

What Every Church Must Do During Tax Season

With the end of the holidays and the beginning of the New Year, church treasurers and financial secretaries turn their attention to those year-end reporting and filing requirements that must be performed to be in compliance with tax law.

The issue of W-2 reporting can often be confusing, especially for churches who must file W-2's for ordained ministers. The Accounting Office of the Tennessee Baptist Convention receives many phone calls during this season seeking answers to questions about how, what and when to report. This article will address these questions specifically.

For churches that have employees where payroll taxes have been withheld, the church must file a Form 941 quarterly 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. This filing requirement will also be addressed.

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's or W-2's are filed. This article will outline the specifics and the purpose of that reconciliation.

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 perform to be in compliance.

Of all the calls the Accounting Office of the Tennessee Baptist Convention receives annually, questions about charitable contributions ranks at the top. 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 to the church by a church member. 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.

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 Posey, Accounts Receivable	615-371-7902
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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.

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

1. Taxable portion of salary is reported in Box 1 of the W-2
2. The calculated value of group term life insurance provided in excess of \$50,000 is added to wages in Box 1 of the W-2
 - a. The IRS places a value on this fringe benefit that is driven by the age of the minister. Using the table below, which gives the cost-per-thousand dollars of coverage beyond \$50,000 based on the age of the minister, 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.

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 to the minister under a non-accountable plan
 - a. If the minister 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 of the W-2 as taxable wages.
4. Housing Allowance
 - a. Amounts paid to the minister that have been designated as housing allowance are **not** included in Box 1 of the W-2.
 - i. Housing allowance can be reported in Box 14 of the W-2 as Other information.
5. Salary reduction contributions to the minister's 403(b) retirement plan
 - a. Contributions to the 403(b) plan that are deducted from the minister's pay reduces the amount of taxable wages reported in Box 1 of the W-2
 - b. This same amount is reported in Box 12 of the W-2 using Code E
6. Report any voluntary income tax withholding for the minister in Box 2.
7. 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 **February 1, 2010** for the calendar year **2009**.
9. Copy A of W-2's filed manually are to be sent to the Social Security Administration (SSA) by **March 1, 2010** with the Form W-3, Transmittal of Wage and Tax Statements. W-2's filed electronically are due by **March 31, 2010**.
10. Although W-2's are required to be filed with the Social Security Administration by either **3/1/2010 or 3/31/10** (electronically), many church treasurer's 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.
11. 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.

Common Errors on Forms W-2, Copy A

If the W-2 is prepared manually, please note the following to ensure the form is completed correctly:

- 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 4th Quarter Form 941

1. Determine total wages paid for the 4th quarter.
2. Add any taxable fringe benefits, i.e., Group term life insurance or other taxable amounts such as non-accountable expense reimbursements to the total wages paid for the quarter. Enter this amount on Line 2 of the 941.
3. Taxable social security and medicare wages reported on Lines 5a and 5c will be different from total wages on Line 2 for amounts paid to ordained ministers. Ministers are considered self-employed for social security purposes and their ministerial wages are never subject to social security or medicare tax withholding.
4. Calculate the total tax liability for the quarter and report it on Line 8.
5. If the church is a monthly depositor, taxes for December will be due by January 15th.
6. If the total tax liability for the quarter is less than \$2,500 then the tax can be paid with the 941 return or deposited with a financial institution on or before **February 1, 2010**.
7. The Form 941 must be postmarked by **February 1, 2010**.

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 941's to the W-2's. The IRS conducts this reconciliation when all four quarter 941's and W-2's have been filed. 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 941 and the W-2's are filed. Following are the amounts from the Forms 941 and W-2's that should be reconciled:

1. Form 941, Line 2 should be reconciled to Form W-2, Box 1
 - a. Sum the amounts on Line 2 from all 4 quarters Form 941
 - b. Sum the amounts in Box 1 for all W-2's prepared
 - c. These two amounts should be equal

2. Form 941, Line 3 should be reconciled to Form W-2, Box 2
 - a. Sum the amounts on Line 3 from all 4 quarters Form 941
 - b. Sum the amounts in Box 2 for all W-2's prepared
 - c. These two amounts should be equal

3. Form 941, Line 5a should be reconciled to Form W-2, Box 3
 - a. Sum the amounts on Line 5a from all 4 quarters Form 941
 - b. Sum the amounts in Box 3 for all W-2's prepared
 - c. These two amounts should be equal

4. Form 941, Line 5c should be reconciled to Form W-2, Box 5
 - a. Sum the amounts on Line 5a from all 4 quarters Form 941
 - b. Sum the amounts in Box 3 for all W-2's prepared
 - c. These two amounts should be equal

It is highly recommended that the church not file the 4th quarter Form 941 or the W-2 forms until this reconciliation is completed.

Prepare and File Forms 1099 for Independent Contractors

1. Tax regulations require that independent contractors paid more than \$600 in a calendar year for services provided, must be issued a Form 1099 Miscellaneous.
2. The 1099 sent to the independent contractor must be postmarked by **February 1, 2010** for the **2009** 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 **March 1, 2010** for the **2009** calendar year.

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 **2009** can only be given by the church if the contribution was received or postmarked by **December 31, 2009**.
 - 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. The value of personal services is **never** considered a charitable contribution and should not be included in the contribution record of a donor.
 - d. 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.
 - ii. It is up to the individual taxpayer to place a value on the property and file the contribution on their personal tax return. Tax regulations direct what forms, if any, need to be filed by the taxpayer based on the value placed on the property contributed.
 - e. 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.