

Reporting to the IRS

Reasons Churches Fail to Report

- We've never done it that way before!
- Rules for church/ministers are unique.
- Treasurers are volunteer and untrained.
- IRS & tax advisor advice is often inconsistent.

Consequences of Failure to Report

- Responsible parties may be held liable
- Penalties may be assessed

First Steps in IRS Reporting Process

1. **Obtain an Employer ID number (EIN) from IRS.**
Use Form SS-4 to obtain this 9-digit number. It is not the same as a "tax exempt number".
2. **Determine if each worker is an EMPLOYEE or SELF-EMPLOYED.**
 - IRS criteria in defining an employee-employer relationship should be carefully considered before determining that an individual is a "contract worker" rather than an employee. The IRS uses a list of 20 criteria in determining employee status. They may also use a 7 factor test that was applied in a 1994 tax court case. The seven factors are simpler and summarize most of the key conditions in the 20 point list. **See page 3 for a list of the 7 criteria.**
 - Most ministers are generally considered an employee for income tax purposes even though self-employed for social security.
3. **Use appropriate process below for reporting compensation of employees & self-employed.**

For Self-Employed Workers

1. Each self-employed worker earning \$ 600 or more in non-employee compensation completes a W-9 Form to provide their social security number. (If no social security number is provided, the church is required to withhold 30% to be submitted and reported on the church's quarterly 941 form.
2. At the end of the year, issue a 1099-MISC Form to each person paid non-employee compensation of \$ 600 or more during the year. This includes evangelists or guest speakers receiving a "love gift" of \$ 600 or more. A 1099-MISC is not required if payment is made to a corporation.
3. By Feb. 28, submit a 1096 Form to the IRS with a copy of all 1099's issued.

For Employees

1. Each Employee completes a W-4 Form

- W-4 Form is used to determine withholding. Check IRS rules regarding submitting copies of W-4 and how to withhold if no W-4 form.
- Ministers are exempt for required withholding. Ministers may do voluntary Income Tax withholding. (IRC 3401(a)(9))

2. Determine Income Tax Withholding Amounts

- Use IRS Publication 15
- Wages subject to federal income tax include pay (cash or other forms) to an employee for service performed. For ministers, be sure to include salary, social security equivalent, gifts or bonuses provided by church, expense money paid as a non-accountable reimbursement or as an allowance, and group term life insurance in excess of \$ 50,000.
- Typical item to exclude from taxable wages:
 - ...Employer provided medical insurance
 - ...Group term life insurance up to \$ 50,000
 - ...403(b) retirement plan contributions
 - ...Disability insurance premiums
 - ...Accountable reimbursement of expenses
 - ...Housing for ministers
 - ...Eligible moving expenses

3. For Non-Ministers, withhold Social Security

- Withhold 1.45% medicare hospital insurance to be matched with 1.45% by the employer.
- Withhold 6.2% old age, survivor and disability to be matched with 6.2% by the employer. The 6.2% part applies only on wages up to specified amounts. (For 2002, \$ 84,900)
- Employer Church Retirement Plan contributions are NOT subject to social security. For non-ministers, salary reduction contributions are included in wages subject to social security.
- If a church opted out of social security, employees of the church are all to be treated as self-employed for social security purposes.

NOTE: A minister may "over-withhold" on income tax to later be applied to the minister's self-employment social security tax. It must be identified & deposited as income-tax withholding by the church. It is transferred to cover social security when the minister files their 1040 form.

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4. Deposit Withheld Taxes per IRS Rules

- Churches accumulate 3 kinds of federal payroll taxes:
 - income tax withheld from employee's wages
 - employee FICA share withheld from wages
 - employer's matching share of FICA.
- The frequency of deposits is determined by the total amount accumulated. If less than \$ 2,500 for a quarter, pay withheld taxes to the IRS with the quarterly 941 form. Higher amounts require more frequent deposits. Banks handling these deposits can assist with these rules.

5. Submit a 941 Form to IRS each quarter

- Report on 941 Form total wages subject to income tax and total wages subject to social security for all employees during the previous quarter; and, the total withholding for income tax & social security.
- Due the last day of the month following the end of each calendar quarter.
- If the church's only employee is a minister with no income tax withholding to report, no 941 is needed.
- 941 Totals for the 4 quarters must BALANCE with total wages and withholding reported on W-2 forms for all employees for the year.

6. Issue W-2 Forms to Each Employee at Year End

TriPLICATE copies of W-2 form are to be given to employees before February 1. Additional copy is sent to Social Security Administration by March 1 with W-3 Transmittal Form. (See next column for guide to completing W-2 form for ministers.)

7. Submit a W-3 Form to the IRS with Copies of W-2 Forms by March 1

A W-3 form is submitted as a transmittal form with a copy of all W-2 forms issued by the church. These must be sent to the Social Security Administration by March 1. No money is sent with the W-3 form.

Reminder: Total compensation and withholding amounts on the W-2 forms from the church must balance with amounts reported on the quarterly 941 forms.

A "Typical" Church W-2 Form

Box 1 -- Total taxable wages. Include salary, social security equivalent for ministers, gifts/bonuses paid by the church, group term life insurance in excess of \$ 50,000, expenses allowances. Do NOT include retirement contributions or minister's housing.

Box 2 -- Total federal INCOME TAX withheld. (Include "over-withholding" by a minister that will be applied to their self-employment social security.)

For Ministers, leave box 3, 4, 5 & 6 blank since ministers are self-employed for social security.

Box 3 -- Social Security Wages For non-ministers this amount is often the same as Box 1. If tax deferred retirement plan contributions were made through salary reduction, include that amount in Box 3, but not Box 1. This amount should not exceed a specified amount that changes each year based on cost of living. (For 2007, the amount is \$ 97,500.)

Box 4 -- Social Security Tax withheld for non-ministers.

Box 5 -- Medicare wages - generally the same as box 3, except the dollar maximum does NOT apply.

Box 6 -- Medicare tax withheld.

Box 12 -- If term life insurance greater than \$ 50,000 was provided, enter "C" and the imputed cost per W-2 form instructions. This amount is also included

If the employee (including ministers) made salary reduction retirement plan contributions, enter "E" and the amount.

If an HSA or HRA is provided, additional entries are to be made here. See W-2 form instructions details and for other items that may be reported in box 12.

Box 13 -- If contributions were made to a 403(b) retirement plan for the employee, check the "Pension Plan" box. GuideStone's Church Retirement Plan is a 403(b) plan.

Box 14 -- Other Information

This box is optional. Some samples of W-2 forms for ministers will include the amount for housing in this box. The housing is by IRS definition an exclusion from taxable income. Thus, while it may be entered here, there is no law or regulation requiring that it be listed on the W-2 form. If not entered here, the amount of housing should be provided to the minister in some other written form for use by their tax preparer.