

So You're a Congregational Treasurer...Now What?

Eastern Washington-Idaho Synod

Leadership Workshop

January 16, 2016

Paralyzed by Payroll?

- 8 painless steps to mastering payroll

Step 1

Know what you've got before you start.

(in other words – determine if each worker is an employee or is self-employed)

Also know if the worker is clergy or lay

IRS Common Law Rules

<https://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Independent-Contractor-Self-Employed-or-Employee>

3 tests helps determine if a worker is a self-employed contractor or is an employee

(When in doubt, classify the worker as an employee or file form SS-8 with the IRS and ask them to make the determination)

Behavior: Does the company control or have the right to control what the worker does and how the worker does his job?

Finances: Are the business aspects of the worker's job controlled by the payer? (These include things like how the worker is paid, whether expenses are reimbursed, who provides tools/supplies, etc.)

Relationship: Are there written contracts or employee-type benefits? Will the relationship continue and is the work performed a key aspect of the business?

Pastors – What are they?

3 things that make your pastor different

1.) For IRS purposes, ordained clergy have something called **Dual Status**

Clergy are employees for federal income tax reporting purposes

Clergy are self-employed for social security tax purposes

This means Clergy pay self employment taxes instead of FICA taxes. The congregation never withholds the employee share of medicare & social security taxes or pays the employer share.

2.) Also note that clergy are exempt from federal income tax withholding

Clergy usually pay quarterly estimated taxes – unless they enter into a voluntary withholding agreement with their employer.

3.) Clergy Housing Allowance

- Is the most important tax benefit available to clergy
- Must be set in advance – always operates prospectively
- Must be used for housing expenses
- Make sure the housing allowance is set high enough so your pastor doesn't lose a tax benefit
- Only the amount up to the fair rental value can be used for tax computations when your pastor completes her tax return

Step 2

Have each employee fill out a W4 form. Have each self-employed contractor fill out a W9 form (see www.irs.gov)

Also, don't forget that new hires have to fill out an I-9 form as well.

Step 3

Compute each employee's Taxable Wage – this also includes:

- Bonuses
- Christmas gifts of cash or gift cards
- Social Security Tax Allowance or SECA offset
- Retirement “gifts”
- Personal use of church owned vehicle
- Forgiven debts
- Noncash compensation
- Purchase of church property for less than fair market value
- Business expense reimbursements under a nonaccountable arrangement (ie “allowances”)

Step 4

Withhold the correct taxes:

Withhold 7.65% (combined social security and medicare taxes) from each nonclergy employee. Items not subject to the social security/medicare withholding include:

- Employee contributions to flexible spending accounts and health savings accounts

Withhold the correct federal withholding. Items not subject to federal withholding include:

- Employee contributions to 403(b) plans
- Employee contributions to flexible spending accounts and health savings accounts

Step 5

The Congregation must deposit the taxes it withholds:

Three taxes:

- Income taxes withheld
- Employees' share of social security/medicare
- Employer's share of social security/medicare

Some smaller congregations can be quarterly depositors and can pay when they file their 941. Some congregations will be monthly depositors meaning they can deposit payroll taxes by the 15th of the following month. Some larger congregations will be semiweekly depositors.

Step 6

File the quarterly 941 report

Do you put the clergy wages on the 941?

Yes, include wages (but not the housing) in box 2

Some small employers (total annual tax liability of less than \$1,000) can file the annual 944 form instead – if they have IRS approval.

Form **941 for 2015: Employer's QUARTERLY Federal Tax Return**
 (Rev. January 2015) Department of the Treasury — Internal Revenue Service

950114
 OMB No. 1545-0029

Employer identification number (EIN) -

Name (not your trade name)

Trade name (if any)

Address

Number Street Suite or room number

City State ZIP code

Foreign country name Foreign province/county Foreign postal code

Report for this Quarter of 2015
 (Check one)

1: January, February, March

2: April, May, June

3: July, August, September

4: October, November, December

Instructions and prior year forms are available at www.irs.gov/form941.

Read the separate instructions before you complete Form 941. Type or print within the boxes.

Part 1: Answer these questions for this quarter.

1	Number of employees who received wages, tips, or other compensation for the pay period including: Mar. 12 (Quarter 1), June 12 (Quarter 2), Sept. 12 (Quarter 3), or Dec. 12 (Quarter 4)	1	<input type="text" value="3"/>				
2	Wages, tips, and other compensation	2	<input type="text" value="17,375.00"/>				
3	Federal income tax withheld from wages, tips, and other compensation	3	<input type="text" value="3159.39"/>				
4	If no wages, tips, and other compensation are subject to social security or Medicare tax	<input type="checkbox"/> Check and go to line 6.					
<table border="0" style="width: 100%;"> <tr> <td></td> <td style="text-align: center;">Column 1</td> <td></td> <td style="text-align: center;">Column 2</td> </tr> </table>					Column 1		Column 2
	Column 1		Column 2				
5a	Taxable social security wages	<input type="text" value="9450.00"/> × .124 =	<input type="text" value="1171.80"/>				
5b	Taxable social security tips	<input type="text" value="."/> × .124 =	<input type="text" value="."/>				
5c	Taxable Medicare wages & tips	<input type="text" value="9450.00"/> × .029 =	<input type="text" value="274.05"/>				
5d	Taxable wages & tips subject to Additional Medicare Tax withholding	<input type="text" value="."/> × .009 =	<input type="text" value="."/>				
5e	Add Column 2 from lines 5a, 5b, 5c, and 5d	5e	<input type="text" value="1445.85"/>				
5f	Section 3121(q) Notice and Demand—Tax due on unreported tips (see instructions)	5f	<input type="text" value="."/>				
6	Total taxes before adjustments, Add lines 3, 5e, and 5f	6	<input type="text" value="4605.24"/>				
7	Current quarter's adjustment for fractions of cents	7	<input type="text" value="."/>				
8	Current quarter's adjustment for sick pay	8	<input type="text" value="."/>				
9	Current quarter's adjustments for tips and group-term life insurance	9	<input type="text" value="."/>				
10	Total taxes after adjustments, Combine lines 6 through 9	10	<input type="text" value="4605.24"/>				

Step 7

Complete the W2s & W3 (and cross-check them with the 941s)

For purposes of illustration consider First Lutheran Church which has three employees:

Administrative Assistant

Salary of \$35,000

403(b) contribution of \$4,800

FSA contribution of \$2,400

Organist

Salary of \$5,200

Pastor

Salary of \$40,000

Housing Allowance of \$25,000

SSTA of \$5,000

403(b) contribution of \$6,000

FSA contribution of \$2,500

Elects voluntary withholding of \$900/month

a Employee's social security number
999-99-9999

OMB No. 1545-0008

Safe, accurate,
FAST! Use



Visit the IRS website at
www.irs.gov/efile

b Employer identification number (EIN) 11-1111111		1 Wages, tips, other compensation 27800.00		2 Federal income tax withheld 1837.56			
c Employer's name, address, and ZIP code First Lutheran Church 1111 First Street Spokane, WA 98209		3 Social security wages 32600.00		4 Social security tax withheld 2021.20			
		5 Medicare wages and tips 32600.00		6 Medicare tax withheld 472.70			
		7 Social security tips		8 Allocated tips			
d Control number		9		10 Dependent care benefits			
e Employee's first name and initial Last name Alyce Administrative Assistant 2431 9th Ave Spokane, WA 98133		Suff.		11 Nonqualified plans		12a See instructions for box 12 E 4800.00	
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b			
		14 Other		12c			
				12d			
f Employee's address and ZIP code							
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	

a Employee's social security number
888-88-8888

OMB No. 1545-0008

Safe, accurate,
FAST! Use



Visit the IRS website at
www.irs.gov/efile

b Employer identification number (EIN) 11-111111		1 Wages, tips, other compensation 36500.00		2 Federal income tax withheld 10800.00	
c Employer's name, address, and ZIP code First Lutheran Church 1111 First Street Spokane, WA 98209		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 initial Last name Suff. Paul P Pastor 1529 Maple Drive Spokane, WA 98105		11 Nonqualified plans		12a See instructions for box 12 E 6000.00	
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>		12b	
		14 Other 40000.00 salary 25000.00 housing 5000.00 SSTA		12c	
				12d	
f Employee's address and ZIP code					
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

a Employee's social security number

777-77-7777

OMB No. 1545-0008

Safe, accurate,
FAST! Use



Visit the IRS website at
www.irs.gov/efile

b Employer identification number (EIN) 11-1111111		1 Wages, tips, other compensation 5200.00		2 Federal income tax withheld 0.00		
c Employer's name, address, and ZIP code First Lutheran Church 1111 First Street Spokane, WA 98209		3 Social security wages 5200.00		4 Social security tax withheld 322.40		
		5 Medicare wages and tips 5200.00		6 Medicare tax withheld 75.40		
		7 Social security tips		8 Allocated tips		
d Control number		9		10 Dependent care benefits		
e Employee's first name and initial Last name Suff. Olivia Organist 1274 321st Street SE Spokane, WA 98037		11 Nonqualified plans		12a See instructions for box 12		
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b		
		14 Other		12c		
				12d		
f Employee's address and ZIP code						
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

Other items that might need to be in Box 12:

- P – if the congregation paid moving expenses directly to the employee.
- W – if the congregation made contributions to a Health Savings Account
- BB – if the employee contributed to a Roth 403(b)
- DD – the cost of coverage under an employer-sponsored group health plan (so far this is optional)

33333		a Control number		For Official Use Only ▶ OMB No. 1545-0008										
b Kind of Payer (Check one)		941 <input checked="" type="checkbox"/> CT-1		Military <input type="checkbox"/> Hshld. emp.	943 <input type="checkbox"/> Medicare govt. emp.	944 <input type="checkbox"/>	Kind of Employer (Check one)		None apply <input type="checkbox"/> State/local non-501c		501c non-govt. <input checked="" type="checkbox"/> State/local 501c		Federal govt. <input type="checkbox"/>	Third-party sick pay (Check if applicable) <input type="checkbox"/>
c Total number of Forms W-2 3		d Establishment number			1 Wages, tips, other compensation 69500.00			2 Federal income tax withheld 12637.56						
e Employer identification number (EIN) 11-1111111				3 Social security wages 37800.00			4 Social security tax withheld 2343.60							
f Employer's name First Lutheran Church				5 Medicare wages and tips 37800.00			6 Medicare tax withheld 548.10							
g Employer's address and ZIP code 1111 First Street Spokane, WA 98209				7 Social security tips			8 Allocated tips							
				9			10 Dependent care benefits							
				11 Nonqualified plans			12a Deferred compensation 10800.00							
h Other EIN used this year				13 For third-party sick pay use only			12b							
15 State		Employer's state ID number		14 Income tax withheld by payer of third-party sick pay										
16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.			19 Local income tax							
Employer's contact person Travis Treasurer				Employer's telephone number 206-555-5555			For Official Use Only							
Employer's fax number travis@flcseattle.org				Employer's email address										

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 ▶

Step 8

Complete the 1099MISCs and 1096

Are issued to nonemployees who are paid \$600 or more in the calendar year.

The payment could be property instead of cash.

1099MISC forms are not given to corporations (so far)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. First Lutheran Church 1111 First Street Spokane, WA 98209		1 Rents	OMB No. 1545-0115		Miscellaneous Income
		\$	2015		
		2 Royalties	Form 1099-MISC		
PAYER'S federal identification number 11-1111111		3 Other income	4 Federal income tax withheld		Copy B For Recipient
		\$	\$		
RECIPIENT'S identification number 222-22-2222		5 Fishing boat proceeds	6 Medical and health care payments		This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name Wendy Webmaster Street address (including apt. no.) 1975 Circle Drive City or town, state or province, country, and ZIP or foreign postal code Kirkland, WA 98034		\$	\$		
		7 Nonemployee compensation	4200.00		
		8 Substitute payments in lieu of dividends or interest	\$		
Account number (see instructions)		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		
		\$	\$		
FATCA filing requirement <input type="checkbox"/>		11	12		
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.	18 State income	
\$	\$	\$		\$	

 Form **1099-MISC**

(keep for your records)

www.irs.gov/form1099misc

Department of the Treasury - Internal Revenue Service

Summary

Forms you keep:

- W4s
- W9s
- I-9s

Forms you file:

- 941s quarterly (or 944 annually)
- Quarterly L&I reports
- Quarterly Unemployment reports? Not yet in Washington
- W2s and W3
- 1099MISCs and 1096
- Form 5578 for churches that operate a school or daycare
- 990? Not yet!
- 990T if the congregation has Unrelated Business Income
- Form 1098-C to report the sale of a donated car or boat

Taxed by Taxes?

Unemployment Taxes

Congregations in the states of Washington and Idaho are not required to be part of the state unemployment program – but they can opt in! Contact the Employment Security Department of each state for more information.

Other states (like Oregon) require religious organizations be subject to state unemployment taxes.

Sales Tax

Congregations in Washington and Idaho are **NOT** exempt from paying sales tax on their purchases.

In some states congregations can apply for a sales tax exemption and don't have to pay sales tax on purchases.

Property Taxes

Every state allows congregations to apply for an exemption from state property taxes. This is huge benefit! Please don't abuse the privilege!

What hasn't changed in WA:

- Still limited to 5 acres or less
- Still can only have 1/3rd acre unoccupied
- Need not be contiguous property
- Fundraising activities are allowed if:
 - The fundraiser is consistent with the exempt purpose
 - The fundraiser is five days or less in length
 - The fundraiser gives 51% or more of the proceeds back to the congregation

What has changed:

Rental(or loan) of Exempt Property

- Old law said:
 - Rental/Loan must be to another nonprofit
 - Rental/Loan must be for an **eleemosynary** activity
 - Rental fee must be reasonable and devoted solely to the operation and maintenance of the property
- New law (**Senate Bill 6405**) adds:
 - Rental can be for non-exempt activities for 50 days per year
 - Of these 50 days, 15 of these days can be used for business purposes and monetary gain
 - Churches may continue to loan or rent their exempt property to nonprofit organizations or schools using the property to conduct charitable activities

- Please see http://dor.wa.gov/Docs/Pubs/Prop_Tax/PropertyTaxExmptChurch.pdf for more information.
- Or contact the Washington Department of Revenue's Property Tax Division at 360-534-1400 with any questions.

Federal Income Taxes

Churches are exempt from paying federal income taxes if they meet the following:

- The church is a corporation
- The church is organized and operated exclusively for exempt purposes
- Non of the church's earnings accrue to the benefit of private individuals
- The church does not engage in efforts to influence legislation or participate in political campaigns

Tax on Unrelated Business Income

Unrelated Business Income is that which is:

- A trade or business (ie selling of goods or performance of services)
- Is regularly carried on
- Is not substantially related to an exempt purpose

Exceptions to Unrelated Trade or Business

- Activity in which substantially all the work is performed by unpaid volunteers
- Activities carried on primarily for the convenience of its members
- Selling merchandise which has been donated

This means that most bake sales, thrift shop operations, car washes, fund-raising dinners and bazaars are exempt from the tax on unrelated business income.

What about interest income, dividends, royalties & rental income?

These types of income are exempt from the tax on unrelated business income except for the following two limitations:

- 1.) Debt-finance property
- 2.) Controlled organizations

- An exempt organization that has \$1,000 or more of gross income from an unrelated business must file [Form 990-T](#).

Angsted by Audits?

- Note that the audit profession has claimed the word “audit” as their own to mean a professional examination.

Why have a review?

- To obtain independent assurance that all financial records fairly represent the financial condition of the church.
- To insure that the year's financial activity has been properly recorded in accordance with generally accepted accounting principles.
- To insure adherence with the policies and procedures established by the congregation.
- To maintain confidence in the integrity of the congregation's financial system and the persons responsible for handling the finances.
- To support the congregational treasurer in his duties and offer suggestions that promote effectiveness and efficiency

When to have a review?

- When the fiscal year ends
- When a new treasurer is appointed
- When misuse of funds or dependability of the records is questioned
- Any other time the council or congregation deems necessary

Functions of a review committee

Gathering Information Obtain as much information and as many financial records as possible. Conduct interviews with those individuals involved in handling the finances to determine the type of bookkeeping system used, where the records are located, names of others involved and the magnitude of the task. Obtain copies of church council minutes, the previous year's audit, and the yearend financial statements. Review the procedures to account for offerings. Identify all bank accounts. Review and assess the internal controls.

Testing the records Depending on the strength of the internal controls in place, records and accounts must be tested. If internal controls are quite strong, sample testing may prove adequate. When internal controls are quite weak, more testing of the records and accounts are needed. In addition to testing accounts and records, insurance coverage, overall documentation and timeliness and accuracy of tax and other filings with the government as well as contingent liabilities and budgets are normally reviewed.

Review Procedures

- **1. Cash Receipts.** Review the methods for handling receipts. Satisfy yourself that the internal controls are in place. Check that deposits are made in a timely fashion. Trace the amounts received to the cash receipts journal. Compare the entries in the cash receipts journal with the deposit slips, bank statements and offering count slips. Check the entries in the cash receipts journal for accurate account classification.
- **2. Cash Disbursements.** Review the methods for handling disbursements. All checks should be accounted for in the cash disbursements journal. A sample testing of the checks should be traced back to the original invoices or vouchers, which in turn should be reviewed for proper payment approval as well as authenticity. The sample testing of checks would also trace them forward to their posting to the appropriate account and to the financial statements.
- **3. Petty Cash.** Determine that the disbursements had proper approval and that the disbursements were charged against the correct accounts. Should also review congregation's petty cash policy regarding maximum amounts of disbursements, how reimbursements are made to the fund, who has access to petty cash, for which items petty cash can be used as well as taking a physical count of petty cash.
- **4. Payroll Records.** Trace the budget or council minutes which approve salaries to the payroll journals and the employee files. Compare payroll journals to the W-2s. Reconcile the W-2s, W-3, Form 941 and the budget. Make sure the necessary I-9 forms and W-4 forms have been filled out and that tax withholding is being done correctly. Make sure that all tax deposits have been made in a timely manner.
- **5. Bank Statement Reconciliation.** The auditor or audit committee should prepare the year-end bank reconciliation. Inspect canceled checks for correct endorsements. Letters of confirmation are normally sent to the banking institutions asking them to confirm the amounts in savings accounts.
- **6. Contributions.** A number of weeks should be tested to insure that the amount the counters reported was actually the amount posted to the contribution records as well as to the general ledger. If pledges are maintained, compare the reported pledge amount with the members' actual signed pledge cards.
- **7. Insurance policies.** All insurance policies should be reviewed to make sure there is enough coverage and premiums are not excessive. Capital purchases made during the year should be traced from the general ledger to the policies.
- **8. Investments.** Review all the securities and investments. Verify ownership and check that interest is being received and posted.
- **9. Debt.** The auditor or audit committee should ask for letters of confirmation verifying the balance of each indebtedness. They should also review the terms of the loans to insure that the contract is current.

Bugged by Benevolences?