of the contribution statements. Churches and all charitable organizations can be confused by recent tax law changes regarding charitable contributions, not to mention the occasional "creative" contribution question posed by a church member.

The following article will discuss each of these issues along with filing requirements and dates to hopefully assist your church in a more "stress-free" year-end!

Following is the contact information for state missionary staff for specific questions churches may have during the year-end and tax-reporting season.

- For questions related to tax reporting by churches and charitable contribution questions:

Deborah Taylor, CPA, Accounting Manager	615-371-2036
Richard Skidmore, Ministers Financial Specialist	615-371-2009
William Maxwell, Administrative Director	615-371-2024

- For questions related to your churches giving to the Cooperative Program and other SBC and TBC mission causes:

Cheryl Lee, Receipts Assistant	615-371-7902
--------------------------------	--------------

Tax Year 2011 – Reporting Requirements for Churches

Prepare and File 4th Quarter Form 941

1. Determine the total “taxable” wages paid for the 4th quarter and enter on **Line 2.**
 - a. Ministers housing allowance is NOT taxable for income tax purposes and should NOT be included as taxable wages
 - b. Add any taxable fringe benefits, i.e., Group term life insurance or other taxable amounts such as non-accountable expense reimbursements, as taxable wages paid for the quarter.
2. Enter the amount of Income Tax withheld on **Line 3.**
3. Enter **Social Security and Medicare wages on Lines 5a and 5c in Column 1.**
 - a. These amounts will be different from wages on Line 2 for amounts paid to ordained ministers.
 - i. Ministers are considered self-employed for social security purposes and **ministerial wages are never subject to Social Security or Medicare tax withholding.**
4. Calculate the Social Security tax from amount on **Line 5a** times .104 (**10.4%**) and enter amount in Column 2.
 - a. For 2011 and extended through February 2012, the employee share of Social Security tax has been decreased from 6.2% to 4.2%. The 10.4% represents the employee portion (4.2%) plus the employer portion (6.2%).
5. Calculate the Medicare tax from amount on **Line 5c** times .029 (**2.9%**) and enter amount in Column 2.
6. Enter on **Line 6e** the sum total of federal tax withholding from **Line 3** and the sum of Social Security & Medicare tax from **Line 5d.**
7. If the church is a monthly depositor, taxes for December will be due by January 15th and must be paid using the Electronic Federal Tax Payment System (EFTPS).
8. If the total tax liability for the quarter is less than \$2,500, a payment can be made with the 941 return or deposited using EFTPS.
9. The Form 941 must be postmarked by **January 31, 2012.**

Prepare and File Annual Form 944 (only if the IRS notified you in writing)

1. Determine the total “taxable” wages paid for the year 2011 and enter on **Line 1.**
 - a. Ministers housing allowance is NOT taxable for income tax purposes and should NOT be included as taxable wages
 - b. Add any taxable fringe benefits
2. Enter the amount of Income Tax withheld on **Line 2.**
3. Enter **Social Security and Medicare wages on Lines 4a and 4c in Column 1.**
 - a. These amounts will be different from total wages on Line 1 for amounts paid to ordained ministers.
 - i. Ministers are considered self-employed for social security purposes and **ministerial wages are never subject to Social Security or Medicare tax withholding.**
4. Calculate the Social Security tax from amount on Line 4a times .104 (**10.4%**) and enter amount in Column 2.

Tax Year 2011 – Reporting Requirements for Churches

5. Calculate the Medicare tax from amount on Line 4c times .029 (**2.9%**) and enter amount in Column 2.
6. Enter on **Line 5** the sum total of federal tax withholding from Line 2 and the sum of Social Security & Medicare tax from Line 4d, which for purposes of filing Form 944 must be **less than \$2,500**.
10. The total tax due can be paid with the 944 Form or deposited using the Electronic Federal Tax Payment System (EFTPS).
7. The Form 944 must be postmarked by **January 31, 2012**

Prepare and File W-2 Forms

Depending on the compensation and other benefits provided for church employees, knowing what should and should not be reported on the W-2 is very important, especially as this relates to ordained ministers.

2011 W-2 FORM

The image shows a 2011 W-2 Wage and Tax Statement form. The form is divided into several sections:

- Employer information:** Includes Employer Identification number (EIN) 22222, Employer's name, address, and ZIP code, and Control number.
- Employee information:** Includes Employee's first name and initial, Last name, Suffix, and Employee's address and ZIP code.
- Wages and taxes:** Includes boxes for:
 - 1 Wages, tips, other compensation
 - 2 Federal income tax withheld
 - 3 Social security wages
 - 4 Social security tax withheld
 - 5 Medicare wages and tips
 - 6 Medicare tax withheld
 - 7 Social security tips
 - 8 Allocated tips
 - 9 Control number
 - 10 Dependent care benefits
 - 11 Nonqualified plans
 - 12a See instructions for box 12
 - 12b, 12c, 12d (Health, dental, vision insurance)
 - 13 Statutory employee, Retirement plan, Third-party sick pay
 - 14 Other
 - 15 State, Employer's state ID number
 - 16 State wages, tips, etc.
 - 17 State income tax
 - 18 Local wages, tips, etc.
 - 19 Local income tax
 - 20 Locality name

 The form is labeled 'Form W-2 Wage and Tax Statement 2011' at the bottom, with 'Department of the Treasury - Internal Revenue Service' and 'For Privacy Act and Paperwork Reduction' also visible.

For ordained ministers earning wages in the exercise of ministry and other non-ordained employees, the amounts reported on the W-2 will be determined by the following:

1. **Taxable portion of salary** is reported in **Box 1**
2. The **calculated value of group term life insurance** provided in excess of \$50,000 is added to wages in **Box 1**
 - i. The IRS places a value on this fringe benefit that is driven by the age of the employee. Using the table below, which gives the cost-per-thousand dollars of coverage beyond \$50,000 based on the age of the employee, a taxable **fringe benefit is calculated and added to the W-2, Box 1. This same amount is also reported in Box 12 of the W-2 with a Code C.**

Tax Year 2011 – Reporting Requirements for Churches

Table 2.2. Cost Per \$1,000 of Protection for 1 Month:

<u>Age</u>	<u>Cost</u>
Under 25	\$.05
25 through 29	.06
30 through 34	.08
35 through 39	.09
40 through 44	.10
45 through 49	.15
50 through 54	.23
55 through 59	.43
60 through 64	.66
65 through 69	1.27
70 and older	2.06

3. **Expense reimbursements under a non-accountable plan**
 - i. If the minister/employee is given an expense or auto allowance and does not account back to the church for the business use of this allowance, this is deemed a non-accountable plan by the IRS. Any amounts paid under this plan must be added to **Box 1**
4. **Housing Allowance – relates to ministers only**
 - i. Amounts paid to the minister that have been designated as housing allowance are **not included in Box 1**
 1. Housing allowance can be reported in **Box 14** of the W-2 as Other information.
5. **Salary reduction contributions to 403(b) retirement plan**
 - i. Contributions to the 403(b) plan that are deducted from wages reduces the amount of taxable wages reported in **Box 1**
 - ii. This same amount is reported in **Box 12 using Code E**
6. **Report income tax withholding in Box 2.**
 - i. Although churches are not required to withhold income tax from ministers, the minister can voluntarily request that the church withhold income tax from their wages
7. **Report Social Security and Medicare wages paid to non-ministers in Boxes 3 & 5. Report Social Security and Medicare tax withheld from non-ministers in Boxes 4 & 6.**
 - i. Ministerial wages are not subject to social security and medicare tax withholding, therefore a **minister's W-2 would not report any amounts in Boxes 3, 4, 5 or 6.**
8. Tax regulations require that employees are given W-2's by **January 31, 2012** for the calendar year **2011**.
9. Copy A of W-2's filed manually are to be sent to the Social Security Administration (SSA) by **February 29, 2012** with the **Form W-3 Transmittal of Wage and Tax Statements**. W-2's filed electronically are due by **April 2, 2012**.

Tax Year 2011 – Reporting Requirements for Churches

Box 12 Codes

The Internal Revenue Service requires certain information to be reported in Box 12 on the Form W-2. Each type of information is given a specific Code. All or some of these Codes might be applicable to a church. This list is not meant to be all-inclusive of Box 12 Codes. See General Instructions for Forms W-2 and W-3 at www.irs.gov for a complete list and definitions of Box 12 Codes.

Code C – Taxable value of Group-Term life insurance coverage over \$50,000

Code E – Employee contributions to 403(b) retirement plan

Code P – Excludable moving expense reimbursements paid directly to employee

Code W – Employer contributions to a health savings account (HSA)

Code DD – Cost of employer-sponsored health coverage

- **Notice 2011-28** says that W-2 reporting of the cost of employee health coverage is **not required** on 2011 W-2's or 2012 W-2's for **“small employers”** filing **fewer than 250 Forms W-2** for the preceding year. These small employers will be exempt from reporting the cost of group health plan coverage until further guidance is issued, but at least through calendar year 2012.

2011 FORM W-3

2011 Change on W-3
Kind of Employer - Unless your church has its own 501(c)(3) exemption from the IRS, mark the box “None Apply”

33333		a Control number		For Official Use Only OMB No. 1545-0006	
b Kind of Payer (Check one)		<input type="checkbox"/> 941 <input type="checkbox"/> CT-1	<input type="checkbox"/> Military <input type="checkbox"/> Hahid. etc.	<input type="checkbox"/> 943 <input type="checkbox"/> Medicare gov. emp.	<input type="checkbox"/> 944 <input type="checkbox"/> None apply
c Total number of Forms W-2		d Establishment number		Kind of Employer (Check one)	
e Employer identification number (EIN)		1 Wages, tips, other compensation		<input type="checkbox"/> State/local non-501c <input type="checkbox"/> State/local 501c <input type="checkbox"/> Federal govt. <input type="checkbox"/> 501c non-govt.	
f Employer's name		2 Federal income tax withheld		<input type="checkbox"/> Third-party sick pay (Check if applicable)	
g Employer's address and ZIP code		3 Social security wages		4 Social security tax withheld	
h Other EIN used this year		5 Medicare wages and tips		6 Medicare tax withheld	
15 State Employer's state ID number		7 Social security tips		8 Allocated tips	
16 State wages, tips, etc.		9		10 Dependent care benefits	
17 State income tax		11 Nonqualified plans		12a Deferred compensation	
Contact person		12b		13 For third-party sick pay use only	
Email address		14 Income tax withheld by payer of third-party sick pay		19 Local income tax	
Telephone number		18 Local wages, tips, etc.		For Official Use Only	
Fax number		19 Local income tax			
Under penalties of perjury, I declare that I have examined this return and accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete.					
Signature		Title		Date	
Form W-3 Transmittal of Wage and Tax Statements				2011	
Send this entire page with the entire Copy A page of Form(s) W-2 to the Social Security Administration.					
				Department of the Treasury Internal Revenue Service	

Tax Year 2011 – Reporting Requirements for Churches

Key Point:

*Although W-2's are required to be filed with the Social Security Administration by either **2/29/12 or 4/2/12** (electronically), many church treasurers file them much earlier. Once the W-2 has been filed with SSA, if there is an **error** that needs to be corrected, it **must be corrected on a W-2c**. It is highly recommended that there be ample time after the W-2's are given to the employees to ascertain if any corrections are needed before the W-2's are filed with the SSA. Corrections made before this filing can be as simple as preparing a new W-2.*

Reconcile, Reconcile, Reconcile!

One of the most important steps a church treasurer can take in the year-end tax reporting process is the reconciliation of the quarterly Forms 941 or the annual Form 944 to totals reported on the W-3. The IRS conducts this reconciliation every year automatically. If there is a discrepancy, it is possible the church will receive a notice from the IRS regarding the discrepancy. The treasurer can assure this does not happen by performing the reconciliation before the 4th quarter Form 941, annual Form 944 and the W-2's are filed with the Internal Revenue Service and the Social Security Administration. Following are the amounts from the Forms 941 and W-3 that should be reconciled:

1. Form 941, Line 2 should be reconciled to Form W-3, Box 1
 - a. Sum the amounts on Line 2 from all 4 quarters Form 941
 - b. This amount should equal Box 1 on Form W-3
2. Form 941, Line 3 should be reconciled to Form W-3, Box 2
 - a. Sum the amounts on Line 3 from all 4 quarters Form 941
 - b. This amount should equal Box 2 on Form W-3
3. Form 941, Line 5a should be reconciled to Form W-3, Box 3
 - a. Sum the amounts on Line 5a from all 4 quarters Form 941
 - b. This amount should equal Box 3 on Form W-3
4. Form 941, Line 5c should be reconciled to Form W-3, Box 5
 - a. Sum the amounts on Line 5a from all 4 quarters Form 941
 - b. This amount should equal Box 5 on Form W-3

A similar reconciliation should be prepared between the Annual Form 944 and the W-3 form. However, the line numbers on the Form 944 are not the same as on the Form 941. The reconciliation of the 944 should adjust for this difference.

It is highly recommended that the church not file the 4th quarter Form 941, the annual Form 944 or the W-2's until this reconciliation is completed.

Tax Year 2011 – Reporting Requirements for Churches

Common Errors on Forms W-2

Forms W-2 provides information to your employees, the SSA, the IRS and state and local governments (if applicable). If the W-2 is prepared manually, avoid making the following errors, which cause processing delays:

- Be sure to put the decimal point and cents on all amounts listed on the W-2
- Use only black ink. Do not use ink that is too light.
- Use 12-point Courier font, if possible. Do not make entries too small or too large.
- Do not add dollar signs to amounts. They are not required.
- Only check Box 13 “Retirement Plan” if the employee was an active participant in the church 403(b) retirement plan
- Format the employee’s name correctly. Enter the employee’s first name and middle initial in the first box (e) then employee’s last name in the second box. If there is a suffix, use the third box.

Prepare and File Forms 1099 for Independent Contractors

1. Tax regulations require that independent contractors paid \$600 or more in a calendar year for services provided, must be issued a **Form 1099-Misc.**
2. The 1099 sent to the independent contractor must be postmarked by **January 31, 2012** for the **2011** calendar year.
3. Copy A of the Form 1099 Miscellaneous is to be filed with Form 1096, Annual Summary and Transmittal of U.S. Information Returns to the Internal Revenue Service by **February 29, 2012** for the **2011** calendar year.

2011 FORM 1099-MISC

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Rents \$	OMB No. 1545-0115 2011	Miscellaneous Income
PAYER'S federal identification number		2 Royalties \$	Form 1099-MISC	
RECIPIENT'S identification number		3 Other income \$	4 Federal income tax withheld \$	Copy A For Internal Revenue Service Center
RECIPIENT'S name		5 Fishing boat proceeds \$	6 Medical and health care payments \$	
Street address (including apt. no.)		7 Nonemployee compensation \$	8 Substitute payments in lieu of dividends or interest \$	For Privacy Act and Paperwork Reduction Act Notice, see the 2011 General Instructions for Certain Information Returns.
City, state, and ZIP code		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds \$	
Account number (see instructions)	2nd TIN not <input type="checkbox"/>	11	12	
15a Section 409A deferrals \$	15b Section 409A income \$	13 Excess golden parachute payments \$	14 Gross proceeds paid to an attorney \$	
15a Section 409A deferrals \$		15b Section 409A income \$	16 State tax withheld \$	17 State/Payer's state no. \$
Form 1099-MISC		18 State income \$	Department of the Treasury - Internal Revenue Service	

Tax Year 2011 – Reporting Requirements for Churches

Prepare and Distribute Annual Contribution Record to Donors

1. Churches normally distribute annual contribution records to donors in January. Given recent changes in tax law regarding charitable contributions, the person preparing the contribution record should make note of the following:
 - a. Charitable contribution credit for **2011** can only be given by the church if the contribution was received by the church or postmarked by **December 31, 2011**.
 - b. Contributions, to be tax-deductible and included in the contribution record of the donor, must be “to or for the use of” the church. Contributions designated by the donor can only be tax-deductible if designated to an on-going program or ministry of the church.
 - c. One-time cash contributions of \$250 or more should be acknowledged separately. Contributions of this amount can no longer be substantiated with a cancelled check and the taxpayer must have written acknowledgement for the contribution to be tax-deductible.
 - i. Contribution statements that records a total amount for each Sunday in the year meets the requirement for amounts \$250 or more being separately acknowledged.
 - d. The value of personal services is **never** considered a charitable contribution and should not be included in the contribution record of a donor.
 - e. Donors can make charitable contributions of property; however, a value is never placed on the property by the charitable organization nor should a value of any property be recorded in the contribution record of the donor.
 - i. The church should acknowledge the receipt of the property, giving a description and the date received.
 - f. Tax regulations changed dramatically in 2005 and 2006 related to contributions of property. Church treasurers or persons financially responsible for the preparation of contribution records should seek the advice of a tax attorney or CPA if there is any question related to donations of property to the church.