### FINANCIAL ISSUES UPDATE 2024 TENNESSEE BAPTIST MISSION BOARD

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## Disclaimer

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## Overview

What's New

Year-End Checklist

Year-End Filing Requirements and Due Dates

Tax Forms

Payroll and Payroll Tax Issues

Contributions and Other Financial Issues

# WHAT'S NEW

### **Electronic Filing Changes**

#### 10 or more returns: E-filing now required

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Starting tax year 2023, if you have 10 or more information returns, you must file them electronically. This includes <u>Forms W-</u> <u>2, e-filed with the Social Security Administration</u> **C**. Find details on the <u>final e-file regulations</u> and <u>requirements for Forms W-2</u>.

To e-file, <u>apply now for a Transmitter Control Code (TCC)</u>. It may take up to 45 days for processing.

You can electronically file most <u>information returns</u>. If you have 10 or more returns, you must e-file them.

Choose an option to e-file with an IRS system. Then <u>apply for a Transmitter Control</u> <u>Code (TCC)</u>.

## **Electronic Filing**

Form 8508 – Application for a Waiver from Electronic Filing of Information Returns

### Information Returns

https://www.irs.gov/pub/irs-pdf/f8508.pdf

### **E-file through the IRIS Taxpayer Portal**

This free, web-based filing system lets you:

- E-file up to 100 returns at a time
- Enter manually or by .csv upload
- Download payee copies to distribute
- Keep a record of completed, filed and distributed forms
- Save and manage issuer information

#### **Get started**

To use the IRIS Taxpayer Portal, you need an IRIS Transmitter Control Code (TCC). This 5-digit code identifies your business when you e-file forms. It can only be used for IRIS.

Apply for an IRIS Taxpayer Portal TCC

### Service outage through January 10

We're updating IRIS for year-end maintenance. It will reopen Wed., January 10 at 9:00 a.m. ET. Thank you for your patience.

IRIS Taxpayer Portal User Guide, Publication 5717 [PDF]

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### Electronic Federal Tax Payment System (EFTPS)

- Effective October 19, 2023, businesses and individual taxpayers who make payments electronically via the <u>Electronic Federal Tax Payment</u> <u>System</u> (EFTPS) must utilize Multi-Factor Authentication (MFA). The primary goal is to further enhance the website's security and safeguard against unauthorized access threats.
- This change is imperative for all organizations and individuals who make federal tax payments, including those using forms such as 941, 945, 1120, and 990 through the EFTPS website.
- Following the rollout on October 19, 2023, when you log into the EFTPS site, you will be prompted to register and authenticate through either Login.gov or ID.me. Only then can you proceed with your standard inputs, including your EIN or SSN, PIN, and password.

### Standard Mileage Rates for 2024

## **Annual Inflation and Mileage Update 2024**

The IRS makes adjustments annually for certain tax items that are required to be inflation-adjusted. The tables below provide the inflation-adjusted amounts for 2024 that are most relevant to nonprofit organizations.

Standard Auto Mileage Rate	
Business	67 ¢ per mile
Medical (and moving for certain members of the Armed Forces)	21 ¢ per mile
Charitable	14 ¢ per mile

### **Revised Form I-9**

## Reminder: Starting Nov. 1, All Employers Must Use the Revised Form I-9

Release Date: November 9, 2023

On October 25, 2023, the <u>Office of the Citizenship and Immigration Services Ombudsman (CIS Ombudsman)</u> sent out this stakeholder message:

Starting November 1, 2023, all employers must use the revised <u>Form I-9, *Employment Eligibility Verification*</u>, with the edition date 08/01/23, when completing the employment eligibility verification process. This updated Form I-9 reflects the option for eligible employers to verify employment eligibility remotely. This edition is available now, and starting November 1, all previous versions will no longer be accepted. If you do not use the 8/01/23 edition of Form I-9, you may be subject to penalties.

## Year-End Checklist

Designate Housing Allowance

□ Review W-4 forms

- Inform donors not to file return until acknowledgement received from church
- Determine what year to record contributions
- Determine correct reporting of cash and noncash gifts to staff and volunteers
- Make sure ministers are classified properly for IRS and Social Security purposes
- □ Ministers voluntary withholding
- □ Review payments to independent contractors
- Report all taxable fringe benefits to employees on W-2
- Reconcile sum of W-2's to sum of the four (4) Employer Quarterly Tax returns (Form 941)
- Prepare all year-end tax forms

# YEAR-END CHECKLIST

Form 941 - Due 1/31/24

Form 944 - Due 1/31/24

### Year-End Filing Requirements & Due Dates

Form W-2 – Due to both employee and SSA by 1/31/2024

Form W-3 – Due to SSA by 1/31/2024

Form 1099-NEC – Due to both independent contractor and IRS by 1/31/2024

Form 1099-MISC – Due to recipient by 1/31/2024; due to IRS by 2/28/24 (if filing by paper, 4/1/24 if filing electronically)

Form 1096 – Separate Form 1096 due with 1099-NEC & 1099-MISC

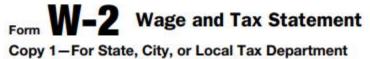
# TAX FORMS

## Tax Forms - Employees

- W-4
  - Employee Withholding Status
    - Use 2024 W-4 for new employees-www.irs.gov
- Form 941 Quarterly
  - Report payroll tax liability and deposits
- W-2/W-3
  - Annual reporting of wages

Form <b>W-4</b> Department of the Te Internal Revenue Se	easury	<b>Employ</b> Complete Form W-4 so that your Your v	OMB No. 1545-0074			
Step 1:	<b>(a)</b> 1	First name and middle initial	Last name	(b	) Social security number	
Enter Personal Information	Addr	ess or town, state, and ZIP code	na ca cr	Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213		
	(c)	or go to w				
	up a home for yourse	elf and a qualifying individual.)				

22222	a Employee's social security number	OMB No. 1545-00	008	
b Employer identification number	(EIN)	1	Wages, tips, other compensation	2 Federal income tax withheld
c Employer's name, address, and	ZIP code	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
d Control number		9		10 Dependent care benefits
e Employee's first name and initia	I Last name	13	Nonqualified plans           Statutory employee         Retirement plan         Third-party sick pay           Other         Image: Construction of the sector o	12a 2 12b 2 12b 2 12c 2 2 2 2 2 2 2 2 2 2 2 2 2
f Employee's address and ZIP co				12d C
15 State Employer's state ID num	ber 16 State wages, tips, etc.	. 17 State income ta	x 18 Local wages, tips, etc.	19 Local income tax 20 Locality name
Form W-2 Wage an	d Tax Statement	202	Department o	f the Treasury-Internal Revenue Service



**Forms W-2 (including Forms W-2AS, W-2GU, and W-2VI) redesigned.** Beginning with the tax year 2023 forms (filed in tax year 2024), you may complete and print Copies 1, B, C, 2 (if applicable), and D (if applicable) of Forms W-2, W-2AS, W-2GU, and W-2VI on IRS.gov to provide to the respective recipient. An entry made in any one of these copies will automatically populate to the other copies. As before, Copy A cannot be completed online to print and file with the SSA and is posted on IRS.gov for informational purposes only. Copy D for employers and the Note for Employers that was previously provided on the back of Copy D has been removed from the Forms W-2AS, W-2GU, and W-2VI to reduce the number of pages for printing purposes.

### Form W-2, Box 12 – Common Codes Used

- Reportable in Box 12 of Form W-2
  - Code C
    - Taxable value of Group Term Life Insurance greater than \$50,000
  - Code E

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- Employee contributions to employer qualified 403(b) retirement plan per salary reduction agreement
  - NOTE Employer contributions to qualified 403(b) retirement plans are not required to be reported on the W-2
- Code T
  - Qualified adoption benefits paid or reimbursed to employee under adoption assistance program
- Code W
  - Contributions to health savings account, both employer and employee contributions under a Section 125 cafeteria plan
- Code DD
  - Cost of employer-sponsored health care only required for employers filing 250 or more W-2's
- Code FF
  - Report total amount of permitted benefits under a QSEHRA

a Control number	For Official Use OMB No. 1545-0	•	
CT-1 emp. g	943 944	None apply     501c       Kind of Employer	non-govt. Check if applicable) 2 Federal income tax withheld
e Employer identification number (EIN) f Employer's name		3 Social security wages 5 Medicare wages and tips	4 Social security tax withheld 6 Medicare tax withheld
		7 Social security tips	8 Allocated tips
		9 1 Nongualified plans	10 Dependent care benefits 12a Deferred compensation
g Employer's address and ZIP code h Other EIN used this year		13 For third-party sick pay use only	12b
5 State Employer's state ID number	1	4 Income tax withheld by payer of third-party	sick pay
6 State wages, tips, etc. 17 State inc	ome tax 1	8 Local wages, tips, etc.	19 Local income tax
Employer's contact person		Employer's telephone number	For Official Use Only

## **Other Tax Forms**

- Independent Contractors
  - W-9
    - Request for Taxpayer ID Number
  - 1099-NEC
- Miscellaneous
  - 1099-MISC

A	W-9 Dctober 2018) ment of the Treasury		Identi		Request fo tion Numb			ation		requ	ester	to the Do not IRS.
	Revenue Service		Go to www.	irs.gov	//FormW9 for ins	tructions and the	latest	information.				·
	1 Name (as shown	on your incor	ne tax return). Narr	ne is req	quired on this line; de	o not leave this line t	lank.					
	2 Business name/o	disregarded er	itity name, if differe	ent from	n above							
Print or type. See Specific Instructions on page 3.	following seven I				e person whose nan	_		only one of the	4 Exemp certain en instruction	tities, no	t individ	bly only to duals; see
ons o	single-member			auon					Exempt pa	ayee cod	e (if any	)
Ę Ę					(C=C corporation, S							
탈로		Note: Check the appropriate box in the line above for the tax classification of the single-member owner. Do not check LLC if the LLC is classified as a single-member LLC that is disregarded from the owner unless the owner of the LLC is						Exemptio	n from F/	ATCA re	eporting	
Frint or type.	another LLC t	another LLC that is not disregarded from the owner for U.S. federal tax purposes. Otherwise, a single-member LLC that is disregarded from the owner should check the appropriate box for the tax classification of its owner.						code (if a	ny)			
ecij	Other (see instructions)						(Applies to ac	counts main	tained out	side the U.S.)		
S,	5 Address (number, street, and apt. or suite no.) See instructions. Requ					equester's name a	and address	s (option	al)			
8												
0,	6 City, state, and 2	ZIP code										
	7 List account num	iber(s) here (or	otional)									
Par	t Taxpa	ver Identi	fication Num	ber (	(TIN)							
	your TIN in the ap					ne given on line 1	to avoid	Social sec	urity num	ber		
acku	p withholding. For	r individuals,	this is generally	your s	ocial security nun	ber (SSN). Howe	er, for a					
	ent alien, sole prop								-	-	·	
ntitie IN, la	es, it is your emplo	yer identifica	tion number (EII	<ol> <li>If yo</li> </ol>	ou do not have a r	umber, see How	to get a	or				
	If the account is in	n more then	one name cost	he inet	nuctions for line 1	Also soo M/bat M			identificat	ion num	her	
	per To Give the Red					. Also see what N	ame and		-			
Par	t II Certifi	cation										
Inder	r penalties of perju	ry, I certify t	hat:									
. The	e number shown o	n this form is	my correct taxr	payer ir	dentification num	oer (or I am waitin	for a n	number to be iss	ued to m	e); and		

- 2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding; and
- 3. I am a U.S. citizen or other U.S. person (defined below); and

Section references are to the Internal Revenue Code unless otherwise

4. The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions for Part II, later.

Sign Signature of U.S. person ►

Date 🕨

General Instructions

 Form 1099-DIV (dividends, including those from stocks or mutual funds)

Form 1099-MISC (various types of income, prizes, awards, or gross

#### »

W-9

Highly recommend to get

independent contractors before payment to know tax

Required for Partnerships, Trusts/Estates/LLC Single-

Without tax information, required to withhold 24%

File Form 945 if

withhold tax

backup withholding

this form from all

No 1099 required to

entity type

Corporations

Member Owner

## 1099-NEC

- Required if independent contractor paid \$600 or more in calendar year
  - Includes direct support to missionary who is not employee of the church
- No 1099-NEC required to be sent to Corporations
- No 1099-NEC required for purchase of goods, only services provided

PAYER'S name, street address, city or town, state or province, count or foreign postal code, and telephone no.	Form (Rev.	No. 1545-0116 <b>1099-NEC</b> January 2024) calendar year
PAYER'S TIN RECIPIENT'S TIN	1 Nonemployee compensation	Copy 1
	\$	For Otata Tar
RECIPIENT'S name	2 Payer made direct sales totaling \$5, consumer products to recipient for	
	3	
Street address (including apt. no.)		
	4 Federal income tax withheld	
City or town, state or province, country, and ZIP or foreign postal coo	\$	
	5 State tax withheld 6 State/Paye	er's state no. 7 State income
Account number (see instructions)	\$	\$
	¢	\$

#### Who Gets a 1099 Form?

- Individuals/Sole proprietors or Single-Member LLC
- Partnerships
- LLC taxed as Partnerships

#### There are **exceptions** to 1099 reporting requirements.

- Corporations (see Exceptions below\*\*)
  - C Corporation
  - S Corporation
  - Limited liability company (LLC) that opts to be taxed as a corporation.
- Payments to tax-exempt organizations
- \*\*Exception to Corporations
  - Attorney Fees
  - Medical and Healthcare Services, i.e., drug screening, doctors, nurses, etc.

PAYER'S name, street add or foreign postal code, and	lress, city or town, state or pro I telephone no.	ovince, country, ZIP	1 Rents	OMB No. 1545-0115	
			\$ 2 Royalties	Form <b>1099-MISC</b> (Rev. January 2024)	Miscellaneous Information
			\$	For calendar year	
			3 Other income	4 Federal income tax withheld	Copy 1
			\$	\$	For State Tax
PAYER'S TIN	RECIPIENT'S TI	I	5 Fishing boat proceeds	6 Medical and health care payments	Department
			\$	\$	
RECIPIENT'S name			7 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale	8 Substitute payments in lieu of dividends or interest \$	
Street address (including a	ıpt. no.)		9 Crop insurance proceeds	10 Gross proceeds paid to an attorney	-
			\$	\$	
City or town, state or provi	ince, country, and ZIP or forei	gn postal code	11 Fish purchased for resale	12 Section 409A deferrals	
			\$	\$	
		13 FATCA filing requirement	14 Excess golden parachute payments	15 Nonqualified deferred compensation	
			\$	\$	
Account number (see instr	uctions)		16 State tax withheld	17 State/Payer's state no.	18 State income
			\$		\$
			\$		\$

### 1099-MISC

- Required for various amounts paid for rents, royalties, other income, medical and healthcare payments, gross proceeds to attorneys, etc.
- \$600 or more in calendar year

#### **Information Return Penalties**

www.irs.gov/payments/information-return-penalties

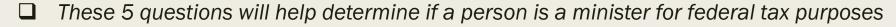
#### nformation Return Penalties

We charge penalties for **each** information return you fail to correctly file on time and **each** payee statement you fail to provide.

**Charges for Each Information Return or Payee Statement** 

Year Due	Up to 30 Days Late	31 Days Late Through August 1	After August 1 or Not Filed	
2024	\$60	\$120	\$310	\$630
2023	\$50	\$110	\$290	\$580

# PAYROLL AND PAYROLL TAX ISSUES



- □ Is the person ordained, licensed or commissioned?
- Does the person administer ordinances (baptism, Lord's Supper)?
- Does the person conduct religious worship?
- Does the person have management responsibilities in the church?
- □ Is the person considered to be a religious leader by the church?
- NOTE it is possible to be a licensed or ordained minister but NOT function in a ministerial role, thereby not treated as a minister for tax purposes.

## Who is a Minister for tax purposes?

### How are Ministers treated for tax purposes?



#### **Employee for Federal tax purposes**

Receive a W-2

Church is not required to withhold federal income tax

• Minister can voluntarily request church to withhold income tax

Can designate a portion of salary to housing allowance

• Housing allowance not taxable for federal income tax purposes

## Self-employed for Social Security purposes

Church cannot withhold Social Security or Medicare Tax

 Therefore, church does not match Social Security or Medicare tax like non-minister employees

Minister is responsible to pay SECA tax – 15.3%

• Housing allowance is taxable for SECA tax purposes

### Can Ministers choose to be treated as a nonminister?

## <u>No</u>

- The Internal Revenue Code defines and governs who can pay into FICA and into SECA (IRC Sections 3121 and 1402)
- Ministers can only pay into SECA

### Housing Allowance for Ministers -Requirements & Reporting

Housing Allowance –	Requirements	Housing allowance	Reporting of Housing	Changes to Housing
IRC Section 107		amount	Allowance	Allowance
<ul> <li>Is NOT taxable for federal income tax purposes</li> <li>IS taxable for Social Security (SECA) purposes</li> </ul>	<ul> <li>Must be in writing</li> <li>Must be approved by church prospectively-before it is paid</li> </ul>	<ul> <li>Housing is equal to lesser of 3 amounts</li> <li>Housing approved by church</li> <li>Church must approve a reasonable amount</li> <li>Actual housing expenses</li> <li>Fair rental value of home, furnished with utilities</li> <li>NOTE - The IRS does NOT place a maximum \$ or % in the tax code for housing. Lesser of these 3 amounts.</li> </ul>	<ul> <li>Can be reported in Box 14 of Form W-2 but not required</li> <li>NOT reported on Form 941</li> </ul>	<ul> <li>Can be changed during the year; change must be prospective</li> <li>Church should consider "safety net" housing allowance resolution</li> </ul>

### Minister Owns or Rents Home

- Church designates a portion of cash salary to housing allowance
  - Church should designate a reasonable amount
    - Annual Fair rental value of home, furnished, plus utilities is MAXIMUM church should designate
- It is the responsibility of the minister to determine if the housing allowance designated by the church has been used for qualifying housing expenses
  - Any unused housing allowance is reported as income on the tax return of the minister

## Parsonage

- Value of parsonage is income to minister for Social Security purposes
  - Rental value plus utilities, if paid by church
  - Church MUST inform minister of this value; must be reported on tax return of minister
    - Church can put value in writing or report on W-2 in Box 14 as "Parsonage Allowance"
- Out of pocket cash expenses incurred by minister for living in the parsonage can be designated as a "cash" housing allowance

#### Compensation Planning Guide for Ministers <u>www.guidestone.org</u>

#### CREATING A COMPENSATION PLAN

As a church, you have a responsibility to take care of those who serve on your staff, while also seeking to be good stewards of your limited financial resources. This workbook can help you achieve that goal. It is designed for use by the person(s) who determines pay arrangements for ministers and church employees.

We'll help you build a solid compensation plan using six essential steps:

- Step 1 Determine the Needs (page 4)
- Step 2 Establish Written Compensation Plan Policies (page 6)
- Step 3 Provide for Ministry-related Business Expenses (page 7)
- Step 4 Provide Employee Benefits (page 10)
- Step 5 Determine Personal Income (page 13)
- Step 6 Complete a Compensation Planning Summary (page 16)

#### The benefits of a compensation plan:

Your church can maximize your resources by implementing a sound compensation plan.

- It reduces confusion about expenses, benefits and staff income budgets.
- It ensures funds are spent appropriately.
- It lets ministers and staff know you value them with a detailed compensation plan.

#### The dangers of a "lump-sum" or "package" approach:

Paying a lump-sum amount to your minister to break down as he desires can be unwise.

- It often causes ministers to pay higher taxes, increasing financial burdens for their families.
- It can lead to a financial hardship for the church if a minister does not set aside a portion of the lump sum for insurance coverage.
- It distorts the amount of actual income the minister has available to provide for his family.

#### 3.) The eligibility requirements of a Minister for Tax Purposes:

Generally, a Minister for Tax Purposes is ordained, licensed or commissioned and fulfills a majority of the following: administers the ordinances, conducts religious worship, has management responsibilities and is considered to be a religious leader by the church. These ministers have a dual tax status. They are employees for income tax purposes and self-employed for the purpose of Social Security.

# How are Non-Minister Employees treated for tax purposes?

## Employee for Federal tax purposes

- Receive a W-2
- Church is required to withhold federal income tax based on tax withholding tables

## Employee for Social Security purposes

- Church withholds Social Security (6.2%) and Medicare (1.45%) taxes
- Church matches Social Security (6.2%) and Medicare (1.45%) taxes

# WORKER STATUS – EMPLOYEE OR CONTRACT WORKER?

What is an "Employee" of the church?

### You should classify workers as <u>employees</u> if they:

- Are paid by the hour, week, or month
- Get training and day-to-day supervision
- Work full-time on a regular basis
- Perform most of their job tasks on the premises
- Can be fired at anytime (rather than falling under contractual terms)
- Provide services that are an essential part of your normal operations

What is a contract worker?

# Workers are most likely <u>contractors</u> if they:

- Use their own equipment and tools to perform the job
- Work on a temporary basis and are paid "per project"
- Service other clients, often at the same time
- Work under an individual business license
- Work at an off-site location (occasional meetings at church location are OK)
- Have the flexibility to set their own hours and schedules

### Employee vs. Contractor - Bottom line

- The more control the church has over the worker, the more likely that worker is an employee.
  - Behavorial control
  - Financial control
  - Relationship control

Key Point - IRS Form SS-8 – file to have IRS make determination of worker status

#### IRS 20-point Checklist for Independent Contractors

Mistakenly classifying an employee as an independent contractor can result in significant fines and penalties. There are 20 factors used by the IRS to determine whether you have enough control over a worker to be an employer. Though these rules are intended only as a guide-the IRS says the importance of each factor depends on the individual circumstances-they should be helpful in determining whether you wield enough control to show an employer-employee relationship. If you answer "Yes" to all of the first four questions, you're probably dealing with an independent contractor; "Yes" to any of questions 5 through 20 means your worker is probably an employee.

Yes	No	1.	Profit or loss. Can the worker make a profit or suffer a loss as a result of the work, aside from the money earned from the project? (This should involve real economic risk-not just the risk of not getting paid.)
		2.	Investment. Does the worker have an investment in the equipment and facilities used to do the work? (The greater the investment, the more likely independent contractor status.)
		3.	Works for more than one firm. Does the person work for more than one company at a time? (This tends to indicate independent contractor status, but isn't conclusive since employees can also work for more than one employer.)
		4.	Services offered to the general public. Does the worker offer services to the general public?
		5.	Instructions. Do you have the right to give the worker instructions about when, where, and how to work? (This shows control over the worker.)
		6.	Training. Do you train the worker to do the job in a particular way? (Independent contractors are already trained.)
		7.	Integration. Are the worker's services so important to your business that they have become a necessary part of the business? (This may show that the worker is subject to your control.)
		8.	Services rendered personally. Must the worker provide the services personally, as opposed to delegating tasks to someone else? (This indicates that you are interested in the methods employed, and not just the results.)
		9.	Hiring assistants. Do you hire, supervise, and pay the worker's assistants? (Independent contractors hire and pay their own staff.)
		10.	Continuing relationship. Is there an ongoing relationship between the worker and yourself? (A relationship can be considered ongoing if services are performed frequently, but irregularly.)
		11.	Work hours. Do you set the worker's hours? (Independent contractors are masters of their own time.)
			Work hours. Do you set the worker's hours? (Independent contractors are masters of their own time.) Full-time work. Must the worker spend all of his or her time on your job? (Independent contractors choose when and where they will work.)
		12.	Full-time work. Must the worker spend all of his or her time on your job? (Independent contractors choose when
		12. 13.	Full-time work. Must the worker spend all of his or her time on your job? (Independent contractors choose when and where they will work.) Work done on premises. Must the individual work on your premises, or do you control the route or location
		12. 13. 14.	Full-time work. Must the worker spend all of his or her time on your job? (Independent contractors choose when and where they will work.) Work done on premises. Must the individual work on your premises, or do you control the route or location where the work must be performed? (Answering no doesn't by itself mean independent contractor status.) Sequence. Do you have the right to determine the order in which services are performed? (This shows control
		12. 13. 14. 15.	Full-time work. Must the worker spend all of his or her time on your job? (independent contractors choose when and where they will work.) Work done on premises. Must the individual work on your premises, or do you control the route or location where the work must be performed? (Answering no doesn't by itself mean independent contractor status.) Sequence. Do you have the right to determine the order in which services are performed? (This shows control over the worker) Reports. Must the worker give you reports accounting for his or her actions? (This may show lack of
		12. 13. 14. 15.	Full-time work. Must the worker spend all of his or her time on your job? (Independent contractors choose when and where they will work.) Work done on premises. Must the individual work on your premises, or do you control the route or location where the work must be performed? (Answering no doesn't by itself mean independent contractor status.) Sequence. Do you have the right to determine the order in which services are performed? (This shows control over the worker) Reports. Must the worker give you reports accounting for his or her actions? (This may show lack of independence) Pay Schedules. Do you pay the worker by hour, week, or month? (Independent contractors are generally paid by
		12. 13. 14. 15. 16.	Full-time work. Must the worker spend all of his or her time on your job? (Independent contractors choose when and where they will work.) Work done on premises. Must the individual work on your premises, or do you control the route or location where the work must be performed? (Answering no doesn't by itself mean independent contractor status.) Sequence. Do you have the right to determine the order in which services are performed? (This shows control over the worker) Reports. Must the worker give you reports accounting for his or her actions? (This may show lack of independence) Pay Schedules. Do you pay the worker by hour, week, or month? (Independent contractors are generally paid by the job or commission, although by industry practice, some are paid by the hour.)
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Taxable Income of Church Employees

#### Internal Revenue Code (IRC) 61 defines gross income as ALL income except unless specifically exempted

- Salary
- Love Offerings
- Christmas Gifts
- Gift Cards
- □ Retirement gifts
- Social Security offset for ministers
- Non-accountable expense reimbursements
- Group term life insurance provided by church over \$50,000
- Benevolence paid to employees or family members of employee
- □ Severance Pay
- Payments or reimbursement of moving expenses by employer

## What is a "Gift"?

Internal Revenue Code (IRC) Section 102 governs the taxability of gifts:

 Gross income does not include the value of property acquired by gift, bequest, devise or inheritance

IRC Sec. 102 specifically states that an employer cannot give a gift to an employee

# Are "gifts" to employees and volunteers taxable?

#### Employers can provide "de minimis" gifts as non-taxable

- De minimis is defined as "any property or service of value of which is so small as to make the accounting for it unreasonable or administratively impracticable.
- For example, personal use of church office equipment, group meals, property provided to employees under special circumstances with low fair market value such as flowers, etc.

Cash or gift cards can **NEVER** be a "de minimis" gift. Always taxable to employee and reportable on W-2. For example:

- Christmas cash gifts or bonuses
- Length of service cash gifts or bonuses

Cash or gift cards provided to volunteers do not qualify as de minimis fringe benefits and constitute a taxable benefit. However, since volunteers are not employees, church not required to report as wages on W-2. No 1099 form required if less than \$600.

## Is benevolence paid to or on behalf of an employee taxable?

IRC Sec. 102 specifically states that an employer cannot give a gift to an employee

 Result – YES, a benevolence gift to an employee or on behalf of an employee is TAXABLE INCOME to that employee

### **Disaster Relief for Employees**

### If an employer provides assistance directly to employees who are in need because of a qualified disaster without going through a charitable organization, is such assistance taxable income to employees?

Amounts paid to reimburse or pay reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a qualified disaster, or to repair or rehabilitate a personal residence, are not subject to federal income taxation to the extent any such expense is not otherwise reimbursed, such as by insurance. An IRS guidance document provides more information.

# Trips to Holy Land

Richard Hammar – Church & Clergy Tax Guide – 2023 Edition

Trip to Holy Land is taxable if:

- The trip is provided to honor the minister for his or her faithful services on behalf of the church.
- The trip is provided to enhance or enrich the minister's ministry. While a trip to the Holy Land can benefit one's ministry, such a trip is not a business expense under current law. The tax code provides that "no deduction shall be allowed . . . for expenses for travel as a form of education." *IRC 274(m)*

Can a church pay for moving expenses of a new employee – is it taxable income?

Yes, payment of moving expenses is taxable income in the year paid.

Does not matter if moving expenses are paid directly to moving company or minister is reimbursed for moving expenses.

#### **Background:**

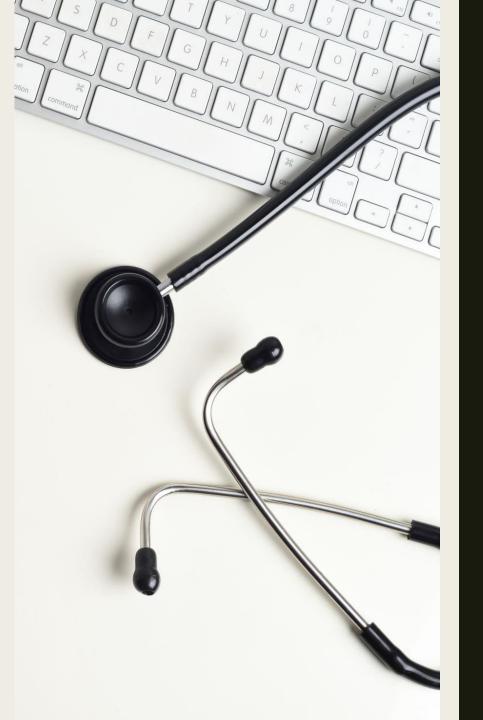
Prior to 2018, employers could pay for qualified moving expenses as a non-taxable fringe benefit.

With passing of TCJA, all moving expenses paid to or on behalf of employees is taxable income and is to be reported on the W-2.

### Moving Expenses

Non-taxable fringe benefits to church employees

- Qualified accident and health benefits (IRC Sec. 105)
- Group term life insurance \$50,000 or less
- Employer contributions to employer qualified 403(b) retirement plan
- Working condition benefits
- □ Employer education assistance-IRC Sec 127 plan
  - Written plan allows up to \$5,250
- De minimis (minimal) benefits
- Employer-provided cell phones
  - If provided primarily for non-compensatory business purposes
- Tuition discounts if meet requirements of educational organization
  - https://www.irs.gov/government-entities/federalstate-local-governments/qualified-tuition-reduction



# How can the church provide health benefits to church employees?

- Affordable Care Act (ACA) requires that any medical benefits provided to employees must comply with ACA.
  - Stand-alone Health Reimbursement Arrangement plans no longer allowed
- □ A church can provide health benefits in one of the following ways:
  - Employer group plan compliant with ACA
  - The ACA does not allow employers with more than one (1) employee to reimburse for individual health insurance on a non-taxable basis
    - One-participant exception to the ACA
  - GuideStone health plan
  - Qualified Small Employer Health Reimbursement Arrangement (QSEHRA)
  - Individual Coverage Health Reimbursement Arrangements (ICHRA)
- NOTE if church meets "one-participant exception" of ACA, can reimburse for individual health premiums tax-free.

Other Health Benefit Issues To Consider

- If the church pays for or reimburses the employee for the cost of health insurance purchased on the health exchange on a non-taxable basis, the employee is not eligible for the Premium Tax Credit associated with insurance purchased through the marketplace
- Medicare premiums are not considered health insurance premiums for purposes of *IRC Section 105* (amounts received under accident and health plans).
  - The only way Medicare Part B and D premiums can be paid for or reimbursed by the church tax-free is if the payment of these premiums is integrated with an employer group plan that complies with the ACA.
  - Otherwise, taxable income to the employee
- Under IRS proposed regulations in June 2020, Health Care Sharing Ministry fees would be tax-deductible as medical expenses and possibly reimbursable tax-free under a qualified health reimbursement arrangement plan. However, regulations have not been finalized to date. Many Health Care Sharing Ministries have publicly stated it is not insurance and should not be regulated as such.
  - Conservative approach any reimbursements for HSM fees should be taxable income to the employee.
  - Some experts recommend coupling Health Sharing Plans with "Skinny MEC" plan to be able to participate in QSEHRA to treat reimbursement as tax-free. IRS has failed to provide guidance to date.

# Qualified Tuition Discounts

- Section 117(d)(2) defines a "qualified tuition reduction" as the amount of any reduction in tuition provided to any employee of a Section 170(b)(1)(A)(ii) educational organization for the education (below the graduate level)
- Section 170(b)(1)(A)(ii) describes an educational organization as:
  - one that normally maintains a regular faculty and curriculum and,
  - normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on.

# Ministry Expenses

#### □ Accountable Reimbursement Plan that meets IRS requirements:

- Business Connection there is a stated business purpose for the expense related to the ministry of the church
- Substantiation employee provides adequate substantiation to the church for all expenses within a reasonable time
- Returns excess funds employee returns all excess reimbursements within a reasonable time

### How should ministry expenses be paid?

#### Accountable Reimbursement Plan Guidelines

- Should be funded by employer apart from the salary of employee
  - Budgeted expense funds not used for accountable expenses are retained by the church
  - Increased church understanding of expenses as "expenses", not "salary"
    - Minister cannot set aside part of "lump-sum" compensation for expenses
- Allowable expenses need to be consistent with IRS rules
- Specific recordkeeping and expense account reporting expectations
- Written plan

## Ministry Expenses

### <u>Key Point!</u>

• Any balance remaining in expense account at year-end cannot be paid out to employee. If paid to employee, all expense reimbursements made during year are treated as "non-accountable" and taxable to employee

The Tax Cuts and Jobs Act (TCJA) repealed the taxpayer's deduction for unreimbursed employee business expense

 <u>Bottom-line</u> – expense allowances not accounted for under an accountable reimbursement plan will be taxable income with no corresponding deduction on individual tax return Federal Reporting Requirements for Churches <u>www.guidestone.org</u>

# FEDERAL REPORTING REQUIREMENTS for Churches

Disbard D. Hammar, J.D. H. M. CDA

Richard R. Hammar, J.D., LL.M., CPA Senior Editor, Church Law & Tax

### CONTENTS

INTRODUCTION		
MAXIMIZING TAX BENEFITS FOR YOUR MINISTER	_4	
Housing Allowance (and Parsonage Allowance)	4	
Accountable Reimbursements	5 5	
Section 403(b) Retirement Plans	6	

#### COMPLYING WITH FEDERAL PAYROLL TAX REPORTING OBLIGATIONS

Step 1. Obtain an employer identification number (EIN) from the federal government if this has not been don	ne 6
Step 2. Determine whether each church worker is an employee or self-employed	6
Step 3. Obtain the Social Security number (SSN) for each worker	7
Step 4. Have each employee complete a Form W-4	7
Step 5. Compute each employee's taxable wages	
Step 6. Determine the amount of income tax to withhold from each employee's wages	.8
Step 7. Withhold Social Security and Medicare taxes (FICA) from non-minister employees' wages	8
Step 8. The church must deposit the taxes it withholds	
Step 9. All employers subject to income tax withholding, FICA, or both, must file Form 941 quarterly	9
Step 10. Prepare a Form W-2 for every employee, including ministers employed by the church	10
Step 11. Prepare a Form 1099-NEC for every self-employed person receiving non-employee	
compensation of \$600 or more	13

# CONTRIBUTIONS

### **Contributions – General Rules**

- Charitable Contributions to be deductible, a contribution must meet six conditions:
  - <u>1</u>. A gift of cash or property,

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- 2. Claimed as a deduction in the year in which the contribution is made,
- 3. Unconditional and without benefit to the donor,
- 4. Made "to or for the use of" a qualified charity,
- 5. Within the allowable legal limits, and
- 6. Properly substantiated
- Donated Services The value of personal services is <u>never deductible</u> as a charitable contribution
- The value of rent-free building space made available to a church <u>cannot</u> be claimed as a charitable contribution

### **Contributions – General Rules**

#### □ Claimed as deduction in year gift is made

- □ Contribution received by the church by December 31<sup>st</sup>
- Contribution received through the mail with postmark on or before December 31<sup>st</sup>
- Credit card delivery is when charge is made (processed)

#### Unconditional and without personal benefit to the donor

- If a donor does receive a return benefit in exchange for a contribution, then a charitable contribution only deductible to the extent they exceed the value of any benefit received by the donor
  - **Quid Pro Quo contributions requirements** 
    - If Quid Pro Quo contribution is more than \$75 dollars, church must provide written statement to the donor
    - Provide good faith value of goods or services

# **Designated Contributions**

□ Contributions made to a church with the stipulation the donations are to be <u>used for a specific purpose</u>

Allowed as deductible if made to on-going program or ministry of church that the church administers

# **Designated Contributions**

#### ✤ Best Business Practice

- □ Have a written designated policy in place
- Inform donors what designated funds have been established and for which contributions can be received
- Determine process for setting up new designated funds
- Consider returning contribution for designation other than a program or ministry of the church

### Redirecting Designated Contributions

Can a church use remaining designated funds for other purposes?

Because of the risk and liability involved, church leaders should proceed carefully before using designated funds for other purposes.



NOTE - See Richard Hammar's <u>Church &</u> <u>Clergy Tax Guide</u> for a comprehensive analysis of this very complicated and legal subject.

# Contributions Designated for Individuals

- Per IRS, if contributions that are earmarked by the donor for a particular individual, they are treated, in effect, as being gifts to the designated individual and are not deductible. (IRS Revenue Ruling 62-113)
  - □ Love offering taken for individual
  - Contribution designating an individual
  - Love offering for small church staff

# Benevolence Contributions

Many churches have benevolence programs to assist members and others in the community during times of emergency or financial hardship. Having a written policy in place can help your church respond quickly and protect the tax-exempt status of your church and the deductibility of donations made.

## **Benevolence Contributions**

- Best Business Practices (Excerpt from CapinCrouse CPA Important Considerations for Church Benevolence Funds)
  - Create and implement a written policy
  - Establish a benevolence fund that is administered by the church
  - Define what types of contributions will be allowed.
    - To be tax-deductible, contributions must be made to the program, not to a specific individual or family
  - Appoint a committee review and approve requests.
  - Establish criteria for determining individual need
    - A financial need must be established
  - Make disbursements from the church bank account (general fund or benevolence fund) rather than from the collection plate
  - Pay assistance (rent, mortgage, utilities, etc.) directly to the service provider, rather than to the individual

# Designated Contributions for Missionaries

 Contributions made for a missionary could be deductible if it can be established that the contribution was for the use of a charitable organization (church)

□ Church must act as "missions agency"

# Contributions for Short-Term Missions

#### Tax-deductibility of contributions from donors for mission trip

- The mission trip is a church-sponsored mission trip.
- □ The mission trip is sponsored by an affiliated organization of the church.
  - State Convention
  - Local Association
- □ The church administers all funds received and disbursed for the mission trip or sends all mission funds to the affiliated organization.
- Donors are informed that contributions to support specific individuals for the mission trip are donations to the church, not to the individual. No funds will go directly to the individual.
- □ Unused funds will be retained by the church to be used in tax-exempt purposes as determined by the church.

#### □ The IRS has two general tests to determine deductibility:

- Intended benefit test
- Control test

### Contribution Acknowledgement

#### Cash

- \$250 or more one-time gift must have written acknowledgement from charity
- Written acknowledgement must include
- Church Name
- Name of donor
- Amount contributed
- Statement of whether goods or services were provided to donor in exchange for the gift
- Contribution can be disallowed without this statement in acknowledgement
- Date the donation was made
- Date the receipt was issued

#### **Property** – Includes contribution of shares of stock

- Written acknowledgement required
- Acknowledgement should <u>NOT</u> place monetary value on property receive
- NOTE Only cash contributions should be included in the member's contribution record. Noncash contributions are not included in the member's contribution record.

(See IRS Publication 1771 – Charitable Contribution – Substantiation and Disclosure Requirements)

## **Contribution Acknowledgement**

Online Contributions –

Donor should be given credit for 100% of online contributions. The fee is an expense to the church.

### Properly Acknowledging In-Kind Stock Gift

- An acknowledgement should be sent to the donor and should include the following:
  - Name of stock
  - Ticker number of stock
  - Number of shares
  - Date of donation
  - Statement No goods or services were provided in exchange for the donation
- Acknowledgement should NOT include:
  - The value of the stock
- REMINDER A donation of stock is a Noncash contribution and is NOT recorded in the contribution record of the donor even if the stock is immediately sold for cash.

### Noncash Contribution Filing & Disclosure Requirements

#### Given Series Forms 8282 and 8283

- A donor must file Form 8283, Noncash Charitable Contributions, to report information about noncash charitable contributions if deductions for all noncash gifts during the year exceed \$500.
- If the contribution deduction is over \$5,000, the donor must complete Section B of Form 8283, and an authorized official of the charity must complete a portion of the form and sign it. (Exception – publicly-traded securities).
- □ The donor must give the charity a copy of Section B.
- If organization sells, exchanges, or disposes of donated property within three years of receipt, Donee must file Form 8282 within 125 days of disposition

### Noncash Contribution Filing & Disclosure Requirements for Vehicle Donations

### Given Form 1098-C

- A charity must file Copy A of Form 1098-C with the IRS to report the information contained in a contemporaneous written acknowledgment for a vehicle contribution with a claimed value of more than \$500.
- □ Form 1098-C is due by February 28 (March 31 if filing electronically) of the year following the year in which the charity provides the acknowledgment to the donor.
- Filing Form 1098-C does not relieve the charity of its obligation to report information about the disposition of a donated vehicle on Form 8282, Donee Information Return.

### **Contributions - Qualified Charitable Distribution (QCD)**

- Special provision for individuals to make contributions directly from Individual Retirement Account (IRA) to a church or qualifying charity.
- Contribution can be considered part of individual's Required Minimum Distribution (RMD).
- Individual over age 72 and older direct IRS custodian to make distribution directly to a church or qualifying charity.
- Donor making the QCD does not receive a tax deduction for donation because distribution is not treated as taxable income.
- Donation should not be included in church's donor system.

# OTHER FINANCIAL ISSUES

### **Other Financial Issues – Common Questions**

#### Rental of Parsonage

- IRC 512 exempts rents from real property from the definition of unrelated business income, with exceptions relating to debt-financed property
  - Meaning, church can earn rents on the rental of the parsonage without paying taxes on the rent received
  - However, other considerations:
    - Potential loss of property tax exemption
    - Liability insurance

### **Other Financial Issues – Common Questions**

#### Use of church facility by outside groups

- Very complex legal issue careful consideration in allowing outside groups to use the church facility
  - If event or use is related to tax-exempt purposes of church, best scenario
    - *i.e.,* weddings, Christian concerts, 501c3 organizations with compatible mission to church
- Issues to consider if allowing groups not related to tax-exempt purpose
  - Potential property tax exemption loss
  - Liability insurance concerns
  - Potential sales tax concerns depending on facts and circumstances of use
- ADVISE if church is considering allowing outside groups that are not related to taxexempt purposes of the church to use the church facility, church should seek nonprofit legal counsel.

### **Other Financial Issues – Common Questions**

### Record Retention

- If your church uses offering envelopes:
  - Issue donors a periodic (i.e., quarterly, semi-annual, or annual) summary of contributions
  - Include in this summary a statement similar to the following:
    - Any documentation, including offering envelopes, that the church relied upon in preparing this summary will be disposed of within six months. Therefore, please review this summary carefully, and inform the church treasurer of any apparent discrepancies within six months of the date of this summary."
  - You can change the six-month period to any other length of time that you desire.
  - This statement will relieve the church of the responsibility of warehousing offering envelopes and other supporting documentation for long periods of time.

# Questions?



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