

# Questions and Answers

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## *INCOME SECTION*

**Question:**

What is considered income?

**Answer:**

Gross income, according to Sec 61 of the Internal Revenue Code, includes all income cash, value of property, or service from whatever source. Regardless of what the payer or payee calls it, any income that is received because of services performed is taxable income.

**Question:**

Are birthday gifts and anniversary gifts that the church gives their ministers taxable income?

**Answer:**

Yes, according to Sec 61 of the Internal Revenue Code. It would be added to Box 1 of the W-2.

**Question:**

If the Church gives a minister a trip to Hawaii, is that trip taxable income to the minister?

**Answer:**

Yes, according to Sec 61 of the Internal Revenue Code, the fair market value of that trip would be added to Box 1 of their W-2.

**Question:**

The church owns a car and allows the minister use the car for personal and business use. What are the tax implications?

**Answer:**

The personal use of the car is taxable. The minister should keep a log of his/her personal miles and give the mileage log to the church treasurer so that the treasurer can add the personal mileage to Box 1 of their W-2.

**Question:**

The church loaned the minister \$20,000 as a down payment for a home. The church would like to forgive the loan. Is this considered taxable income?

**Answer:**

Yes. It is taxable income. The \$20,000 would be added to Box 1 of the minister's W-2.

The church may decide to forgive the loan a little at a time. Example: the church could forgive \$2,000 each year for ten years and then \$2,000 each year would be added to the minister's W-2. Instead of \$20,000 at once, this method would lower the minister's taxable income and still give the blessing of the forgiven loan.

**Question:**

The church owns the parsonage and is willing to sell the parsonage to the minister at a bargain price. Example: The parsonage has a fair market value of \$100,000 and the church sells it to the pastor at \$60,000. Is anything taxable?

**Answer:**

Yes. The \$40,000 (the difference between the fair market value and the purchase price) would be considered income to the minister and added to Box 1 of their W-2. This is considered paying extra compensation.

**Question:**

The church took up a Love Offering for the minister. Is this considered taxable income?

**Answer:**

Yes, according to Sec 61 of the Internal Revenue Code, when money is given for the performance of services, no matter what we call it, it is taxable income and would be reported in box 1 of the W-2.

**Question:**

Is benevolence to a minister, their family member, or other employees of the church considered taxable income?

**Answer:**

Yes. When an employer helps an employee or an employee's family with crisis needs, it results in taxable compensation to the employee. To avoid this, we recommend that another non-profit organization (such as Red Cross) be used to raise funds for the crisis employee or minister.

**Question:**

Can a minister assign earned income to a charity and avoid paying taxes on it?

**Answer:**

No. It would still be taxable to the minister and would be added to Box 1 of the W-2. The power to dispose of income is the equivalent of ownership.

**Question:**

Are small gifts such as Turkeys and Hams given for the holiday goodwill considered taxable compensation?

**Answer:**

No. According to Revenue Ruling 59-58, the value of a turkey or ham or other small items purchased by the employer and given to each employee to promote good will does not constitute taxable wages. The ruling also states that this does not apply to the distribution of cash, gift certificates and items that can be converted to cash, regardless of the amount involved.

**Question:**

When the employer (the church) agrees to pay part or all of the Social Security tax for the dual status minister, is the amount the employer pays taxable compensation to the minister?

**Answer:**

Yes. It must be shown as taxable salary in Box 1 of the W-2 according to Revenue Ruling 68-507. This is called a Social Security Offset.

**Question:**

Are health insurance premiums paid by the church for the dual status minister considered taxable compensation?

**Answer:**

No. According to Sec 106 of the Internal Revenue Code, gross income of an employee does not include employer's contribution to accident and health plans. These are considered a tax-free fringe benefit- a part of doing business.

**Question:**

If the minister pays his own health insurance premiums directly to the insurer, can the minister be reimbursed as a tax-free fringe benefit?

**Answer:**

Yes. When an employee pays the premium directly to the insurer, the employer can reimburse them and it qualifies as a tax-free fringe benefit.

**Question:**

If our church pays the minister a car allowance and the minister is not required to report or give excess money back to the church, is the allowance taxable?

**Answer:**

Yes, the car allowance is considered taxable compensation and should be included in box 1 of the W-2.

**Question:**

If a minister's spouse accompanies the minister on a church business trip and the church reimburses them for the spouse's expenses, is this taxable income?

**Answer:**

Yes, it is taxable and would be included in Box 1 of the minister's W-2.

**Question:**

The ladies' group decided to do something special for the ministers' spouse and bought her a new dishwasher. Is the dishwasher taxable income and to whom?

**Answer:**

Yes, it is taxable income to the minister. The fair market value of the dishwasher would be added to Box 1 of the minister's W-2.

**Question:**

Our church gives Bible college students \$1,000 scholarships. If the minister's children or other church staff member's children receive the \$1,000 scholarship, is this considered taxable income to the church staff?

**Answer:**

Yes. It is taxable income to any staff member whose child receives the scholarship and would be added to Box 1 of the W-2. Non-staff related students who receive the \$1,000 scholarship would not be taxed. The employer/ employee relationship takes precedence.

**Question:**

The minister has a personal IRA and the church contributes to the minister's IRA. Is this considered taxable compensation?

**Answer:**

Yes. Payments made to an IRA paid by the employer must be shown as salary in Box 1 of the W-2. Payments are subject to Social Security, and subtracted as an adjustment on the individual 1040.

**Question:**

As a minister, I preach revivals, sell books, tapes, and officiate at weddings and funerals. How should I report the income and expenses on my tax return?

**Answer:**

The minister should keep a record of all income and expenses from the above sources and report them on Schedule C of their individual income tax return.

**Question**

Does sabbatical pay constitute taxable income?

**Answer:**

Yes. Sabbatical is a leave of absence and is a time that a minister pursues education, writing, music, and other activities. Sabbatical pay normally represents taxable income to the minister.

**Question:**

A minister receives a card in the mail from a church member with \$500.00. The church did not encourage the gift in any way. Is the gift taxable income to the minister?

**Answer:**

No. It is not taxable income to pastor and is not a deduction for the church member. It is considered a person-to-person gift.

**Question:**

Often churches are asked to funnel a designated contribution to specific individual. If that individual is involved in ministry and the finance team is given control of the gift and honors the request, how is the gift treated?

**Answer:**

The gift is treated as compensation to the individual receiving it and is included in the church's payroll reports. Funnel gifts should not be taken for people not in ministry.

**Question:**

Who should receive a 1099 MISC.?

**Answer:**

Any individual who renders services and is paid \$600 or more accumulative for the year (such as an evangelist, a teacher, psalmist, guest speaker, musicians, CPAs, bookkeeping professionals, independent contractors, and independent missionaries) will receive a 1099 MISC. If the person is incorporated, the church does not need to send a 1099 MISC.

**Question:**

Do church nursery workers receive a 1099 MISC or a W-2?

**Answer:**

All part-time employees should receive a W-2. Church nursery workers are considered employees and should receive a W-2 (according to the common law rules).

**Question:**

A person from the church mows the church lawn every week. He does not mow any other lawns. Does he receive a 1099 MISC as a self-employed person or a W-2?

**Answer:**

The person should receive a W-2. If he only mows the church lawn, he is considered an employee of the church and should receive a W-2 according to the 20 Common Law Rules. Common Law Rule Number 6 states, "Continuing Relationship - an ongoing long term relationship between the payer and the payee indicates an employee status. A continuing relationship may exist even if work is performed at recurring, although irregular, intervals. An independent contractor will finish an assignment project and work for several payers."

**Question:**

How does the church keep track of those to whom they need to send 1099 MISC forms?

**Answer:**

Anyone who performs services for the church should fill out a W-9 before they perform the services. The W-9 gives you all the information needed to complete 1099's.

## ***FRINGE BENEFITS:***

### **Question:**

What is a 403b Retirement Plan?

### **Answer:**

A 403b Retirement Plan is one the most popular tax shelter accounts offered by non-profit organizations. There are two methods of funding the plan: 1) The employer makes contributions, which can be forfeitable if the employee is not vested, and 2) the employee makes contributions.

### **Question:**

Are contributions to a tax sheltered account by a dual status minister subject to Social Security and Medicare tax?

### **Answer:**

No. Not according to Revenue Ruling 68-395. However, according to Revenue Ruling 65-208, contributions made to a tax sheltered account by a lay employee are subject to Social Security and Medicare withholding.

### **Question:**

What is a Health Savings Account (HSA) and who can have one?

### **Answer:**

Health Savings Accounts are designed to help individuals plan for medical and health expenses on a tax-free basis according to Sec 233. The plan has to be set up with a qualified HSA trustee to pay and reimburse medical expenses you incur (example bank, insurance company or anyone approved by the IRS).

To be eligible: You must have a high deductible health insurance plan the first day of the month and have no other health coverage, not be enrolled in Medicare, and you cannot be claimed as a dependent on someone else's return. Contributions can be made by both the employer and employee. Amounts contributed to the HSA belong to the employee and can be rolled over for future years.

### **Question:**

Are distributions from a HSA taxable when used for qualifying medical expenses?

**Answer:**

No. Distributions are tax free when used for qualifying medical expenses.

**Question:**

What is a Flexible Spending Account?

**Answer:**

A Flexible Spending Account allows employees to be reimbursed for medical expenses through voluntary salary reduction agreements with the employer. The employer may also contribute. Employers set a limit of compensation that can be set aside for medical or health plans. Flexible Spending Accounts are a legal written plan under the Section 125, set in place by the church or employer.

**Question:**

Who sets the amount that is deducted from the employee's payroll for medical or childcare expenses?

**Answer:**

The employee is given an agreement form before the beginning of the plan year and must decide the amount to be withheld as a salary reduction each pay period and the designation of the account (such as medical and /or child care reimbursement.)

**Question:**

How am I reimbursed for my medical or childcare expenses through the Flexible Spending Account?

**Answer:**

The employee turns receipts into their employer for reimbursement of qualified expenses from their FSA.

**Question:**

What if I don't use all the monies set aside in the Flexible Spending Accounts?

**Answer:**

The employee forfeits the excess monies. Flexible Spending Accounts are “use-it-or-lose it.” When designating how much to set aside, plan only for everyday out-of-pocket expenses and not for emergencies.

**Question:**

Can I change the amount I designated to go into the flexible spending account after the year begins?

**Answer:**

No. You cannot change the designation amount unless one of these three things happen: 1) Change in number of children 2) Change in marital status, and 3) loss of spouse’s job.

**Question:**

If the church has a qualified moving reimbursement plan, can the church reimburse the employee tax-free?

**Answer:**

Reimbursed qualified moving expense with an accountable plan is not added to gross income. The moving reimbursement is considered a fringe benefit according to Sec 1332(a)(6). Qualified moving expense with a non- accountable plan is added to gross income Box 1 of the W-2 and taken as an adjustment of the employee’s tax return according to Section 217.

**Question:**

Can the church have an educational assistance program?

**Answer:**

Yes, the employer can establish and maintain a plan that provides educational assistance to employees of the church. The education assistance must help to maintain and improve current job skills. The annual excludable education assistance is \$5,250.00.

## ***DUAL STATUS MINISTERS (SEC 107)***

### **Question:**

What do they mean when ministers are called dual status?

### **Answer:**

Ministers who are employed by the churches and integral agencies have a dual status treatment in the Internal Revenue Code. They are considered an Employee for federal purposes, income tax reporting and common law rules (Reg. 31.3401(c) -1) and Self-Employed for Social Security reporting (Sec. 1402(a)(8)).

### **Question:**

Who is considered a dual status minister?

### **Answer:**

“BJ Worth’s Income Tax Guide for Ministers” interprets Congress’ language to any individual duly commissioned, or licensed, or ordained the triggering event the assumption of duties and functions of a minister. These duties include preaching, evangelism, baptisms, funerals, weddings, communions, administration and conducting worship services.

### **Question:**

Do dual status ministers receive a W-2 or a 1099MISC?

### **Answer:**

Dual status ministers receive W-2’s because they are considered an employee for federal reporting purposes, expenses deducting and fringe benefits.

### **Question:**

Why would you want to be considered an employee for federal reporting purposes?

### **Answer:**

When you are an Employee for federal purposes, you are allowed, like other lay employees, to have fringe benefits, such as an accountable reimbursement plan, paid health and life insurance, etc. If you were considered totally self employed you would not be allowed fringe benefits.

**Question:**

What does it mean to be self-employed for Social Security purposes?

**Answer:**

Self employed for Social Security purposes means that the church does not have to withhold Federal, Social Security or Medicare tax out on the dual status minister. The dual status minister has the choice to 1) over-withhold Federal withholding to cover Social Security and Medicare tax that will be computed on their individual 1040 tax return, or 2) send in quarterly estimated taxes. The church can also decide to pay part of the minister's Social Security by giving them a Social Security Offset.

**Question:**

Is a Social Security Offset taxable to the dual status minister?

**Answer:**

Yes. The Social Security off set will be added to gross income and included in Box 1 of the W-2.

**Question:**

Why should the church consider giving the minister a Social Security Offset if it is going to add to the minister's taxable income?

**Answer:**

There are two Social Security systems. The lay employee is subject to FICA rules and pays 7.65% Social Security and their employer pays the other 7.65%. A dual status minister is subject to SECA rules and pays the complete 15.3%, which can be a hardship and the church paying the employer's portion is a blessing to the dual status minister.

**Question:**

If the dual status minister chooses to make quarterly payments to the Internal Revenue Service, when are they due?

**Answer:**

April 15<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup> and January 15<sup>th</sup>

**Question:**

What income is taxable to Social Security?

**Answer:**

All gross income, housing and parsonage allowance.

## ***PARSONAGE AND HOUSING ALLOWANCE***

**Question:**

Who qualifies for Parsonage and Housing allowance?

**Answer:**

A dual status minister who is commissioned, or licensed, or ordained who performs services as a minister qualifies for Housing and Parsonage allowance.

**Question:**

What is Parsonage allowance?

**Answer:**

Parsonage allowance is what the church provides to the minister. Example: the church provides a home plus utilities for their minister.

**Question:**

Is the Parsonage provided by the church taxable?

**Answer:**

The parsonage provided by the church to a dual status minister is not taxable for federal reporting but the fair rental value of the parsonage is taxable to Social Security.

**Question:**

What is Housing allowance?

**Answer:**

Housing allowance is minister provided. It is the income set aside to pay for their housing expenses, such as purchasing or renting a home, and all the other expenses in providing a home.

**Question:**

Is housing allowance taxable?

**Answer:**

Housing allowance is not taxable to Federal income if spent to provide the home, but is taxable for Social Security purposes.

**Question:**

Is maid service or hired lawn care considered Housing allowance?

**Answer:**

No, services are not considered Housing.

**Question:**

Are groceries included in Housing allowance?

**Answer:**

No. Nothing consumable by your person can be considered Housing.

**Question:**

What is included in Housing allowance?

**Answer:**

Rent, principal payments, cost of buying a home, down payments, real estate tax, mortgage interest, utilities, insurance on contents of home, improvements, repairs, upkeep, carpet, garage, patio, fence, pool, appliances, furnishings, dishwasher, vacuum sweeper, TV, VCR, DVD, stereo, piano, computer, washer, dryer, decorator items and many more items.

**Question:**

If I take my mortgage interest and real estate tax off as Housing allowance, does this mean I cannot claim them on Schedule A as itemized deductions?

**Answer:**

No. You are allowed to take your mortgage interest and real estate taxes on Schedule A and as Housing allowance. The Internal Revenue Service allows a double deduction Rev. Ruling 62-212 & Sec 265 (an amazing deduction).

**Question:**

Does everything that you purchase for Housing need to be new?

**Answer:**

No. Items can be new or used. Remember to always get a receipt for your used purchases so that you will have a good paper trail.

**Question:**

Are there other items you cannot include in Housing allowance?

**Answer:**

Yes. Items for personal consumption such as food, soap, tissue paper, personal items, personal paper towels, hobby items, personal clothing, tapes, CD's, games, toys, software, and services are not included in the Housing allowance.

**Question:**

Do you need an official designation for Housing allowance?

**Answer:**

Yes. An official written designation is required in advance. The designation should be an estimated amount that a dual status minister feels they will spend during the calendar year. According to Reg. 1.107-1(b) the amount designated must also be a specific dollar amount or a specific percentage of salary. It should be in writing and approved by the church board. It is best that the minister have a copy of the designation that they can keep with their annual tax return. There are good sample forms for this in the "BJ Worth's Income Tax Guide for Ministers".

**Question:**

How much of the minister's salary can be designated as Housing allowance?

**Answer:**

There is nothing in the code that sets a dollar limitation for housing (according to Publication 517). We do not recommend 100% designation unless the minister is bi-vocational pastor.

**Question:**

How much Housing allowance can be excluded from Federal income for a dual status minister that is renting or buying his or her own home?

**Answer:**

Publication 517, page 8 gives the example: You may exclude the smallest of:

1. The amount actually used
2. The amount actually designated
3. The fair rental value including furnishings, utilities etc.

Example: You could designate \$50,000 as your Housing allowance, you could spend \$50,000, but if the fair market value of your home and utilities and furnishings is \$25,000, the most you could exclude from federal income is the \$25,000.

**Question:**

What if a minister designated more housing allowance than they spent?

**Answer:**

That is no problem. It is better to over designate than under designate. The excess housing would simply be added back to Federal income.

**Question:**

I did not designate enough housing for the year. Is there anything I can do?

**Answer:**

Yes. You can have the church amend the housing allowance. The key point is the amended allowance will only operate prospectively.

**Question:**

Can a retired dual status minister whose retirement was earned from ministry income designate the distributions as Housing allowance?

**Answer:**

Yes, Retired dual status ministers should designate 100% as Housing allowance.

**Question:**

Is there a Housing allowance for a minister who volunteers and receives no compensation?

**Answer:**

No.

***PROFESSIONAL EXPENSES:***

**Question:**

What are Accountable reimbursement plans?

**Answer:**

An Accountable reimbursement plan is a written plan to reimburse the employees for ministry-related expenses with adequate accounting. A plan must meet three requirements (1) the reimbursements must be for ministry related expenses, (2) accurate accounting (which means turning in receipts to the employer in a timely fashion), (3) and returning any excess reimbursement.

**Question:**

How often do you have to turn in receipts to be considered timely for an Accountable reimbursement plan?

**Answer:**

According to the Internal Revenue Code you must settle up every 60 days but we recommend every 30 days. Turn all receipts and logs into the church.

**Question:**

What if I do not use all the money set aside in the Accountable reimbursement plan?

**Answer:**

It is a "Use-it-or-Lose -It" plan, so the minister would lose the monies set aside.

**Question:**

Our church has an Accountable reimbursement plan and I have \$2,000.set aside of my pay package as an Accountable reimbursement. Is this taxable income?

**Answer:**

No. All amounts received under the Accountable reimbursement plan that was adequately accounted for to the employer, you do not report on your tax return. The employer does not include the reimbursement in Box 1 of the W-2 according to Reg. 1.162.2 and Reg. 1.162-17.

**Question:**

What is a Non-accountable reimbursement plan?

**Answer:**

A Non-accountable reimbursement plan is when the employer gives you an allowance for professional expenses and does not expect you to turn receipts in or turn in excess reimbursement. This amount is added to Box 1 of the W-2 and the employee takes the deduction off on their individual income tax return (Schedule A is subject to 2% of their adjusted gross income and subject to IRC 265).

**Question:**

What is the standard mileage rate for business expenses for the year 2009 and 2010?

**Answer:**

- January 1<sup>st</sup> 2009 through December 31<sup>st</sup> 2009 the rate was .55 cents per mile
- January 1<sup>st</sup> 2010 through December 31<sup>st</sup> 2010 the rate is .50 cents per mile

**Question:**

What kind of records do I need to keep of my ministry miles and other ministry expenses?

**Answer:**

Ministers need to keep a written log of their ministry miles. This is a must with both the Accountable and Non-accountable plans. Your mileage log should have the following information: date, odometer reading at the beginning of the trip, odometer reading at end of trip, business miles driven for the day and place and purpose of the trip (read Publication 463 Travel, Entertainment, Gift, and Car Expense). Reminder: if you are driving a church-owned vehicle for both church business and personal use, you must keep a log with personal miles as well and turn this into the church. This is taxable income that goes in Box 1 of the W-2. The

minister needs to keep receipts for ministry-related expenses with a note of who, what, when and why. The Internal Revenue Service will not allow deductions without receipts.

**Question:**

Are the miles I drive back and forth to church for services and to work deductible?

**Answer:**

Multiple trips between your residence and your work location are all non-deductible commuting miles. The distance between your residence and your first trip of the day and your last business stop of the day are all non-deductible commuting miles.

**Question:**

The minister purchased books for his library and some small equipment through the Accountable reimbursement plan. Does the ownership of the books and equipment now belong to the church since it was purchased through the Accountable plan?

**Answer:**

No. The ownership does not change to the employer. Ownership belongs to the employee.

**Question:**

As a minister, I attend conferences, and travel out of town. Are any of these expenses deductible (travel, motels, etc)?

**Answer:**

Yes. Travel that is ordinary and necessary to carry out ministry is deductible. You must be out of town and overnight to qualify. Examples are train, bus plane, boat, taxi, travel insurance, lodging, pay telephones, seminar fees, meals and tips.

**Question:**

As a minister, I am required to wear suits. Are these deductible?

**Answer:**

No. The suit can be adaptable for general wear and it not deductible.

**Question:**

Are a minister's pulpit robes and clerical collars deductible?

**Answer:**

Yes. The law states if something is required and not adaptable for general wear, it is deductible. The cleaning expenses would also qualify as deductions.

**Question:**

The minister is out of town and overnight and needs to have his regular suit cleaned. Can this be claimed as a tax deduction?

**Answer:**

Yes, because you are out of town overnight.

**Question:**

We have small children and have to pay for babysitting while we are attending church events. Is this deductible?

**Answer:**

No, the cost of babysitting your children for church events or meetings is never deductible. If both parents are working parents, they may possibly qualify for the dependent childcare credit computed on form 2441.

**Question:**

The church paid for childcare in an emergency situation. Is this taxable income?

**Answer:**

Yes. It would be taxable income and added to Box 1 of the W-2.

**Question:**

My denomination requires that we pay our tithes to the district, since the district requires us to pay our tithe to the district. Can this be considered as professional dues and taken as a professional expense?

**Answer:**

No, contributions are never considered professional expenses. Contributions to non-profits are taken on Schedule A itemized deductions.

**Question:**

As a minister, we do ministry-related hospitality in our home. Are the expenses for entertaining in our home deductible?

**Answer:**

No. Ministers cannot take a portion of the cost of their home since they already take 100% as Housing. The cost of meals provided for special guest speakers, board members, missionaries, prospective employees, etc. are deductible.

**Question:**

How do I compute the cost of the ministry-related meals provided in my home?

**Answer:**

According to the BJ Worth's Income Tax Guide for Ministers the minister should keep track of the number of meals provided and multiply by an average cost per meal. The average cost may vary between \$8.00 and \$11.00 per meal. When serving refreshments instead of meals (example to a youth group) prices might vary between \$2.50 and 3.50 per snack. If meals are eaten outside the home, you will need the receipt and the actual cost.

**Question:**

As a minister, I drive to small towns in the surrounding areas and sometimes several hours away on ministry related business and come home the same day. Are any of my meals deductible?

**Answer:**

No. You must be out of town over night to deduct the meals.

**Question:**

The minister purchased a personal computer to help them do church business. The minister uses the computer 40% for business. Can the minister take a deduction for the computer?

**Answer:**

It depends. When the business use is less than 50%, there is no deduction. To be able to take a deduction for a computer, it must be a mandatory requirement of the employer and a condition of employment. It is better to take computers as part of the housing allowance.

**Question:**

I'm a minister and have an office in my home. Can I take the deduction for office in the home?

**Answer:**

No. The dual status minister has already taken 100% as Housing allowance.

**Question:**

Is the cost of books, tapes, CD's, teaching aids, tracts, pens, pencils, professional magazines a deductible expense?

**Answer:**

Yes. If it is directly related to your ministry, it is deductible. Do not deduct magazines and subscriptions that are purchased for personal use.

**Question:**

We take the local newspaper and several other surrounding towns' newspapers to keep up on obituaries and events affecting our ministry. Are they deductible?

**Answer:**

The first local newspaper is not deductible (IRS says this is personal) but the other subscriptions are.

**Question:**

Is our home telephone deductible?

**Answer:**

No. The basic telephone would be taken as Housing allowance. Any long distance business calls would also be deductible.

**Question:**

Is the business portion of my cell phone deductible?

**Answer:**

Yes. Keep a log of business use.

***PAYROLL REPORTS:***

**Question**

What form does a dual status minister receive from the church to file their income tax?

**Answer:**

Since the dual status minister is considered an employee for federal purposes, the minister would receive a W-2.

**Question:**

What amounts are included in Box 1 of the W-2 (Wages, Tips and other Compensation)?

**Answer:**

Gross income, according to Sec 61, includes all income cash, value of property, from whatever source: (wages, non-accountable reimbursements, fair market value of gifts, Social Security offset, birthday gifts, bonuses, love gifts, computed interest from loans given to the minister, forgiven loans, etc.) All income from performing services (weddings, funerals, etc.) would be included in Box 1 of the W-2.

**Question:**

What amount would go into Box 2 of the W-2 (Federal Income Tax Withholding Box)?

**Answer:**

Box 2 designates the Federal withholding that the minister has elected. The minister has a choice to have withholding or not. They can over withhold Federal tax to help cover the Social Security tax that will be computed on the Individual 1040.

**Question:**

What amounts goes in boxes 3, 4, 5, and 6 of a dual status minister?

**Answer:**

Nothing. These boxes are for imputing the Social Security and Medicare wages and withholding for lay employees. The minister is not subject to Social Security wages, Medicare wages and withholding. Those boxes should remain blank.

**Question:**

What box on the W-2 should the Housing allowance and Parsonage allowance be reported?

**Answer:**

The Housing allowance and Parsonage allowance should be entered in Box 14 marked other as P/A for Parsonage allowance and H/A for Housing allowance.

**Question:**

What other forms need to be filed with the IRS by the church other than the W-2 for the minister and lay employees?

**Answer:**

Form 941 should be filed quarterly (April 30<sup>th</sup>, July 31<sup>st</sup>, October 31, and January 31<sup>st</sup>)

W-3 transmittal form should be completed and sent in with the W-2's.

1099 MISC must be sent to self-employed persons to whom the church paid \$600 or more accumulative for the year.

1096 transmittal for the 1099's

**Question:**

Our church has mistakenly treated an ordained minister as a lay employee and withheld Social Security taxes from their salary and matched it with the employer's portion. The church has paid too much tax. What should the church do?

**Answer:**

The church may correct their mistake by filing a 941-C with its next 941 quarterly reports. You will give an explanation about the mistake and ask for a credit of the Social Security mistakenly withheld. The church would also file a W-2C to correct the ministers W-2. The minister should file amended (1040X) tax returns to correct all open years.

***CONTRIBUTIONS:***

**Question:**

The church had a contractor perform repairs on the building. The contractor did not charge the church for his services, but asked that the church to put \$400 on his contribution statement. Is this allowed?

**Answer:**

No. According to the Internal Revenue Service Publication 526, the value of services rendered can never be deducted as a contribution.

**Question:**

As a church employee, can I have my tithes withheld as pre-tax deduction and not have to pay Federal tax or Social Security tax on the amount set aside for tithes?

**Answer:**

No. This is not a pre-tax deduction. The church can do withholding for your contributions, but it will be considered taxable income and you may be allowed to take the contributions on Schedule A itemized deductions.

**Question:**

What kind of contribution statement does a church need to send to contributors?

**Answer:**

According to Publication 1771, a donor cannot claim a tax deduction for any single contribution of \$250.00 or more unless the donor obtains a contemporaneous, written acknowledgment of the contribution from the recipient organization.

**Question:**

What information should be on the timely written contribution statement?

**Answer:**

The Name of the Organization, amount of cash contribution, and a statement that says, "No goods and services were exchanged".

**Question:**

A member of the church donated a piano and wanted the church to put the value of \$1,000 on their giving record. How do we acknowledge this donation?

**Answer:**

The church would write a thank you letter for the contribution of the piano with no value on the letter. The donor should have the piano appraised before giving it to the church. The donor should take the contribution letter to their tax advisor in preparation for their tax return. This is a sample of a letter that could be sent.

Dear Church Member,

Thank you for the contribution of the grand piano received on March 8, 2008. No goods and services were received for your contribution.

**Question**

What are items that cannot be put on a giving record?

**Answer:**

Items, which cannot be entered on the giving record, are time and labor, non-cash donations, donations to an individual, and non-receipted contributions.

**Question:**

What items should be put on a giving record?

**Answer:**

Cash, checks, credit card contributions, and money order contributions. The statement, "No goods and services were exchanged" should appear on the giving record.

**Question:**

As a member of the church congregation, I paid my own way to go on a mission trip to South Africa that the church sponsored. Is this tax deductible?

**Answer:**

Yes. Payments by the participants to the church are deductible as a charitable contribution as long as the trip had no significant element of personal pleasure and was truly a mission trip.

**Question:**

We made an agreement with the church to make a contribution to the church as a provision of ensuring that our child has admission to attend the private school the church sponsors. Can the contribution go on the giving records?

**Answer:**

No. The contribution and tuition payments to the church do not go on the giving records and are not deductible. You received services for the contribution.

**Question:**

Why is important that contributions are recorded correctly?

**Answer:**

First of all, the church must have correct financial reports. The second reason is that churches give out contribution credits for the individual income tax return, which is the second largest deduction, claimed on the individual income tax return. Accuracy is of the utmost importance.

***UNRELATED CHURCH BUSINESS:***

**Question:**

When does a church have to file a 990T Unrelated Business Income Tax Return?

**Answer:**

A 990T must be filed when the church has income of \$1,000 or more from income producing activities unrelated to their exempt purpose. Some examples include advertising, gaming, rental income, and parking lot fees. See IRS Publication 1828 pages 12 & 13.

- The church is subject to UBIT when the activity constitutes a trade or business
- The trade of business is regularly carried on
- The trade or business is not substantially related to the organizations exempt purpose

**Question:**

When churches have to file form 990T what is the due date of the return?

**Answer:**

The 990T's are due 15<sup>th</sup> day of the 5<sup>th</sup> month following the end of the churches tax year (normally May 15<sup>th</sup>).