

*Hamilton County Baptist Association
Annual Tax Seminar
Tuesday, December 4, 2007*

What's new for 2008:

1. Standard Mileage Rate increases to ***50.5 cents*** per mile
2. FICA Wage Base ***\$102,000***
3. Standard Deduction Amounts
 - a. Married Filing Jointly ***\$10,900***
 - b. Heads of Households ***\$ 8,000***
 - c. Single ***\$ 5,450***
 - d. Married Filing Sep. ***\$ 5,450***
4. Additional Standard if age 65 or blind
 - a. Single ***\$ 1,350***
 - b. Married ***\$ 1,050***
5. Personal Exemption amount ***\$ 3,500***
6. Maximum IRA Contribution:
 - a. Traditional and Roth IRAs ***\$ 5,000***
 - b. Age 50 or older by end of year ***\$ 6,000***
7. Maximum 403(b) elective deferral
 - a. Under age 50 ***\$15,500***
 - b. Age 50 or older ***\$20,500***
6. Annual Exclusion for gifts: ***\$12,000***
8. IRS issues ***Publication 561*** clarifying Pension Act provision on valuation of property donated to charity:
 - a. Contributions after August 17, 2006 of **clothing and household items are not deductible unless the items are in good used condition or better or** unless the value of an item is more than \$500 and an appraisal of the item is attached to the return

*Hamilton County Baptist Association
Annual Tax Seminar
Tuesday, December 4, 2007*

MINISTERIAL WAGES

- Who is a “Minister” for tax purposes?
 - The Tax Court ruled in 1987 that a minister is one who:
 1. administers sacraments;
 2. conducts religious worship;
 3. has management responsibility in a local church or religious denomination;
 4. is ordained, commissioned, or licensed, and;
 5. is considered to be a religious leader by his or her church or denomination.

- Is a minister an employee or self-employed?
 - ◆ The 1995 audit guidelines for ministers released by the IRS inform agents that “the first issue that must be determined is whether the minister is an employee or an independent contractor”.

 - ◆ Most clergy should report their federal income taxes as employees for several reasons:
 - (a) Most clergy are employees under the tests applied by the IRS and the courts.
 - (b) The IRS considers most clergy to be employees.
 - (c) The Value of various fringe benefits will be non-taxable.
 - (d) Audit risk is much lower.
 - (e) Reporting as an employee avoids the additional taxes and penalties that often are assessed against clergy who are reclassified as employees by the IRS.

 - ◆ While most clergy are employees for federal income tax reporting purposes, all clergy are self-employed for social security purposes with respect to services performed in the exercise of ministry. Ministers have a “dual-tax” status.

- How to report ministerial wages.
 - ◆ Most ministers should receive a W-2.

- How to structure financial support of minister.
 - ◆ Planning Financial Support – GuideStone brochure (www.guidestone.org)

*Hamilton County Baptist Association
Annual Tax Seminar
Tuesday, December 4, 2007*

MINISTRY-RELATED EXPENSES

- What is an “**accountable** plan” and how is it reported for income tax purposes?
 - Amounts treated as paid under an accountable plan are **not** reported as wages or other compensation on the employee’s W-2 and are exempt from the withholding and payment of employment taxes.
 - Amounts are treated as paid under an **accountable plan** if the arrangement meets the requirements for **business connection, substantiation, and return of amounts in excess of expenses.**
 - IRS standard mileage rate for automobile expense reimbursement for 2007 is 48.5 cents per mile; increases to 50.5 cents per mile in 2008
- What is a “**non-accountable plan**” and how is it reported for tax purposes?
 - Amounts treated as paid under a **non-accountable plan** are included in the employee’s gross income, must be reported as wages or other compensation on the employee’s Form W-2, and are subject to withholding and payment of employment taxes (for non-ministers).

MINISTER’S HOUSING ALLOWANCE

- **What is a housing allowance?**
 - Parsonage – ministers exclude from their income for federal tax purposes the annual rental value of a parsonage provided for them.
 - Parsonage allowance – ministers living in a church-provided parsonage can exclude from their income an allowance to pay for parsonage-related expenses. Expenses include utilities, repairs, furnishings.
 - Housing Allowance – ministers owning their own home or renting a home can exclude a portion of their salary from their income for federal income tax purposes. The allowance is used to pay for qualified housing expenses

*Hamilton County Baptist Association
Annual Tax Seminar
Tuesday, December 4, 2007*

EMPLOYEE WAGES AND EMPLOYMENT TAXES

- General Rule: Wages are subject to payroll taxes. All payments to employees are treated as wages unless a specific exemption exists.
- Employee Tax Forms:
 - W-4
 - W-2
 - 941
 - 941C
- What is reported on a W-2?
 - Taxable Income
 - Taxes Withheld
 - Value of Group Life Insurance (See Group Life Table) – Code C
 - Salary reduction contributions to 403(b) retirement plan – Code E
 - Housing allowance **may** be reported in Box 14 as Other Information
 - Perform year-end reconciliation of quarterly 941's and W-2's before distributing W-2's or filing the 4th quarterly Form 941 (See example attached)

INDEPENDENT CONTRACTOR AND 1099 ISSUES

- IRS uses 20-factor test to determine employee/independent contractor status. Of those 20, the courts tend to focus principally on seven as being the most important:
 1. The degree of control exercised by the principal over the details of the work;
 2. Which party invests in the facilities used in the work;
 3. The opportunity of the worker for profit or loss;
 4. Whether the principal has the right to discharge the worker;
 5. Whether the work is part of the principal's regular business;
 6. The permanency of the relationship; and
 7. The type of relationship that the principal and worker believe they are creating.
- Independent Contractor Tax Forms
 - W-9
 - 1099
 - 1096
- Recommend having a W-9 on file for all vendors paid for services rendered.

*Hamilton County Baptist Association
Annual Tax Seminar
Tuesday, December 4, 2007*

CHARITABLE CONTRIBUTIONS – See Pub. 526

- A gift of cash or property
- Claimed as a deduction in the year in which the contribution is made
- Unconditional and without personal benefit
- Made “to” or “for the use of” the charitable organization (church)
- The value of personal services is never considered a charitable contribution
- Expenses incurred in performing services for a charitable organization may be deductible
 - Charitable mileage rate is \$.14 cents per mile for 2007. The 2008 rate is the same.
- Charitable contributions are deductible to the extent they exceed the value of any benefit received by the donor

NON-CASH CONTRIBUTIONS

- Donors can make charitable contributions of property
- Charitable organization provides a contribution receipt to the donor that must include:
 - Name of the charitable organization
 - Date and location of the contribution
 - Description of the property donated
 - Receipt must NOT place a value on the donated property. It is the responsibility of the donor to place a value on the donated property
 - Form 8283 may be required

*Hamilton County Baptist Association
Annual Tax Seminar
Tuesday, December 4, 2007*

- **Donation of cars to charitable organization**
 - Beginning in 2005, if the claimed value of a donated car exceeds \$500 and the car is sold by the charity, the donor's charitable contribution deduction is limited to the gross proceeds from the sale.
 - Under the new rules, the charity must:
 - Provide the donor with a contemporaneous written acknowledgement within 30 days of the sale
 - Acknowledgement must include the donors name and social security number
 - Acknowledgement must also include the following:
 - Date of contribution
 - Vehicle identification number
 - Date of sale
 - Certification that the vehicle was sold at an arm's length transaction
 - A statement of the gross proceeds from the sale
 - A statement that the deductible amount may not exceed the amount of the gross proceeds

- **Form 1098-C**
 - The church should submit the same acknowledgement information to the IRS by February 28 of the following year using Form 1098-C. This same form can be used for the acknowledgement to the donor.

- **New Tax Law enacted in 2006 related to Charity (See Pub. 561)**
 - No deduction will be allowed for used clothing and household items unless the items are in "good condition". The new law does not define "good condition".
 - No deduction is allowed for any cash, check or other monetary gift unless the donor can show a bank record or a written communication from the charity. Therefore, taxpayers will need to keep letters, cancelled checks and other documentation provided by the charitable organization in order to substantiate those contributions (effective for contributions made after August 17, 2006).

*Hamilton County Baptist Association
Annual Tax Seminar
Tuesday, December 4, 2007*

- **Designated Charitable Contributions**
 - Made for a specific purpose
 - Contribution designating a program or project of the charitable organization can be considered a deductible contribution
 - The charitable organization must maintain full administrative and accounting control of the designated contribution.