

General Administration

10 Characteristics of a Top Financial Administrator

1. Properly outline all significant financial transactions in the church minutes.
2. Never take cash out of the offering to pay bills or individuals, regardless of the purpose.
3. Never write a check for a bill unless there is supporting documentation and it is church-related.
4. Maintain proper accounting records so that all monies can be accounted for at month-end.
5. Never loan money to members.
6. Obtain proper insurance and take aggressive steps to minimize potential liability against the church.
7. Properly file, in a timely manner, all IRS and State forms.
8. Establish good controls over contribution statements and make sure the statements meet IRS format and content guidelines.
9. Properly classify individuals as employees or non-employees.
10. Learn, follow and stay abreast of the laws that are mandated by the IRS for churches and clergy.

Items to prepare when closing out a period

April -June

1. Prepare financial statements
2. Internal Audit Reports
3. Payroll Tax Deposits & 941s
4. Review adequacy of all allowances
5. File "Annual Certification of Racial Non-Discrimination
for a Private School Exempt from Federal Income Tax"
6. Board Meeting/ Update Minutes
7. Review insurance needs
8. Risk Management Review
9. Back-up computer records
10. W-4s & I-9s for new employees
11. Obtain written authorization for all "non-tax" deductions
12. Prepare bank reconciliation
13. Review Church Management Assessment Questionnaire

IRS Forms that may be required:	941	8109	1040ES
	5578	W-9	

July - September

Refer to April - June, but do not do #5 or file Form 5578

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October – December

1. Prepare operating budgets
2. Set compensation and housing allowances
3. Develop changes to benefits package
4. Prepare financial statements
5. Internal Audit Reports
6. Payroll Tax Deposits & 941s
7. Review insurance needs
8. Physical inventory (assets, book store, etc.)
9. Board Meeting/Update Minutes
10. Risk Management Review
11. Back-up computer records
12. Obtain written authorization for all "non-tax" deductions
13. Prepare bank reconciliation
14. Update W-4s and I-9s for new employees
15. Review church workers for proper employment status (SS-8)
16. Review Church Management Assessment Questionnaire

IRS Forms that may be required: 941, 8109, 1040Es, SS-8, W-4, I-9, W-9

STATE CHECKLIST

Listed below are some common state issues that church leaders should be aware of because laws vary so much by state - this serves as a checklist of issues to inquire about.

Item	NC	SC
Monthly payroll reporting	NC-5M	NONE
Quarterly payroll reporting	NC-5	WH-1605
Payroll tax deposits	NC-5/M	WH-1601
Payroll withholding forms	NC-4	W-4 (Mark State)
Annual report to reconcile State taxes withheld	NC-3	WH-1606
Sales tax on purchases	E 585-B	ST-387
Sales tax on sales	E 501	NO
State Identification Number	AS/RP-1	SCTC-111
Fundraisers' special laws	YES	YES
Privilege license	REQUIRED	NOT REQUIRED
Child Abuse Reporting Laws	YES	YES
Property tax exemption	VARIES	PT-401
Unrelated business income	CD-427	NONE
1099s submitted to State	NONE*	NONE*
W-2s submitted to State	NC-3	WH-1606
Worker's Compensation	3 Or More Employees	3 Or More Employees
State exempt status required	YES	NO
Incorporation allowed	YES	YES

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Continued...

Estimated Tax Payments	NC-40	SC 1040 ES
Amended tax returns	D-400X	SC 1040 X
Substitute W-2s	4852	SC 4852
Request for extension to file	D-410	SC 4868
Request for copy of tax form	LETTER	SC 4506
Request for forms	LETTER	I-231
Request for publications	LETTER	C-188
Charitable solicitation laws	YES	YES

DID YOU KNOW...

1. Those members of an unincorporated church can be sued if the church is sued?
2. That only churches that the IRS has recognized as tax-exempt can ordain ministers for tax purposes?
3. That if your church is not recognized by the IRS as tax-exempt that member contributions could be disallowed for tax purposes?
4. That church cannot loan money to members?
5. That the IRS has record retention guidelines that specify how long documents must be retained (e.g., offering envelopes for 7 years, Minutes forever, payroll records for 4 years, etc.)?
6. That Worker's Compensation insurance is required if you have more than a certain number of employees and/or volunteers?
7. That general liability insurance does not cover pastoral counseling, child molestation or sexual misconduct?
8. Churches are held liable for the acts of their employees and volunteers if they were within the scope of their duties?
9. That churches cannot pay for individuals' personal bills (except Missions), and if they do, it could jeopardize churches' tax-exempt status?
10. Churches cannot endorse or oppose any political candidate, and if they do, it could jeopardize their tax-exempt status?
11. That when incorporated churches do not have Minutes, the corporate veil can be pierced and individuals can be held personally liable?
12. That all churches (even if you have no employees) must have an Employer's/ Taxpayer's Identification Number?
13. That copyright laws prohibit copying and recording most material or showing transparencies in a worship service without proper permission or licenses?

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14. That all church assets must be in the name of the church?
15. That if churches are negligent, the church and the individual members can be held liable?
16. That bylaws are binding on all members whether they have read them or not?
17. That before items can be legally binding, proper notice has to be sent and a quorum must be present?
18. That individuals who pre-sign checks can be held liable if checks are written for expenses that are not church related?
19. That the Church Audit Act of 1984 allows the IRS to audit a church if IRS reports are not filed, or if they are filed improperly?
20. That in most states, churches and ministers are mandatory reporters of suspected or alleged child abuse/molestation?
21. That the nine-digit number from the IRS, called "EIN" is only an identification number and does not make you tax exempt?
22. That when churches do not have bylaws, or if bylaws are silent on a matter, that the State's not-for-profit laws could control the churches?
23. That before the IRS will recognize you as a church; you must meet their list of 14 criteria which characterize a church?
24. That church and/or board minutes should be signed and dated by the Secretary and the President to substantiate their validity?
25. That after tax-exempt status is obtained; churches must notify the IRS of major operational changes?
26. That annual reports must be submitted to your state so that corporate status will not lapse?
27. That church assets cannot be used by individuals for personal benefit?
28. That churches should have and maintain rolls of all church and/or board meetings to substantiate that a quorum was present?
29. That the church is liable for contractors who are injured on church property if the contractor does not have insurance?

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30. In most states, compensated board members have greater liability than uncompensated board members?
31. That if board members do not sign contracts in their legal representative capacity, they could be personally liable?
32. That "Waiver of Release" forms may not release churches of all liability?
33. Board members who do not attend a meeting(s) are liable for any actions taken at the meeting, unless they properly "dissent"?
34. Pastors are considered "employees" of the church in most cases and not "self-employed"?
35. That "work for hire" laws state that books, tapes, etc. a minister sells during church hours or on the church's premises are the property of the church?
36. That a church's tax-exempt status can be revoked for activities outside IRS Code 501(c)3?
37. That Bylaws have more legal authority than Minutes, but not as much as the Articles or Charters?
38. That to be recognized by the IRS as an ordained minister and therefore receive special tax benefits, you must be performing the sacerdotal functions?
39. That bankruptcy courts can require churches to return donors' contributions if given within 1 year of the bankruptcy claim?
40. Loans from the ministry may be prohibited by the State's not-for-profit laws and could be considered as taxable income?
41. That churches can be incorporated under one corporate umbrella if the Articles so state?
42. That a church from another state will have to get a "Certificate of Authority" in order for it to be recognized as a corporation?
43. That when assets are sold to members (or other individuals) to avoid private inurement laws and taxable income, they must be sold at fair market value?
44. That some types of fundraisers must comply with charitable solicitation laws?

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45. That contributions can only be deductible if they are "to or for the use of a qualified church?
46. That before a minister can opt out of Social Security; he/she must be ordained by a 501(c)(3) organization?
47. That pastors have no inherent right to be president of a corporation; this is determined by the Bylaws or Charter?
48. That if contracts, loans, etc. are signed without proper authority or approval, the individual(s) who signed is personally liable?
49. That when individuals of an unincorporated church improperly sign contracts, they can be held personally liable?
50. That unless stated otherwise in the bylaws, state laws or charter, directors are voted on by the membership?
51. That actions of a Board are only binding to the church if the Board is empowered to represent the church at a legally called meeting?
52. That if a church has Worker's Compensation insurance; it prevents an injured employee from suing the church?
53. That the church is liable for actions of volunteers if they are within their scope of duties?
54. That your corporation status can lapse if annual reports are not filed?
55. That only the pastor is covered on most pastoral counseling policies?
56. That churches cannot pay a minister's household expenses and call it a housing allowance? This is private inurement that could jeopardize the church's tax-exempt status.
57. That if the bylaws do not speak to the contrary, members must vote on all issues?
58. That church records can be inspected by any member or their agent for any proper and reasonable purpose?
59. That the IRS may not recognize the ministerial status of a minister if the local church's charter or bylaws do not authorize it to confer ministerial credentials?

“APPLICATION FOR EMPLOYER IDENTIFICATION NUMBER”

I. Purpose

Used to apply for an Employer Identification Number (EIN) with the IRS

II. Some Forms Requiring the EIN

- A. 8109 – “Federal Tax Deposit Coupon”
- B. 1023 – “Application for Recognition of Exemption”
- C. *W-2 – “Wage and Tax Statement”
- D. *W-3 – “Transmittal of Income and Tax Statement”
- E. W-9 – “Request for Taxpayer’s Identification Number and Certification”
- F. *1099 – “Miscellaneous Income”
- G. *1096 – “Annual Summary and Transmittal of United States Information Return”
- H. 941 – “Employer’s Quarterly Federal Tax Return”
- I. 941-C – “Statement to Correct Information”

* In some cases, the State Identification Number (SIN) is also required.

III. Filing Requirements

A. Obtain an SS-4 "Application for Employer Identification Number" from any IRS office (see SS-4)

B. Complete the application and mail - should receive EIN within 4-6 weeks

Or

C. Complete the application and call the IRS and give them the information they request. They will give you an EIN over the telephone.

D. Put the EIN in the upper right hand corner of the application and mail

E. Can use the EIN right away

F. To set up a bank account, take the EIN to the bank, along with the church resolution.

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- G. The bank will require completion of a W-9 "Request for Taxpayer's Identification Number and Certification". They will ask for the EIN or a Social Security number, use the EIN (SS# makes the individual liable for interest earned).

IV. General Comments

- A. The EIN is required even if the church has no employees.
- B. This EIN is an ID number and not a tax-exempt number.
- C. The EIN should be used on all accounts (checking, savings, etc.) and the bank has the right to withhold 31% of interest earned (backup withholding taxes) when they do not have the EIN.
- D. Each church/church day care, etc. should have their own EIN.

INCORPORATING

*** (Not allowed by all states, such as Virginia)**

1. Establishing the church with the State as a legal, not-for-profit entity.
 - a. Once incorporation is obtained, the church will be notified by the State confirming incorporation and asking if the church wants State tax-exempt status (some states do not require this additional step)
 - b. If required, the church applies for State tax-exempt status
 - c. Church receives "Letter of Determination" confirming State tax-exempt status
2. Many church leaders are unaware of the potential dangers that exist to them and all church members when their church has not been properly incorporated. Churches must consider incorporating for the following reasons:
 - a. To limit, not eliminate, individuals' personal liability
 - b. Allows the church to become a legal entity:
 1. The church can be sued (before incorporation, the members can be sued)
 2. The church can sue
 3. The church can own property without having it held "in trust" by the Trustees
 - c. Incorporation is required to receive federal tax-exempt status - 501(c)(3)
 - d. Incorporation is required to obtain Directors, Officers and Trustees insurance (D.O.T.)
 - e. Recognition as a tax-exempt entity in your state
 - f. Facilitates the filing of the sales tax refund, assuming the state tax-exempt status has been obtained (NC only)

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3. High risk organizations, such as day cares, should be incorporated separately from the church.
4. Multiple churches/organizations can be covered under one incorporation if a "Certificate of Authority" has been filed in the respective state.
5. Other churches/organizations under the "umbrella" of an already incorporated church (incorporated church is in another state) must request a "Certificate of Authority" from the state in which they operate. This certificate becomes their confirmation of incorporation. The churches/organizations under this "umbrella" are now bound by the laws of the state where the headquarter church is located.
6. Incorporation can "lapse" if filing requirements are not maintained (e.g., not reporting unrelated business income-UBI).
7. Articles of Incorporation must contain a "dissolution" clause if tax-exempt status from the IRS is desired. This dissolution clause states that if a church dissolves, its asset(s) will transfer to another not-for-profit organization.
8. Bylaws are not required, but recommended; however, not having bylaws means the church is governed by the State's not-for-profit corporate laws or informal church customs.
9. Incorporation "veil" can be "pierced" if the church does not adhere to corporate laws; thus, exposing individuals to personal liability. Here are a few of the more common requirements:
 - a. Board of Trustees or Directors who manage the church's affairs
 - b. Voting on issues by congregation or Board
 - c. Maintaining corporate/church minutes
 - d. Use of corporate name in all legal transactions
10. Obtain a corporate seal to validate important documents.
11. Incorporating does not give the State any additional control/power over the church.

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12. Even as a corporation, lawsuits can be filed against individuals if they have been negligent. Negligence is defined as "not doing what a reasonable person would do".

* Churches which operate in states that do not permit incorporating should develop a very strong Risk Management Program to minimize potential liability.

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**State of North Carolina
Department of the Secretary of State**

***ARTICLES OF INCORPORATION
NONPROFIT CORPORATION***

Pursuant to Section 55A-2-02 of the General Statutes of North Carolina, the undersigned corporation does hereby submit these Articles of Incorporation for the purpose of forming a nonprofit corporation.

1. The name of the corporation is: _____
2. _____ (Check only if applicable.) The corporation is a charitable or religious corporation as defined in N.C.G.S. Section 55A-1-40(4).
3. The street address and county of the initial registered office of the corporation is:
Number and Street _____
City, State, Zip Code _____ County _____
4. The mailing address *if different from the street address* of the initial registered office is:
5. The name of the initial registered agent is:
6. The name and address of each incorporator is as follows:
7. (Check either a or b below.)
 - a. The corporation will have members.
 - b. The corporation will not have members.
8. Attached are provisions regarding the distribution of the corporation's assets upon its dissolution.
9. Any other provisions which the corporation elects to include are attached.
10. The street address and county of the principal office of the corporation is:
_____ County _____
11. The mailing address *if different from the street address* of the principal office is:
_____.

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12. These articles will be effective upon filing, unless a later time and/or date is specified:
This is the ____ day of _____, 19__.

Signature of Incorporator

Type or print Incorporator's name and title, if any

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NOTES:

1. Filing fee is \$50. This document and one exact or conformed copy of these articles must be filed with the Secretary of State. (Revised July 1994)

CORPORATIONS DIVISION SOON. SALISBURY STREET
27603-5909

RALEIGH, NC

Purposes of Corporation

This corporation is organized for the following purpose(s):

- _____ religious,
- _____ charitable,
- _____ educational,
- _____ testing for public safety,
- _____ scientific,
- _____ literary,
- _____ fostering national or international amateur sports competition, and/or
- _____ prevention of cruelty to children or animals,

including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under Sections 501(c)(3) and 170(c)(2) of the Internal Revenue Code of 1986 (herein the "Code") (or the corresponding provisions of any future United States Internal Revenue Code).

Prohibited Activities

No part of the net earnings of the corporation shall inure to the benefit of, or be distributable to, its members, directors, officers, or other private persons, except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of purposes set forth in these articles of incorporation. No substantial part of the activities of the corporation shall be the carrying on of propaganda or otherwise attempting to influence legislation, and the corporation shall not participate in or intervene in (including the publishing or distribution of statements) any political campaign on behalf of or in opposition to any candidate for public office. Notwithstanding any other provisions of these articles, the corporation shall not carry on any other activities not permitted to be carried on (a) by a corporation exempt from Federal income tax under section 501(c)(3) of the Code or (b) by a corporation, contributions to which are deductible under section 170(c)(2) of the Code.

Distributions Upon Dissolution

Upon the dissolution of the corporation, the Board of Directors shall, after paying or making provision for the payment of all of the liabilities of the corporation, dispose of all of the assets of the corporation exclusively for the purposes of the corporation in such manner, or to such organization or organizations organized and operated exclusively for religious, charitable, educational, scientific or literary purposes as shall at the time qualify as an exempt organization or organizations under section 501(c)(3) of the Code as the Board of Directors shall determine, or to federal, state, or local governments to be used exclusively for public purposes. Any such assets not so disposed of shall be disposed of by the Superior Court of the county in which the principal office of the corporation is then located, exclusively for such purposes or to such organizations, such as court shall determine, which are organized and operated exclusively for such purposes, or to such governments for such purposes .

PIERCING THE CORPORATE VEIL

"Piercing the corporate veil" is a legal term that refers to a corporation failing to operate like a corporation (see examples); thus, for liability purposes it will be treated as unincorporated. When the corporate veil is pierced, individuals are no longer protected by the corporate status, but can now be held personally liable.

Examples of situations when the corporate veil can be pierced follows:

- There is no Board which governs
- An inactive Board which does not oversee operations
- Inactive Board which allows an individual(s) to run the corporation
- There are no Board Minutes or regular Board meetings
- Mingling of corporation and individual assets & business transactions
- Books and records are not maintained at the corporate office
- The corporate name is not used on legal documents (e.g., loan papers)

Churches Beware!!!

MINUTES

The minutes of any exempt organization are the financial lifeline. All important decisions should and can only be authorized by properly documented minutes. Without approval via the minutes, the IRS views any transaction(s) as not from the exempt organization, but rather from an individual. The power or authority of the church's minutes is derived from the bylaws, which outline who has the authority to approve specific transactions.

1. General Requirements

- a. Specify which Board is giving the approval
- b. Indicate that a quorum or the required number of people are present (based on the bylaws) to approve a matter
- c. Clearly define what is being approved or disapproved
- d. List the members present
- e. Report the voting results
- f. The Secretary and President/Moderator should sign and date the minutes for validation

2. Minutes Can Never Violate IRS, State or Other Laws (examples)

- a. Mileage reimbursements cannot exceed IRS limits of \$0.30 per mile (1995) and be tax-free
- b. Group term life insurance cannot exceed \$50,000 and be tax free if the church is not the beneficiary
- c. Wages cannot be approved for less than minimum wage
- d. Building fund monies cannot be authorized to pay church operating costs
- e. There cannot be a vote to not withhold payroll taxes -- they must be paid

- f. There can not be a vote to loan monies to individuals
- g. There cannot be a decision not to pay overtime

3. Minutes Should Include, But Not Be Limited To

- a. All employee benefits (e.g., housing allowance, retirement, insurance, etc.)
- b. Compensation agreements plus raises
- c. Qualified reimbursement plan (e.g., expenses, medical)
- d. Hiring pastors, accountants, lawyers, contractors, etc.
- e. Adoption of bylaws
- f. Large purchases such as land, vehicles, pews, equipment, etc.
- g. Building programs
- h. Changing associations

4. Record Retention

It is recommended that all minutes become a part of the permanent records of the church.

5. General

- a. Only "disinterested" persons can vote
- b. Minutes can never be backdated
- c. Annual election of board members is not required
- d. Bylaws have greater authority than minutes

BYLAWS

The bylaws are one of the most important documents of the church. They are the "Word of God" legalized, or the legal documents that have been adopted by the church as its governing instrument. All powers that are given must be properly and clearly outlined here.

In a Supreme Court ruling, *Watson vs. Jones* 1891, it was determined that members are subject to bylaws whether they are aware of them or not.

One of the benefits of having bylaws is to eliminate internal dissension which could result in church splits or other embarrassing occurrences.

Bylaws should, at a minimum, contain:

I. The Pastor

- Selection process
- Requirements
- Term
- Removal & reinstatement procedures
- Pastor's widow's compensation
- Probationary period
- Founding Pastor (special privileges)
- Duties/responsibilities

II. The Board

- Selection process
- Term
- Removal
- Resignation
- Requirements
- Power/Authority
- Quorum
- Election of officers & duties
- Regular meetings
- Special meetings
- Compensation
- Voting procedures
- Number of members

III. Church Membership

- Statement of faith
- Membership process
- Requirements/conduct
- Removal
- Reinstatement
- Holding offices
- Voting rights/requirements
- Church meetings
- General rights
- Notices
- Quorum
- Discipline

IV. Other Provisions

- Resolution of member conflicts
- Indemnification of officers
- Auxiliary accounts controlled by the centralized treasurer
- Multiple churches under umbrella
- Members cannot sue each other, the church, the pastor, the Board, etc.
- Tithing is a requirement for all employees
- Members cannot terminate membership during disciplinary periods
- Annual audits
- Ordination requirements & powers
 - a) probation period
 - b) license revocation
 - c) process
 - d) special ordination board
- Bonded money counter
- Issues requiring specific percentage of votes

V. General

- Bylaws have greater authority than church minutes
- If the bylaws do not address an issue, then one of the following will control:

State law	Church custom
Church government	Church vote
- Bylaws should be registered with the Secretary of State, along with all amendments (not required)
- The "purpose" of special and, at times, regular meetings must be indicated on notices

TAX-EXEMPT STATUS

I. Obtaining Tax-Exempt Status:

In order for a church to be recognized "legally" as a tax-exempt organization, the church must complete the "Application for Recognition of Exemption" (Form 1023). Only after this application has been completed and the IRS has issued to the church a "Letter of Determination", can a church make the claim that it is tax-exempt for federal purposes.

Some of the benefits of obtaining tax-exempt status are:

- a. Legal recognition as a tax-exempt organization by the IRS
- b. Gifts to the church are tax deductible by the contributor
- c. Ordination of ministers for tax purposes - IRS must recognize ordained ministers in order for them to receive special tax benefits (e.g., housing allowance)
- d. Solicitation and receiving of Federal and State grants and corporate gifts
- e. Able to obtain special bulk mailing rates
- f. Ordained ministers can opt out of Social Security if they file a timely Form 4361
- g. Inclusion in Publication 78, which is a listing of all tax-exempt organizations

II. Losing Tax-Exempt Status:

Once a church has obtained its "Letter of Determination" from the IRS, it can be revoked if the IRS feels that the organization has moved outside of its exempt purpose as outlined in Section 501 (c)(3). Listed below are some items, which could cause tax-exempt status to be revoked:

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- a. Payment of unreasonable compensation
- b. Related party transactions not at "arms length"
- c. Discrimination (e.g., benefits, race, etc.)
- d. Political involvement
- e. Organization's assets used for personal benefit (private inurement)
- f. Unrelated business income that is substantial
- g. Loaning money to members
- h. Improper governing body (dictatorship)
- i. Undocumented disbursements
- j. Activities beyond the exempt purpose as stated in 501 (c)(3)
- k. Lack of accountability of funds
- l. Using designated funds for other purposes besides what they were designated for
- m. Misappropriation of State and Federal funds
- n. Violation of laws

III. Tax-Exempt Status Test:

In order for an organization to be exempt as outlined by Section 501 (c)(3), it must meet both the organizational and operational tests.

Organizational Test -

- a. Organized exclusively for 1 or more exempt purposes outlined clearly in the church's "Articles of Incorporation"

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- b. Limit activities to only exempt purposes (a small part can be outside the exempt purpose)
- c. Purpose must be broad and specific to meet Section 501 (c)3 criteria
- d. The "Articles of Incorporation" must govern the operation of the organization
- e. Upon dissolution, the organization's assets must be distributed to another exempt organization, government unit, etc. No individuals can benefit.

Operational Test -

- a. Organization must operate exclusively for 1 or more exempt purposes (e.g., religious, charitable, educational)
- b. Distribution of earnings must go exclusively to the benefit of the exempt organization and to no individuals
- c. Organization can have no ties to an "Action" organization. "Action" organization activities include substantially attempting to influence legislation

IRS' 14 CRITERIA OF A CHURCH

The IRS has specified that a church should meet 14 criteria in order to be properly classified as a church. Most, if not all, churches should review these criteria to provide the assurance that they are viewed by the IRS as a "church". Outlined below are the 14 criteria:

- a distinct legal existence
- a recognized creed and form of worship
- a definite and distinct ecclesiastical government
- a formal code of doctrine and discipline
- a distinct religious history
- a membership not associated with any other church or denomination
- an organization of ordained ministers
- ordained ministers selected after completing prescribed studies
- a literature of its own
- established places of worship
- regular congregations
- regular worship services
- Sunday schools for religious instruction of the young
- schools for the preparation of ministers

No single factor is controlling, although all 14 may not be relevant to a given determination.

RECORD RETENTION

Far too often churches are quick to discard information at year end without regard for record retention laws. The IRS has established guidelines that certain records should be kept for a specific period of time. Normally, this time period is based on the statute of limitations as to how far back the IRS can audit.

In the event of an audit, if records have not been retained, penalties could be assessed.

Listed below are some key items to note:

Three Years

Bank statements
Insurance policies (after expiration date)
Licenses (after expiration date)

Seven Years

Invoices/receipts
Canceled checks
Expired contracts
Employee files
Expense reports
Inventory records

Indefinitely

Minutes
Bylaws
Articles of Incorporation
Letter of Determination
Financial statements
Job descriptions
Tax returns
Canceled checks for important payments (e.g., taxes, property purchases, contracts, personnel manual)

Four Years

Payroll records

Ten Years

Accounting Records

Miscellaneous

Bank Reconciliations – 2yrs.
Disposed property – 6 yrs. after disposal
Contribution Book – 6 yrs.
Bank Statement – 3 yrs.
Insurance Policies – 3 yrs. after expiration
Licenses – 3 yrs. after expiration

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NOTE:

The period of time for keeping most tax records generally depends on the period of time during which the IRS is limited by law to audit or assess back taxes. However, there is no limit when no returns are filed or returns are fraudulent.

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BENEVOLENCE FUND POLICY

_____ Church, in an attempt to show forth the love of Christ to all men, has established a Benevolence Fund to assist persons in financial need. Monies shall be earmarked for this specific purpose and individuals may contribute directly (via offering envelopes) or indirectly to this fund; however, it is noteworthy to mention that the administration of these funds, including disbursements shall be under the absolute and full control of _____.

Individuals may submit, in writing or verbally, names of individuals who are in need; however, the names presented are deemed as advisory and not mandatory. The church or _____ is not bound by any suggestions (verbal or written) made to respective persons in need. Persons who contribute to this fund directly or indirectly are subject to the conditions of this policy. Additionally, because the funds are given to the church and are controlled entirely by the church, individuals who itemize their deductions may be able to deduct these contributions on their income tax returns. Checks should only be made payable to the church, without exception.

General requirements which must be met to receive funds are:

1. Properly completed applications with any required attachments (e.g., budget, invoice, vendor correspondence, etc.).
2. Documentation that a need exists and is within IRS guidelines --
Food Shelter Clothing
Emergency medical treatment Transient
3. Members must regularly pay their tithes and offerings
4. Contact family, friends or Social Service agencies before contacting the church.
5. Other (list): _____

NOTE: The church cannot loan money; therefore, there is no requirement to pay the money back; however, as the Lord provides, donations to the church are accepted. Additionally, all checks must be made payable directly to the agency/person to whom it is due.

AUTHORIZATION AND GRANT OF RIGHTS

I, the undersigned, hereby grant an authorization to _____, a non-profit organization and its affiliates, agents, licensees, successors, and assign (herein collectively referred to as the "Church") to use my name and any audio or video footage recorded during my time of ministry at the Church. I also grant the Church permission to use any printed material derived from such ministry. I understand that the Church may broadcast, circulate, publish, reproduce or otherwise use through audio, video, printed or other means the subject matters granted by this document unless specific agreement has been made with the _____ of _____ to prohibit such use.

The rights granted herein are made as a gift to the Church and I specifically waive all claims for compensation related thereto.

I hereby certify and represent that I have read this "Authorization and Grant of Rights" and fully understand the meaning and effect thereof and the intent to be legally bound by it.

DATE: _____

SIGNATURE: _____

NAME (Printed): _____

ADDRESS: _____

TELEPHONE #: (____) _____

DID YOU KNOW...

1. Ministers are required to file taxes?
2. Churches cannot pay ministers' personal bills?
3. That anniversary or special occasion gifts are taxable income?
4. That the housing allowance or fair market value of a parsonage is subject to Social Security taxes?
5. Benefits must be paid directly to the insurance carrier in order to be tax-free?
6. That benefits that violate IRS anti-discrimination rules are taxable income?
7. That ordained ministers have dual reporting status; thus, no Social Security taxes can be withheld from their checks or matched by the church?
8. That housing allowance must be properly designated (e.g., Minutes or budget) before it can be claimed by an ordained minister?
9. That ministers cannot be paid a percentage of the church's income (private inurement) — this could jeopardize their tax-exempt status?
10. That money that ministers have a right to receive, but do not, is considered taxable income based on the IRS "constructive receipts doctrine"?
11. That money received from outside speaking engagements is taxable income, and is also subject to Social Security taxes?
12. That clothes, dry cleaning and car allowances are prohibited by the IRS?
13. That if a church treats its ministers as self-employed and issues 1099s "Miscellaneous Income", fringe benefits must be included?

CHURCH & CLERGY COMPLIANCE SERIES

14. That salary reduction plans are prohibited by the IRS (e.g., monthly reduction of minister's salary by various allowances to get the monthly salary)?
15. That the housing allowance must state a specific dollar amount before the IRS will allow it?
16. That when a church assists a minister in paying taxes (sometimes called a Social Security Supplement), it is taxable income?
17. That all reimbursed expenses or deductible expenses on a tax return must be properly documented or the IRS could disallow the deductions?
18. That spousal and dependent travel expenses cannot be deducted on a minister's tax return or reimbursed by the church if they are not church employees?
19. That loose plate offerings belong to the church regardless of when collected, and are considered taxable income to the recipient?
20. That a minister's entire salary can be designated as housing allowance if it does not exceed the fair rental value?
21. That home equity loans, secured by ministers' houses are not part of the housing allowance if the proceeds were for non-household items (e.g., car, boat, etc.)?
22. That loans to ministers or employees with no interest or interest below market rates may be considered taxable income to the ministers or employees?
23. That when ministers do outside speaking, and have a right to receive money, but allow the monies to be paid to their church, these monies are considered taxable income?
24. That money put into a special account for pastors to disburse money for any purpose (even payment to themselves), is considered taxable income as soon as the money is placed in the account?
25. That computers and cellular phones are not deductible unless they are required by the church and for the church's convenience?
26. That a minister's contribution to a 403b plan (tax sheltered annuity) is exempt from Social Security and income taxes when put into the plan?

CHURCH & CLERGY COMPLIANCE SERIES

27. That ministers cannot shift income to their spouse to avoid Social Security or other income liabilities unless the spouse actually renders service?
28. That filing a tax return does not depend on your age, but rather your income?

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COMPENSATION ANALYSIS

Outlined below are the more common compensation items received by clergy. They are grouped by tax treatment:

TAX-FREE (NO IRS REPORTING REQUIRED)

1. Health & Dental Insurance - The church can provide for the clergy and their families; however, it must be paid directly to the insurance carrier.
2. Disability Insurance - The church can provide for the clergy, but not for their families, and it must be paid directly to the insurance carrier. Income from the insurance is, however, fully taxable.
3. Life Insurance - The church can provide a \$50,000 or less group term policy for the clergy, and anyone can be designated as beneficiary.
4. Medical Reimbursement Plan - The church can reimburse any out-of-pocket medical expenses incurred by clergy and their families as long as the following stipulations are met:
 - a. Medical reimbursement plan must meet IRS guidelines (Reg. 1050)
 - b. Must be offered to all employees who meet certain criteria as outlined in the Employee Handbook
 - c. The clergy will need to submit supporting documentation

For a Medical Reimbursement Plan, see Page 15. Section 3.

5. Expense Reimbursement Plan - The clergy can be reimbursed for any church-related expenses that are ordinary and necessary. These expenses can include, but are not limited to:
 - a. Mileage
 - b. Books & study materials
 - c. Food
 - d. Long distance phone calls
 - e. Special clothing
 - f. Travel

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The church must adopt a qualified reimbursement plan that meets IRS guidelines (see Page 13. Section 3).

6. Use of Church-Owned Vehicle - All church related miles that are sufficiently documented. All personal miles are taxable.
7. Gifts from Members - Any and all gifts given by individual members (not given by the church) to the clergy. No solicitation of gifts by the church directly or indirectly. Members cannot get tax credit and the contributor's intention must be clear (e.g., check, envelope or card must be addressed to the clergy).
8. Retirement Plan - Any monies paid by the church directly to a financial institution. The monies cannot be put into an Individual Retirement Account (IRA), but in a "Trust" account for the clergy.
9. Education Assistance Plan - Amounts paid by the church for tuition, fees, books, course supplies, etc., under a "Qualified Educational Assistance" program up to \$5,250 (1994)

SUBJECT TO SOCIAL SECURITY TAXES

1. Parsonage/Housing Allowance - Based on IRC 107, any monies that the church designates as housing allowance or any expenses paid in relation to a church-owned parsonage. Additionally, the "Fair Rental Value" of any parsonage expenses paid by the church for the clergy.
2. Personal Household Bills Paid by Church - Household bills paid by the church for a clergy-owned residence. This should not be done for it could jeopardize the church's tax exempt status.

SUBJECT TO SOCIAL SECURITY AND INCOME TAXES - REPORTABLE ON W-2s

1. Salary - Wages paid to clergy, regardless of payment method.
2. Special Occasion Gifts & Offerings - Regardless of what they are called, the following are taxable items:

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- a. Anniversary gifts d. Tokens of love
 - b. Love offerings e. Birthday gifts
 - c. Pastor's aide f. Christmas gifts
-
- 3. Non-accountable Expense Allowance - Monies the church gives to the clergy for church-related expenses (travel, mileage, study materials, etc.) and the clergy is not required to, nor do they account back to the church.
 - 4. Social Security/Tax Supplement - Monies the church gives to the clergy or pays for the clergy to assist in paying their taxes which were not withheld from their payroll check.
 - 5. Personal Bills - Any personal bills paid for the clergy (such as car notes, groceries, credit cards, etc.). This should not be done for it jeopardizes the church's tax-exempt status.
 - 6. Life Insurance - Anything beyond a \$50,000 group term policy and the church is not the designated beneficiary.
 - 7. Non-cash Gifts - Whenever the church gives clergy non-cash gifts above the nominal value (approx. \$25.00) - clothing, trips, cars, vacations, jewelry, household furnishings, etc.
 - 8. Use of Church-Owned Vehicle - Personal or undocumented church use of a church-owned vehicle.
 - 9. Bargain Sales - Sale of church assets to a minister below the "Fair Market Value". The difference between "Fair Market Value" and sales price is taxable.
 - 10. Equity Allowance - "Extra" money given to ministers who live in a church-owned parsonage to offset equity that would have been accumulated had they owned their own house.
 - 11. Outside Speaking - Money from speaking engagements, regardless of the payment method (e.g., cash).
 - 12. Ministerial Services - Money from performing special services, such as, weddings, funerals, baptisms, etc.

NOTE: *All compensation must be properly approved in the Board/church Minutes.*

ANNIVERSARY AND SPECIAL OCCASION GIFTS

The tax courts have ruled that anniversary and other special occasion gifts from the church, and sometimes from members, are taxable income. *Banks vs. Commissioner*, 62 T.C.M. 1611 (1991). The courts ruled that it would be very difficult to give a tax-free gift, but not impossible. They implied that in order to have a tax-free gift, all of the following must be present:

1. The offering/gift cannot be solicited directly (Saints make your checks payable to Pastor _____) or indirectly (e.g., special gift envelopes or gift designated on envelope).
2. The donor must intend to make a gift (e.g., checks made payable to minister unsolicited or envelope with cash, but envelope clearly marked "Gift to Minister _____"). This was supposed in the "*Duberstein v. Commissioner*", 363 U.S. 278,285 (1960) court case. This is one of the most critical points.
3. Donor cannot get tax credit. Remember, the church maybe tax exempt, but the minister is not.
4. If 1 through 3 are met, then the money does not go through the church's accounting system (e.g., money not deposited into church account or recorded in church's records).

It is noteworthy to mention that all loose plate money, regardless of the type offering, always belongs to the church and is taxable income to the minister.

I would recommend that before special offerings are collected that a competent CPA or attorney be consulted.

HOUSING ALLOWANCE

What is the "Housing Allowance"?

Money that the IRS allows a church to give any ordained minister of its church to provide housing for them and their family.

What is an "Ordained Minister"?

Any person, who is duly ordained, commissioned or licensed as a minister of a church and is given the authority to perform substantially all the religious duties of the church.

Expenses Included:

House

Down payment
Mortgage payment
Closing costs
Rent
Renters insurance
Real estate taxes
Homeowners insurance
Personal property taxes
Home improvement

Appliances/Furnishings

Vacuum cleaners
Carpet shampoos
Television/VCR
Washer/Dryer Heater/AC
Chairs/Beds/Desks/Tables
Answering machines
Bookshelves

Maintenance/Repairs

General expenses
Lawn care
Cleaning supplies
Brooms
Light bulbs
Painting
Lumber
Nails/screws
Wallpaper

Home Decorations

Rugs
Blinds
Curtains
Tablecloths
Wall decorations
Plants
Light fixtures
Tile
Sheets/Pillows/Bedspreads

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Utilities

Electricity

Gas

Water

Phone

Pest Control

Garbage Removal

Limitations:

The lesser of: Amount outlined in Minutes
 Actual amount paid
 Or
 Fair rental value

Housing Allowance Request

Date _____
 Organization's Name _____
 Address _____

City _____ State _____ Zip Code _____

To the Board of Directors:

Based on my past and expected household expenditures for the current year, I can reasonably expect to spend the following amount to provide a home for me and my family for the calendar year 19__.

<u>Description</u>	<u>Amount</u>
--------------------	---------------

General Operating Expenses:

Rent/mortgage (includes principal & interest)	_____
---	-------

Property taxes on home	_____
------------------------	-------

Insurance on residence	_____
------------------------	-------

Utilities: Electricity	_____
------------------------	-------

Water	_____
-------	-------

Gas	_____
-----	-------

Oil	_____
-----	-------

Firewood	_____
----------	-------

Other	_____
-------	-------

Repairs/maintenance of home & furnishings	_____
---	-------

Furnishings:

Home decorations

Other:

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Total Operating Expenses

<u>Descriptions</u>	<u>Amount</u>
---------------------	---------------

Major repairs/renovations:

Room additions

Roof & gutters

Storm windows

AC (central or unit)

Heating unit

Renovations:

Other:

Total Major Repairs/Renovations

Home purchase:

Down payment

Land

Closing cost

Construction cost

Other:

Total Home Purchase

GRAND TOTAL

COMPENSATION RESOLUTION

The following resolution was duly adopted by the _____ of _____ at a regularly scheduled meeting held on _____, a quorum _____ being present.

Pastor _____'s total compensation package for the calendar year _____ shall be \$_____. This package will consist of:

1. \$_____ per month shall be designated as housing allowance, per IRC 107.
2. \$_____ per month shall be designated as salary for service rendered only as an ordained minister of the gospel.

This resolution shall apply to the calendar year _____ and all subsequent years, unless otherwise amended.

Members Present

President/Moderator

Secretary

Members Absent

Date

Date

BENEFITS RESOLUTION

The following resolution was duly adopted by the _____ of _____ at a regularly scheduled meeting held on _____, a quorum being present. Pastor _____'s total benefits package for the calendar year _____ shall be \$_____. This package will consist of :

1. \$_____ per month shall be designated as expense allowance per our qualified reimbursement plan, which was adopted on _____. This money shall be excluded from gross income if all money is properly accounted for.
2. \$_____ per month shall be designed as pension plan payment. All monies shall be considered housing allowance when they are withdrawn, per IRC 107.
3. \$_____ per month shall be paid for _____.
4. \$_____ per month shall be paid for _____.

This resolution shall apply to the calendar year _____ and all subsequent years, unless otherwise amended.

Members Present

President/Moderator

Secretary

Members Absent

Date

Date

FULL REIMBURSEMENT AND ALLOWANCE POLICY

The following resolution was duly adopted by the _____ of _____ at a regularly scheduled meeting held on _____, a quorum being present:

Whereas, income tax regulation 1.162-17 and 1.274-5(e) provides that an employee/volunteer "need not report on his tax return" expenses paid or incurred by him solely for the benefit of his employer, he is required to account and does account to his employer and which are charged directly or indirectly to the employer (church); and

Whereas, income tax regulation 1.274-5(e) further provides that "as adequate accounting means the submission to the employer of an account book, diary, statement of expense, or similar record maintained by the employee/volunteer in which the information as to each element of expenditures (amount, time and place, purpose and relationship) is recorded at or near the time of the expenditure, together with supporting documentary evidence, in a manner which conforms to all the "adequate records" requirements set forth in the regulations; and

Whereas, _____ desires to establish a reimbursement policy pursuant to regulations 1.162.17 and 1.274-5(e), upon the following terms and conditions:

1. Any employee/volunteer now or hereafter employed/volunteering by/for _____, his or her federal income taxes as an employee/volunteer, rather than as a self-employed person, shall be reimbursed or be given an allowance for any ordinary and necessary expenses incurred on behalf of _____, if the following conditions are satisfied:
 - a. the expenses are reasonable in amount
 - b. the employee/volunteer documents the amount, time, place, purpose and relationship of each such expense with the same kind of documentary evidence as would be required to support a deduction of the expense on the individual's federal income tax return, and

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- c. the employee/volunteer documents such expenses by periodically providing the office manager with an accounting of such expenses, no less frequently than monthly
2. The _____ shall not include on an employee's W-2 or a volunteer's 1099 the amount of any expense properly substantiated and reimbursed according to the preceding paragraph, and the employee/volunteer should not report the amount of any such reimbursement as income on his Form 1040.
3. Any reimbursement or allowance that exceeds the amount of expenses properly accounted for by an employee/volunteer pursuant to this reimbursement and allowance policy must be returned to the _____.
4. If, for any reason, _____'s reimbursements or allowances are less than the amount of expenses properly substantiated by the employee, _____ will report no part of the reimbursements on the employee's W-2 or the volunteer's 1099, a _____ may allow the employee/volunteer to carry the unreimbursed expenses over to the next month(s).
5. Under no circumstances will an employee/ volunteer be reimbursed for expenses incurred on behalf of _____ that are not properly substantiated according to this policy. _____ and staff/volunteer understand that this requirement is necessary to prevent the reimbursement plan from being classified as a "non-accountable" plan (per diem amounts will be allowed).
6. All receipts and other documentary evidence used by an employee/ volunteer to substantiate the nature and amount of the expenses incurred on behalf of the church shall be retained by _____.

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Medical

This policy shall include all reasonable medical expenses incurred by its employees that meet the criteria set above and as stated in Tax Regulation 1050. Medical expenses shall include, but not be limited to:

- Doctor visits
- Prescriptions
- Hospital stays
- Eye glasses
- Health premiums
- Special medical equipment
- Surgery
- Other

All expenses must be within the IRS guidelines for such a plan.

Reimbursements received by an employee under a self-insured medical reimbursement plan attributable to payments by an employer/church are excludable if they are for amounts expended for medical care under IRC 105(b). Reg. 1.105-11 (a). A plan is self-insured if reimbursements are not made under an insurance policy or if it is not a prepaid health care plan that does not involve the shifting of risk to an unrelated third party is considered self-insured. Reg. 1.105-11(b).

This plan will not discriminate per IRS guidelines and will be offered to all full-time employees who meet the length of service requirements stated in the employee handbook.

The above Resolution is duly adopted by the _____ of _____ on this date, _____.

Date

Date

Date

Date

COMPENSATION ANALYSIS CHECKLIST

<u>Item</u>	<u>Yes</u>	<u>No</u>	<u>Amt</u>	<u>Proposed Amount</u>	<u>Comments</u>
“Aggressive” Housing Allowance					
Social Security Exempt					
Church Retirement Plan					
Retirement/Housing					
Expense Allowance					
Church-Owned Vehicle					
Medical Reimbursement Plan					
Health Insurance					
Disability Insurance					
Dental Insurance					
Life Insurance					
Special Occasion Gifts					
Qualified Reduction Plan					
Loans					
Cafeteria Plan					
Equity Allowance					

COMPENSATION ANALYSIS CHECKLIST

Item	Yes	No	Amt	Proposed Amount	Comments
Work for Hire					
Educational Assistance Plan					
Bargain Sales					
Soc. Sec. Tax Supplement					
Outside Earning Paid to Church					
Achievement Awards					
Scholarship Program					
Documenting Business Expenses					
Est. Taxes or Withholding					
Spouse in Ministry					
Section 179					
Split Dollar Insurance					

DID YOU KNOW...

1. That IRS guidelines require Missions/Benevolence disbursements to be properly documented and that certain items cannot be paid for (e.g., car payments)?
2. That cancelled checks for individual gifts of \$250 or more cannot be used to substantiate a tax deductible gift?
3. That beginning in 1994, all contribution statements to contributors must contain special wording mandated by the IRS?
4. That all money collected must be deposited into a church account, and that no cash can be used to pay bills?
5. That violations committed by auxiliaries are imputed to the church?
6. That churches can disburse money for only 2 purposes?
7. That money given for a designated purpose can only be used for that designated purpose, in most cases?
8. That individuals cannot receive tax credit for services that they render to the church?
9. That churches cannot give their assets away to members, but must sell them at the fair market value or give them to a 501(c)(3) organization?
10. That expense allowances which are not substantiated by proper documentation become taxable income?
11. That if churches do not provide their banks with Employer's/Taxpayer's Identification Numbers, banks are required to withhold 31% of interest earned?
12. That if individuals refuse to complete Form W-9 "Request for Taxpayer Identification Number and Certification", the church is required to withhold 31% of their earnings and report them to the IRS on Form 8109 and 945?
13. That checks should never be made payable to "CASH"?

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14. That contributions designated to an individual, without the church having total control, are not tax deductible?
15. That all file records must be maintained at the church and not at someone's home?
16. That every check written must have proper documentation (e.g., invoices, receipts, etc.) to show that it was church related?
17. That voided checks cannot be destroyed, but must be maintained 7 years to meet IRS record retention guidelines?
18. That year-end contribution statements must be made available to all contributors by January 31st of the subsequent year?
19. That special pastoral accounts, where pastors have absolute control and can spend the monies for any purpose, become taxable income to the minister once monies are placed into the account?
20. That individuals can not get tax credit for postdated checks, returned checks, checks dated for the current year but told to hold for the subsequent year?
21. That IRS and accounting guidelines require churches to maintain ledgers that show monies received, monies spent, payments to employees and taxes withheld (payroll register), and contributions given by individuals?
22. That when board members do not implement proper controls to minimize misappropriation of monies, they could be personally liable if monies are spent improperly?
23. That all checks made payable to a church are not tax-deductible (e.g., trips, dinners, tapes, etc.) and should be marked as such?
24. That when members loan money to the church, it is not tax-deductible?
25. That all unused advances/reimbursements must be returned to the church and documented as such?
26. That churches should never pay from vendor or credit statements without proper receipts to substantiate that purchases were church-related and/or that goods/services were received?
27. That based on F.A.S.B. 93, churches are required to depreciate their assets?

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- 28. That offerings given directly to individuals (e.g., guest speakers) are not tax deductible?
- 29. That if contributors' contributions are not totally controlled by the church, they are not tax deductible?
- 30. That if a church sells donated property within a two-year period, a report to the IRS may be required?
- 31. That any transaction of \$10,000 or more must be reported to the IRS?
- 32. That tax deductions cannot be given to volunteers for services rendered?
- 33. That offering envelopes should not have a designated place for monies to be given to the pastor because he/she is not tax-exempt?
- 34. That gifts to ministers are not tax deductible because they are not tax exempt?
- 35. That contribution statements must be given to visitors as well as members?
- 36. That documentation must be maintained to verify that restrictive donations (i.e., building fund, missions, etc.) were used for their designated purpose?

OPERATING SUMMARY

CASH RECEIPTS

1. No cash can be removed from the offerings -- all monies must be deposited.
2. A cash receipts register is required in order to comply with Generally Accepted Accounting Principles (GAAP).
3. "Restrictive" donations must be used for the designated purpose only, unless a disclaimer is printed on the tithe/offering envelopes.

DEDUCTIBLE CONTRIBUTIONS

1. IRS could disallow contributions if the church does not have proper controls:
 - Envelopes are not opened during the offering
 - Contents are compared to written amounts on envelopes
 - Only envelope amounts are entered onto members' ledgers (1 exception - non-cash gifts)
 - Control totals are maintained
 - Year-end contribution statements are balanced to members' ledgers
2. Gifts are only deductible if given without recourse and totally controlled by the exempt organization.
3. Contribution statements cannot include the value of "non-cash" gifts.
4. No contribution credit can be assigned for services rendered.
5. Adjustments to contribution statements are required for returned or post-dated checks.

CHECK DISBURSEMENTS

1. All disbursements must have adequate supporting documentation.
2. There are only 2 legal reasons to distribute monies:
 - For services rendered to the exempt organization

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- Payments to advance the organization's exempt status
- 3. Two signatures should be required on all checks to insure proper controls (breach of the duty of care).
- 4. Never make a check payable to "Cash".
- 5. Auxiliary accounts are not advisable.

HONORARIUMS

- 1. W-9s, "Request for Taxpayer Identification Number and Certification", are required for all non-employees (except for corporations) who render services to the church. If W-9s are not completed, the church could be fined.
- 2. An honorarium ledger should be kept to determine if IRS reporting is required.
- 3. 1099s, "Miscellaneous Income", are required for amounts of \$600 or more per calendar year.
- 4. No cash payments are allowed.

FIXED ASSETS

- 1. All purchases require "proper" Board approval.
- 2. Fixed asset ledgers are required. The ledger should include descriptions of assets, the purchase date, the purchase amount, the vendor and the identification number (e.g., serial number, etc.).
- 3. All assets must be in the church's name and only used for the church's benefit.
- 4. Contracts for assets must be signed by an individual(s), but in a representative capacity so individuals cannot be held liable.
- 5. Insurance coverage must be adequate to cover all assets.

PAYROLL

1. Form SS-8, "Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding", should be completed to properly classify individuals as "employees" versus "non-employees".
2. Tax deposits must be made for all non-ordained employees; otherwise, stiff penalties apply.
3. Social Security taxes cannot be withheld from ordained ministers' salaries.
4. The church must comply with the "Fair Labor Act" which controls:
 - equal pay
 - minimum wage
 - over-time pay
5. W-2s, "Wage and Tax Statement", must include all taxable items (some examples):
 - paid vacation
 - matched Social Security taxes (for ordained employees only)
 - expense allowance (if a non-accountable plan)
 - life insurance
 - gifts from the church
6. Taxes must be withheld on all non-ordained employees.
7. Before employees are paid, W-4s "Employee's Withholding Allowance Certificate", I-9s "Employment Eligibility Verification" and State

OFFERING PROCEDURES

THE OFFERING

1. The congregation should be trained to legibly and properly complete envelopes. The envelopes should have the full name, full address, date, correct monetary amount by category (e.g., tithe, offering, etc.) and the membership number if applicable.
2. Envelopes improperly or illegibly completed may result in loss of contribution credit.
3. Envelopes should be made available at all services. The congregation should be informed that an envelope is to be used if they wish to receive contribution credit.
4. Envelopes should contain a disclaimer (if the Trustees want the right to use designated funds for other purposes) stating the following:

We sincerely appreciate your financial support; however, the Board of Trustees reserves the right to redirect all funds to the area of ministry where funds are most needed

NOTE: Offerings can only be used for the designated/solicited purpose if a disclaimer is not used!!

5. All persons should be asked to place money inside the envelope so that the contents can be verified by those counting the offering.
6. Envelopes should not be opened for any reason during the offering --not even to give change. Contents must be verified against the amount written on the envelope.
7. No checks should be cashed, especially those made payable to the church.

COUNTING THE OFFERING

1. At least 3 bonded/insured persons should count the offering to protect the church against loss.
2. Once persons begin the counting process, no one should be allowed to enter or exit the counting room.

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3. Envelope amounts must be agreed to monies on the inside - all differences must be adjusted and documented (initial envelope).
4. Legible envelopes, illegible envelopes and loose plate money should be separated.
5. Illegible envelopes need to be reviewed to determine the contributor and the amount. If the contributor and amount can be determined, properly complete and place with the legible envelopes. All others can be discarded and the monies placed with the loose plate monies. Contributors cannot receive contribution credit.
6. Verify amounts written on envelopes to the monies inside for all legible envelopes.
7. Money from legible envelopes should be counted, an adding machine tape prepared and the 2 reconciled.
8. Count all loose plate money and prepare one envelope with the amount -the contributor should be called "Mr. Loose Plate".
9. Combine monies from #7 and #8 above and complete Sections A-General & B-Summary, respectively of the Weekly Cash Receipts Analysis Form.
10. No money can be removed from the offering, according to IRS guidelines. All money collected must be deposited, without exception.
11. Checks and coins should be stamped "For Deposit Only".
12. Prepare bank deposit slip and total should match Sections A & B of Weekly Cash Receipts Analysis Form. If not, differences must be resolved.
13. All monies should be deposited into one account and then transferred into other accounts by check.
14. Complete Sections C, D & E of Weekly Cash Receipts Analysis Form.
15. Complete Monthly Income Report Form.
16. Money should be placed in a locked night depository bag and immediately deposited by 2 individuals who do not have keys to the bag.

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17. The depository bag should be retrieved from the bank by an individual that did not count the money. Validated deposit slips should be agreed to the Weekly Cash Receipts Analysis Form. Differences should be resolved immediately.
18. The bank should be instructed to contact the person who retrieves the bag(s) if there is a discrepancy between the stated amount and the actual deposit.
19. Deposits must be made in a timely manner.
20. At month-end, bank statements should be agreed to Weekly Cash Receipts Analysis Form. All differences must be resolved and reported in writing.

NOTE: Checks made payable to the church that are not deductible should be marked on the front of the check "NOT DEDUCTIBLE".

CONTROLS

1. Individuals should verify envelope content to the written amount on the envelope.
2. Envelopes, with adding machine tape, are balanced to deposit and Summary of Contributions Ledger.
3. At different intervals, individual contribution statements should be issued to a random selection of members to review for accuracy.
4. Church members should be encouraged to use envelopes, filled out legibly and completely.

CONTRIBUTOR'S CONTRIBUTION LEDGER

1. Only envelopes which are "properly" completed are required to be recorded on the Contributor's Contribution Ledger.
2. Each member, along with Mr. Loose Plate should have a separate ledger with pertinent information.
3. Entries, by date, into the ledger should be taken only from the properly completed envelopes and no other source - 1 exception, non-cash gifts.
4. Envelopes should be entered on all individuals' (including non-members) contribution ledgers by church service date.

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5. Individual contribution ledgers should be totaled and summarized onto a "control" ledger. Control sheet totals should match adding machine tape (which is wrapped around the envelopes) and deposit amounts.
6. Dollar totals should be reconciled to the "control" ledger -- differences must be resolved.
7. Adding machine tapes should be wrapped around envelopes and both maintained for 7 years from the end of the accounting year.
8. At year-end, individual contribution ledgers should be adjusted when returned checks have not been paid.
9. The following items will also need to be adjusted for on the individual contribution ledgers:
 - returned checks
 - post-dated checks
 - checks not post-dated, but requested to be held until next year

POSSIBLE CONTROLS

1. At least 3 bonded/insured people counting the offering at all times.
2. No entering or exiting of people during the counting process.
3. Deposits balanced to envelopes and contribution ledgers.
4. Maintain TV monitors in location where contributions are being counted.
5. For computer systems, use password(s) which are not easily accessible/identifiable (i.e., don't use personal or church names, etc.).
6. Rotate counting teams.
7. Individual who supervises without counting.
8. Issue interim contribution statements to members for review.

DEDUCTIBLE CONTRIBUTIONS

Outlined below are some rules governing charitable contributions:

1. Gifts must be given without recourse.
2. Gifts must be totally controlled by the exempt organization.
3. The value of a gift must be adjusted by the fair market value when benefits are received (special rules apply depending on the value of the benefit).
4. Restrictive gifts can only be used for the designated purpose (consideration should be given to establishing a special account for "restrictive" funds only) when a disclaimer is not used.
5. Monetary value cannot be assigned to "non-cash" gifts, but must be included on the individual contribution ledger.
6. "Future" benefits (e.g., post-dated checks) are not allowable on individual contribution ledgers until the church has access to the money.
7. Credit card gifts are allowed on individual contribution ledgers when charged.
8. Gifts to individuals or for the benefit of an individual (ministers, friends, guest speakers, benevolence, etc.) are not deductible; thus, are not allowed on individual contribution ledgers.
9. Gifts valued at more than \$5,000 which are sold within 2 years require special reporting (Form 8282).
10. Gifts valued at more than \$10,000 which includes 1 or 2 related transactions are required to be reported to the IRS.
11. Qualifications for gifts to be classified as "deductible" (IRC 170):
 - Must be a gift of cash or property, *not a service*
 - Must be given *before* the end of the year in which deduction is claimed
 - Must be given unconditionally and without benefit to the contributor
 - Must be given to or given for the use of the qualified organization

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- Must be substantiated if the gift is \$250 or more
- 12. Gifts to recognized 501 (c)(3) organizations are the only ones assured by the IRS to be deductible!
- 13. Cancelled checks can no longer be used to substantiate gifts of \$250 or more -
- written acknowledgement is required.

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YEAR-END CONTRIBUTION STATEMENT

1. Year-end contribution statements must be made available to each contributor (including non-members).
2. Year-end statements should only be changed when *infallible* proof is presented - documentation for the change should be maintained.
3. Miles driven for charity are deductible on the individual's tax return (\$0.12 per mile for 1994), but should not be included on their contribution statement.
4. Contribution statements can only include 5 classes of items:

Cash	Checks	Money Orders	Credit Cards
Property (no value should be listed)			

5. The following must be individually itemized:
 - Cash gifts of \$250 or more
 - Property valued at \$250 or more
 - Gifts of \$75 or more which results in goods/services provided to the contributor
6. Year-end statements *must* include special wording similar to this:
 - A good faith estimate of the value of any goods or services received in exchange for any individual contribution of \$75 or more
 - If no value is listed, this means that no goods or services were provided, or their value was insignificant or consisted entirely of intangible religious benefits
 - If goods or services were received in return to the contribution, the deductible portion of the contribution is the amount by which it exceeds the value of the goods or services received

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Dear _____,

For the calendar year _____, our records indicate that you made contributions of \$_____ to _____ Church.

This amount does not include non-cash gifts or individual contributions of more than \$75.00 for which you received any goods or services in exchange for your gift.

These contributions of more than are itemized below, if any.

This statement includes a good faith estimate of the value of any goods or services you received in exchange for any individual contribution of more than \$75.00. If no value is listed, this means that no goods or services were provided, or their value was insignificant or consisted entirely of intangible religious benefits. If you received goods or services in return for your contribution, the deductible portion of your contribution is the amount by which it exceeds the value of the goods or services received in return (as noted below). This, of course, assumes that you otherwise qualify for a charitable contribution deduction.

As required by law, outlined below are the individual gifts of \$250.00 or more (these contributions are included in the total above), and individual contributions of more than \$75.00 that were received in exchange for goods or services (not included in the above amount) or non-cash gifts valued by the donor at \$250.00 or more (not included in the above amount).

Date	Gross Amt.	Value & description of goods or services provided to you by the church (for contributions of more than \$75)	Net amt. of contribution (tax-deductible amount)	Description (for donated property valued by donor at \$250 or more, no value can be given)

Should you have any questions about any amount reported or not reported on this statement, please notify the church treasurer within 90 days of the date of this statement. Statements that are not questioned within 90 days will be assumed to be accurate.

Thank you for your giving.

Treasurer

Date

Check Disbursements: General Thoughts

1. All disbursements must be made by check; the only exception is for petty cash disbursements.
2. There are only two legal reasons that churches can disburse money:
 - for services rendered to the tax-exempt organization (e.g., payroll, legal & professional fees, honorariums, etc.)
 - for payments to promote the organization's tax-exempt purpose (e.g., mortgage, literary materials, etc.)
3. Checks written must be properly recorded in the "Payroll & Check Disbursement Register", then carried to the cash flow analysis and net worth statements.
4. All disbursements must have adequate supporting documentation to prove that disbursements are church-related - without exception!!
5. Never pay bills from a statement; pay from invoices to avoid duplicate payments and unauthorized purchases.
6. Board approval may be required on some purchases (e.g., land, assets, etc.)
7. Good internal controls require 2 signatures on all checks.
8. Checks should only be signed after they have been properly completed and documentation reviewed.
9. Never make checks out to "Cash" and never issue blank checks.
10. Deface all voided checks and file - do not destroy.
11. Record check number on invoice when the check is written.
12. The bank should be notified that no counter checks or "non" check withdrawals (e.g., ATM) are allowed.
13. Bank reconciliations must be prepared monthly.

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14. Cancelled checks that are endorsed must be checked against the payee; endorser must receive Form 1099.
15. Checks must be kept at the church at all times in a locked, fire-proof safe or file.
16. Bylaws must specify individuals who have the right to establish banks accounts - minutes should specify individuals approved to sign checks.
17. At the end of each month, all disbursements should be audited for proper documentation.
18. Checks should only be written by the church's financial board -auxiliary accounts are dangerous!
19. Seven reasons why cash payments are bad:
 - Violates accounting principles
 - Financial statements may be incorrect
 - Loss of sales tax (NC only)
 - Cannot account for all monies
 - W-2s and 1099s may be understated
 - No documentation
 - Appears suspicious
20. Checks should not be post dated because it could result in insufficient funds, incorrect financial statements, and it is illegal in some states.
21. Never intentionally write a "bad" check -- it is against the law.
22. Take care in writing checks as the written amount, the numerical amount is considered the legal value.
23. Always reference your invoice number or other identifying information in the "Memo" of the checks so that credit for payment will not be delayed.
24. The "Payroll & Check Disbursement Register" must be reconciled to all financial statements.
25. Disbursement records must be maintained for at least 7 years (e.g., invoices, cancelled checks, bank statements, etc.).

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26. Improper account classification could cause IRS violations (e.g., honorariums classified as missions)
27. No disbursement for personal bills or benefits are allowed.
28. All related party transactions should be made at Fair Market Value with special attention given to the documentation.
29. Checks should be written only in pen.
30. Errors on checks should not be altered, but rather voided and new checks issued.
31. Payment stops should be put on all lost or stolen checks -- letter from the bank should be filed.
32. W-9s are required prior to payment for services rendered.
33. All disbursements must have an audit trail.
34. Utilize a chart of accounts for consistency!!

CHECK DISBURSEMENTS

Major vendors should be notified, in writing, of persons who are authorized to make purchases on behalf of the church. Additionally, request vendors to mail a copy of the receipts to the church, as well as, give the purchaser a receipt.

CHECK REQUISITION:

1. Prepare the "*Check Requisition*" form and forward to the church office or the Treasurer.
2. The "*Check Requisition*" form is reviewed for accuracy, completeness, and in light of the church budget and ministerial needs.
3. Proper approval is obtained and the check is prepared.
4. The check is ready for disbursement.
5. If the "*Check Requisition*" form is denied or modified, the requestor will be notified.

CHECK WRITING PROCEDURES (TO MINIMIZE CONFUSION, ALL ITEMS MUST BE LEGIBLE):

1. The following items are needed before writing a check:
 - an approved "*Check Requisition*" form
or
 - a signed invoice validating that the goods/services were received
or
 - a completed W-9 for services rendered
or
 - a completed "*Request for Expense Reimbursement*" form
or
 - an approved "*Missions*", "*Benevolence*" or "*Ministry of Helps*" form
2. Write the check and record the invoice or reference number in the "Memo" section of the check to facilitate credit for payment.

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3. Complete the check stub with all pertinent information, including a description of the item(s) purchased and/or "*Chart of Accounts*" number so the "*Check Disbursement Register*" can be properly updated.
4. Make sure to deduct the check amount from the previous balance in your checkbook in order to maintain the current balance - always maintain a running balance.
5. Record the date and check number on the invoice and mark *PAID*.
6. Attach supporting documentation to the check and submit for review and signature of authorized individuals.
7. After checks have been signed and reviewed, mail along with the invoice if an extra copy is available.
8. Invoices should be filed by month, in numerical order according to the check number recorded on the invoice.
9. Invoices should be maintained for at least 7 years.
10. Update your "*Check Disbursement Register*" on your computer system.

INTERNAL CONTROLS are needed to minimize the likelihood of embezzlement or misappropriation of funds:

1. Keep the church checkbook on the church's premises in a secured, fireproof safe or file.
2. Segregate the duties of the check preparer and authorized signers.
3. Monthly vendor statements should be reviewed by someone other than the check preparer and authorized signers.
4. Authorize at least 2 unrelated persons to sign checks.
5. Blank checks should *never* be signed.
6. Have the appropriate documentation before signing checks.

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7. Monthly bank reconciliations should be done by someone other than the check preparer.
8. Allow only authorized persons to make purchases.
9. Have a centralized finance committee or treasury, without auxiliary accounts.
10. Establish a trained and active internal audit committee.
11. Rotate check preparer and treasurer.
12. Have an annual audit by someone who is experienced in Church Tax and Law.
13. Prepare, on a timely basis, monthly Cash Flow Analyses.
14. Notify the bank that counter checks or ATM withdrawals are not allowed.
15. For computer systems, use a password(s) that is not easily identifiable or accessible (i.e., don't use personal or church names, etc.).

Check Requisition

A. DEPARTMENT/AUXILIARY INFORMATION

Name _____

Requester's Name _____

Requester's Phone Number _____

B. CHECK REQUISITION

Amount of Check _____

Purpose: _____

Check to be given to _____ Date Required _____

Phone Number _____

C. VENDOR INFORMATION

Company _____/Representative _____

Address _____ Phone _____

Quantity	Description	Cat'l #	Page #	Unit Price	Cost

Shipping & Handling

Sales Tax

Total

D. APPROVALS

E. FOR OFFICE USE ONLY

Date Ordered _____

Check Number _____

Date Received _____

Received By _____

PETTY CASH

A separate cash fund of a predetermined amount, normally \$50 to \$100 used to make small purchases for the church. The individual who oversees this fund is called the "Petty Cash Custodian". Additionally, this fund is started by writing a check to the Petty Cash Custodian after it has been approved in the Church/Board minutes.

STEPS TO ESTABLISHING AND MAINTAINING A PETTY CASH FUND:

1. Obtain Church/Board approval.
2. Select and train the Petty Cash Custodian.
3. Write a check to the Petty Cash Custodian for monies to place in a locked bag/box.
4. Petty Cash Custodian distributes money to individuals who have submitted a Cash Voucher or have purchased item(s) and supplied a receipt.
5. Individuals who submit Cash Vouchers and receive cash need to submit receipts from purchase and any excess monies to the Petty Cash Custodian.
6. Petty Cash Custodian must always maintain the pre-approved amount in either cash, Cash Vouchers and/or receipts.
7. When Petty Cash balance reaches minimal level, the Petty Cash Custodian should prepare a "Request for Expense Reimbursement" form for the amount of receipts that are in their possession.
8. The Treasurer should review the "Request for Expense Reimbursement" form and write a check for that amount to the Petty Cash Custodian.
9. The check + cash that the Petty Cash Custodian has should equal the pre-approved Petty Cash amount.

Missions

1. Before money can be distributed, the church must verify there was a "need" (e.g., outside reports, medical bills should be obtained).
2. There are only 4 "needs" for which monies can be distributed:
 - Food
 - Clothes
 - Medical emergencies
 - Rent/mortgage/utilities
3. Application forms are not required, but highly recommended. This is your documentation for the disbursement. Forms should be approved by 2 authorized persons.
4. A benevolence policy should be established to determine who and how much a person qualifies for to eliminate possible discrimination claims-outline the criteria!!
5. Disbursements are tax-free if a "need" is established.
6. Application forms should be maintained for the same period as invoices.
7. Missions paid to regular tithes and offerings could be viewed as "money exchanged".
8. Monthly mission disbursements to the same person may require a 1099 in order to protect the church.
9. Repayment of money is not required, but can be accepted by the church as a tax-deductible gift - consider #7.
10. Missions to "controlling" members or their families will be closely scrutinized by the IRS.

Returned Checks

1. A perpetual record should be maintained by someone who is not responsible for collecting checks or depositing money. This record should outline dollar amounts and the number of checks (monthly):

Example:

	<u># of Checks</u>	<u>Amount</u>
Beginning Balance	10	\$1,000
Returned Checks	3	40
Re-deposited Checks	<u><7></u>	<u><800></u>
Ending Balance	6	\$ 240

On a monthly basis, perpetual records should be reconciled to actual checks to insure that all monies are accounted for.

2. All re-deposited checks should be on a separate deposit slip and marked "Returned Checks" so that the "Returned Check" perpetual can be properly maintained. No envelope is needed.
3. At year-end, dishonored checks must be deducted (document well) on the individual's contribution ledger.
4. Returned checks must be deducted from the Monthly Income Report and shown as income when they are re-deposited.
5. Individuals can be charged a return check fee up to the limits allowed by State law.

BANK RECONCILIATION

1. Record in your checkbook all items which appear on your bank statement that have not previously been entered, such as *preauthorized drafts, interest earned, services, returned checks and other transactions*.
2. In your checkbook, check off the Deposits/Credits and Check/Debits as shown on your bank statement
3. In the Deposits/Credits section, list any Deposits/Credits that have been made within the beginning and ending dates of your bank statement, but do not appear on your bank statement
4. In the Outstanding Checks/Debits section, list any Checks/Debits issued by you that have not yet been paid by the bank.
5. Write in the Ending Statement Balance shown on the bank statement..... _____
6. Write in the total amount of Deposits/Credits you have made since the date of this statement (items in #3) + _____
7. Total the amounts in lines 5 & 6 = _____
8. Write in the total amount of Outstanding Checks/Debits (items in #4)..... - _____
9. Subtract the amount in line 8 from the amount in line 7. This is your "Correct" Balance..... = _____
(should agree to checkbook balance)

If your "Correct" Balance (line 9) does not agree with your checkbook balance:

Review last month's reconciliation to make sure any differences were corrected.

Make sure all deposits, interest earned, and service charges shown on your bank statement are included in your account register.

Check addition and subtraction in your account register and in this month's reconciliation.

A. Deposits / Credits		
DATE	AMOUNT	
TOTAL AMOUNT		

B. Outstanding Checks / Debits		
NUMBER	AMOUNT	
TOTAL AMOUNT		

CERTIFIED CHART OF ACCOUNTS FOR CHURCHES & NON-PROFIT ORGANIZATIONS

Assets

Current Assets

- 101 Cash in Bank - Checking
- 102 Cash in Bank - Savings
- 103 Cash in Bank - Auxiliaries
- 104 Cash in Bank - Building Fund
- 108 Cash in Petty Cash Fund
- 109 Pledge - Receivables
- 110 Sales Tax - Receivables
- 111 Returned Checks - Receivables
- 132 Inventory - Bookstore
- 141 Advances to Employees
- 146 Investments (CDs)
- 148 Unclassified
- 149 Unclassified

Property & Equipment

- 150 Land
- 151 Church Building
- 152 Furniture, Fixtures, Chairs
- 153 Office Equipment
- 154 Musical Equipment
- 155 PA & Electronic Sound Equipment
- 156 Cafeteria/Kitchen Equipment
- 157 Church Building Improvements
- 158 Nursery & Children's Church
- 159 Telephone Equipment
- 160 Data Processing Equipment
- 161 Transportation Equipment
- 164 Sign
- 165 Security Control System
- 166 Radio & Broadcasting Equipment
- 169 Other Classified Assets
- 170 Construction-In-Process
- 180 Accumulated Depreciation

Other Ministry Assets

- 190 Deposits
- 191 Rent Security Deposits

Liabilities & Fund Equity

Current Liabilities

- 221 Notes Payable (Classified)
- 222 Notes Payable (Classified)
- 231 Employee Medicare Taxes
- 232 Employee FICA Taxes
- 233 Employee Federal Withholdings
- 234 Employee State Income Taxes
- 246 Accrued Taxes (Other)
- 248 Accrued Interest
- 251 Loans Payable
- 252 Loans Payable

Long-Term Debt

- 261 Notes Payable (Classified)
- 262 Notes Payable (Classified)

Revenue Accounts

- 301 Tithe
- 302 Offering
- 303 Special
- 304 Missions
- 305 Building Fund
- 307 Pledge
- 308 Tapes & Books
- 310 Mid-Week
- 311 Tuition - Daycare
- 391 Interest Income
- 399 Miscellaneous Income

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Ministry Expenses

501	Payroll Gross	594	Travel, Meals & Lodging - Staff
502	Payroll Housing Allowance	595	Travel, Meals & Lodging - Guests
507	Advertising & Promotion	596	Utilities (Split out)
511	Auto & Transportation Expenses	597	Youth Activities
516	Bank Fees	599	Miscellaneous
517	Books & Publications		
518	Broadcast & Radio		
521	Children's Church		
523	Cleaning Supplies		
529	Data Processing Fees & Supplies		
534	Depreciation		
535	Donations		
536	Dues & Reports		
537	Fellowship & Church Activities		
538	Flowers & Gifts		
539	Fund Raising		
541	Honorariums & Love Offerings		
544	Insurance - Vehicles		
545	Insurance - Church		
546	Insurance - Life		
547	Insurance - Medical		
551	Interest		
553	Laundry & Dry Cleaning		
554	Legal & Professional Fees		
555	Leasing Equipment		
556	Music Ministry		
557	Licenses & Permits		
558	Missions - Foreign & Domestic		
559	Needy Families & Benevolence		
560	Nursery Ministry		
563	Office Supplies		
564	Outside Services		
568	Postage & Shipping		
572	Rent		
573	Rentals		
574	Repairs & Maintenance		
576	Printing		
577	Seminars, Conferences, Education & Training		
579	Sunday School Supplies		
580	Tape Ministry		
583	Taxes - Real Estate		
588	Taxes - PICA (Employer)		
589	Taxes - Sales		
592	Telephone & Long Distance Calls		

501 - Payroll Gross

Gross taxable wages paid to any employee of the church, which should be reported on W-2s. This includes salary, gifts, honorariums, love offerings, etc.

502 - Payroll Housing Allowance

Housing allowance paid to an ordained, licensed or commissioned minister of the Gospel (per IRC 107) and who performs the sacerdotal functions on a regular basis. The designated amount of the allowance must be approved in advance by the appropriate Board/Church body.

507 - Advertising and Promotion

Radio, television, billboards, newsprint, telephone directory listing, business cards, flyers, pamphlets, etc.

511 - Auto and Transportation

Gasoline, oil, tolls, parking, car washes, normal maintenance and repairs for all church-owned vehicles.

516 – Bank Fees

Monthly service fee, check printing, safety deposit box fee, returned check charges, etc.

517 - Books and Publications

All types of reading material including magazines and journal subscriptions.

518 - Broadcasts

Broadcasting of the Gospel message on television and/or radio.

521 - Children's Church

Art supplies, film rentals, snacks, books and tapes, and other supplies or materials related to Children's Church.

523 - Cleaning and Supplies

Cleaning products, paper towels, toilet tissue, etc.

529 - Data Processing Fees and Supplies

Computer and fax paper, forms, ribbons, disks, software support and maintenance.

534 - Depreciation

At year-end a church is required to depreciate the ministry's assets which represent the "writing-off" of some of its value for a given year. Schedule 4562 is used to

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calculate this. This account will be debited and account *180 - Accumulated Depreciation* will be credited.

535 - Donations

Donations are gifts to other 501 (c)3 organizations or churches. Qualified gifts are not subject to a Form 1099.

536 - Dues and Reports

Association or affiliation fees or obligations.

537 - Fellowship and Church Activities

This includes church dinners, functions, special events, fellowships at pastor's residence, and all other ministry-related activities that are open to the entire church body.

538 - Flowers and Gifts

Flowers and gifts for all occasions (decoration of church, bereavement, sickness, funerals, births, etc.). It does not include gifts to the pastor -see *501 - Payroll Gross*.

539 - Fund Raising

All expenses associated with fund raisers.

541 - Honorariums and Love Offerings

Honorariums are payments to non-employees for services rendered and are reported on Form 1099 when amounts exceed \$600 a year. W-9s are required before payments are made.

544 - Insurance (Vehicles)

Insurance on all church-owned vehicles.

545 - Insurance (Church)

Insurance on the church building and all other areas not covered under 544, 546 and 547. Examples would be counseling, sexual misconduct and theft and dishonesty.

546 - Insurance (Life)

Insurance on church employees. Premiums paid are tax-free to employees, provided that it is group term life insurance of \$50,000 or less.

547-Insurance (Medical)

Employee insurance for health and dental coverage. Premiums are tax-free to employees if the coverage is offered to all employees.

551 - Interest

Interest paid on all ministry-related debt. Principal payments are applied to the 200 *Account series*.

553 - Laundry and On/cleaning

Professional cleaning of auxiliary uniforms, choir robes, pastor's robes and clergy collars (not personal suits, shirts, ties, etc.) and church linens.

555 - Leasing

All items leased by the church, even those leased with an option to buy. Items leased with an option to buy should not be listed as an asset until the item is purchased.

556 - Music Ministry

Music and worship tapes, sheet music

557 - Licenses and Permits

Licenses and permits needed to conduct church business, such as vehicular licenses, privilege licenses or building permits, bulk mail permits.

558 - Missions: Foreign and Domestic

Support given to missionary work (monies, clothing, food, Bibles, etc.).

559 - Needy Families and Benevolence

To assist families in need or those who have lost a loved one. A true need must be determined by careful use and review of applications. Checks must be written and made payable to the provider/vendor - utility company, landlord, grocery store, hospital, doctor, telephone company, etc. No W-9s or 1099s are required.

560 - Nursery Ministry

Supplies required to adequately equip and maintain the nursery (bed linens, latex gloves, pampers, towelettes, etc.). Large purchases such as cribs, bassinets, etc. would be charge to *Account 158*.

563 - Office Supplies

Supplies needed to equip and maintain the church's administrative offices (stationery, staples, paper, binders, pens, pencils, etc.). Computer-related items would go in *Account 529*.

564 - Outside Services

Snow plowing, garbage services, piano tuning, lawn upkeep, window washing. W-9s are required before services are rendered. 1099s would be issued for amounts greater than \$600.

568 – Postage, Shipping and Handling Costs

Expenses for mailing and/or shipping, such as stamps, meter postage, shipping and handling charges, boxes, cartons, tape, string.

572 – Rent

Facility rental

573 - Rentals

All other items rented by the church, and not included in #572, such as cars, postage machine and other items.

574 - Repairs and Maintenance

All repairs to and upkeep of church-owned property, except for major improvements, such as roof replacement, remodeling which would go in *Account 157 — Church building improvements*.

BOOKKEEPING SYSTEM

Accounting principles require that a "double entry" bookkeeping system be maintained. "Double entry" simply says that to insure that accounting records stay in balance and that records are not "plugged", every transaction must have a "debit" and a "credit" - a "plus" or "minus" (this method is favored by the IRS). Some examples are:

	<u>Debit</u>	<u>Credit</u>
A) Purchase office supplies (<i>office supplies increase, cash decreases</i>) <i>Office supplies</i> <i>Cash (checking)</i>	\$ 100	\$ 100
B) Purchase an asset (PA system) (<i>PA system increases, cash decreases</i>) <i>PA system</i> <i>Cash (checking)</i>	\$1000	\$1000
C) Transfer money from checking to Bldg Fund (<i>Bldg Fund increases, checking decreases</i>) <i>Bldg Fund</i> <i>Cash (checking)</i>	\$ 500	\$ 500
D) Deposit money into checking from offering (<i>checking increases, income increases</i>) <i>Cash-Checking</i> <i>Income</i>	\$ 875	\$ 875
E) Paying an outstanding loan (<i>Principle & cash decrease, interest expense increases</i>) <i>Notes payable (principle)</i> <i>Interest expense</i> <i>Cash (checking)</i>	\$ 400 \$ 50	\$ 450

At month-end, when the check disbursement registers, payroll register and the monthly income analysis are updated, and the bank reconciliations are prepared, it is time to prepare the month-end journal entry to insure that all "debits" and "credits" balance. Remember, your books must be in balance!

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Let's look at an example to see how this works!

a) Per the check disbursement and payroll disbursement registers:

<u>Honorarium</u>	<u>Payroll Gross</u>	<u>Payroll SS W/H</u>	<u>Payroll Medicare W/H</u>	<u>Utilities</u>	<u>Office Supplies</u>	<u>Assets</u>
\$200.00	\$1,000.00	\$62.00	\$14.50	\$175.00	\$62.00	\$3,900.00

TOTAL DISBURSEMENTS - \$5,260.50*

"Total includes Net Payroll [\$1,000 - (\$62+\$14.50)], not Payroll Gross, because it was the net amount that was disbursed. The \$62.00 and the \$14.50 represent taxes withheld from the payroll check and will be paid sometime in the future."

b) Monthly income analysis:	Tithe	\$3,419.13
	Offering	517.10
	Building Fund	<u>500.00</u>

Total collected for the month \$4,436.23

c) Bank activities:	Interest earned -	\$51.00
	Service fees -	\$10.00

With this information, it is time to prepare our month-end journal entry or our "debits" and "credits".

Assets are items purchased that generally have a useful life of more than 1 year, costing over \$100 (varies by church), which are added to the balance sheet and depreciated annually.

Journal Entry December 1995

<u>DATE</u> <u>CREDIT</u>	<u>TYPE</u> <u>DISBURSEMENT</u>	<u>ACCOUNTS</u>	<u>SOURCE</u>	<u>DEBIT</u>
12/31/95	E	Honorarium	Check disbursement & payroll register	\$ 200
	E	Payroll Gross	“	\$ 1,000
	L	Payroll Soc. Sec.	“	\$ 62
	L	Payroll Medicare	“	\$ 14.50
Journal Entry “A”	E	Utilities	“	\$ 175
	E	Office Supplies	“	\$ 62
	A	Audio/Video Equip.	“	\$ 2,000
	A	Office Furniture	“	\$ 1,900
	A	Cash (Checking)	“	\$5260.50

NOTE: “E” represents expenses that will be reflected on the Profit & Loss Statement and the Cash Flow. “L” represents liabilities which will be reflected on the Balance Sheet as monies owed. “A” represents an increase in assets (audio & video equipment -\$2,000 and office furniture -\$1,900, totaling \$3,900), and a decrease in cash. The total cash disbursed/spent was \$5260.50. Remember, the taxes withheld (\$62 and & \$14.50) were only from an employee’s pay check, but have not yet been paid.

Journal Entry “B”	A	Cash (checking)	Monthly Income Analysis	\$4,436.23
	I	Income	Monthly Income Analysis	\$4,436.23
	A	Cash (checking)	Bank Statement	\$ 51
Journal Entry “C”	I	Interest Income	Bank Statement	\$ 51
	E	Bank Fees	Bank Statement	\$ 10
	A	Cash (checking)	Bank Statement	\$ 10

EXPLANATION OF BALANCE SHEET

Balance sheets are designed to track the assets (e.g., checking, building, audio-video equipment, etc.), liabilities (e.g., mortgage payment, taxes, etc.) and the equity (lifetime profit or loss) of the church at a specific point in time.

It is a “picture” of what the church owns (assets) and what it owes (liabilities) at a specific point in time; the difference between assets and liabilities is sometimes called “equity” or “net worth”.

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BALANCE SHEET at 11/30 & 12/31/95

<u>Current assets</u>	<u>Balance at 11/30</u>	<u>Change</u>	<u>Balance at 12/30</u>
Cash Checking	\$ 10,400.00	\$ <783.27>	\$ 9,616.73
Building	<u>5,000.00</u>	<u>-0-</u>	<u>5,000.00</u>
Total Cash	<u>\$ 15,400.00</u>	<u>\$ <783.27></u>	<u>\$ 14,616.73</u>
 <u>Non-current Assets</u>			
Building	\$ 512,000.00	\$ -0-	\$ 512,000.00
Vehicle	\$ 21,450.00	-0-	21,450.00
Audio & Video Equipment	\$ 2,111.00	2,000.00	4,111.00
Office Furniture	-0-	1,900.00	1,900.00
Other	<u>\$ 3,017.00</u>	<u>-0-</u>	<u>3,017.00</u>
Total Non-Current Assets	<u>\$ 538,578.00</u>	<u>\$ 3,900.00</u>	<u>\$ 542,478.00</u>
TOTAL ASSETS	<u>\$ 553,978.00</u>	<u>\$ 3,116.76</u>	<u>\$ 557,094.73</u>
 <u>Liabilities & Equity</u>			
Mortgage Payable	\$ 29,000.00	\$ -0-	\$ 29,000.00
Taxes Payable	-0-	76.50	76.50
Equity			
Prior YTD	524,978.00	-0-	524,978.00
Current Month (Dec.)	<u>-0-</u>	<u>3,040.23</u>	<u>3,040.23</u>
TOTAL EQUITY	<u>\$ 524,978.00</u>	<u>3,040.23</u>	<u>\$ 528,018.23</u>
TOTAL LIABILITIES & EQUITY	<u>\$ 553,978.00</u>	<u>\$ 3,116.73</u>	<u>\$ 557,094.73</u>

NOTE: Refer to the "Explanation of Balance Sheet Changes"

EXPLANATION OF BALANCE SHEET CHANGES

The Balance Sheet is designed to track the assets, liabilities and net income or loss (called "Equity") of the church.

1) Cash (Checking)

Beg. Balance at 11/30	<u>\$ 10.400.00</u>	
Cash disbursements	<5,260.50>	A
Interest income	51.00	C
Bank fees	<10.00>	C
Cash collected	4,436.23	B
Net change	<u><783.27></u>	
 Total Cash at 12/31	 <u>\$ 9.616.73</u>	

2) Audio & Video Equipment

Beg. Balance at 11/30	<u>\$ 2.111.00</u>	
Purchased equipment	2,000.00	A
Net change	<u>2.000.00</u>	
 Balance at 12/31	 <u>\$ 4.111.00</u>	

3) Office Furniture

Beg. Balance at 11 /30	<u>\$ -0-</u>	
Purchased furniture	1,900.00	
Net change	<u>1.900.00</u>	
 Balance at 12/31	 <u>\$ 1.900.00</u>	

4) Taxes Payable

Beg. Balance at 11/30	<u>\$ -0-</u>	
Taxes w/h SS	62.00	
Taxes w/h Medicare	<u>14.50</u>	
Net change	<u>76.50</u>	

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Balance at 12/31

\$ 76.50

Equity "Current Month"

The \$3,040.23 equity for December represents the net income or the difference between income and expenses for the month - see the "Profit & Loss Statement".

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EXPLANATION OF PROFIT & LOSS STATEMENT

Profit & Loss Statements are designed to show your income (e.g., offerings, interest, but not loan proceeds, transfers in, etc.) and expenses (e.g., payroll, utilities, etc, but not transfers out or asset purchases). The difference is your net income or net loss.

Offering represents monies that were collected in the offering for the month. This amount comes from your monthly income analysis. Interest earned is from CDs, checking interest, savings, etc. Income would not include such items as loan proceeds or transfers.

Expenses represent monies that are paid out for general operating expenses of the church. These amounts are derived from the check disbursement and payroll registers. Expenses don't include transfers or purchases of assets. Assets are a disbursement of monies, but not an expense.

The net income (or net loss if expense is greater than income) is the difference between income and expense. The amount is then added to the balance sheet as current months equity (see the Balance Sheet).

PROFIT AND LOSS for Period Ending 12/31/95

Income

Tithe	\$ 3,419.13
Offering	517.10
Building Fund	<u>500.00</u>

Total Collected	\$ 4,436.73
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Interest Income	<u>\$ 51.00</u>
-----------------	-----------------

TOTAL INCOME	<u>\$ 4,487.23</u>
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Expenses (not assets or liabilities)

Honorarium	\$ 200.00
Payroll Gross	1,000.00
Utilities	175.00
Office Supplies	62.00
Service Fees	<u>10.00</u>

TOTAL EXPENSES	<u>\$ 1,447.00</u>
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NET INCOME	<u>\$ 3,040.23</u>
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EXPLANATION OF CASH FLOW

Cash Flow is similar to the Profit & Loss; however, it is a major difference is that it tracks monies coming in (e.g., offerings, interest, loan proceeds, transfers in, etc.) and all disbursements of money (e.g., expenses, assets purchased, transfers out, etc.). The net result is to show you the change in your cash balance.

- Starts with the net income or loss from the Profit & Loss Statement.
- Net income/loss reduced by disbursements or outflows of monies that are not expenses. Remember, expenses were used to get the net income/loss. Disbursements/outflows such as asset purchases, principle payments on loans, transfers out.
- Net income was reduced by payroll gross of \$1,000; however, only net payroll was paid [$\$1,000 - (\$62 + \$14.50) = \923.50]. Therefore, taxes withheld and not paid are added back - not monies disbursed out yet! Another example would be depreciation which would show at year-end as an expense, but it required no outflow of money.

This represents for the month, the change in your cash (checking) during the month. Refer to the Balance Sheet to see the actual change from 11/30 to 12/31.

CASH FLOW ANALYSIS

Net income	\$ 3,040.23
Less: Asset Purchase	<3,900.00>
Plus: Taxes withheld, not paid	<u>76.50</u>
Net Change in Cash	<u>\$ < 783.27></u>

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INTERNAL CONTROLS TO REDUCE LOSSES DUE TO EMBEZZLEMENT

1. Three people counting money
2. Have all persons handling finances bonded (insurance may require getting back from person)
3. Obtain "Theft & Dishonesty" insurance
4. Require 2 signatures on all checks -- *no checks should be pre-signed!*
5. Establish a "training and active" Internal Audit Committee
6. Annual audits by a CPA
7. Prepare monthly "Cash Flow Analyses" in a timely manner
8. Separate duties - counters, check writers, recorder of contributions, bank statement reconcile
9. "Independent" party performing monthly bank reconciliation - bank statement should be mailed directly to independent party
10. Train Board members about financial statements
11. Use "authorized" purchasing agents
12. Audit account statements monthly (3rd party)
13. Inventory, equipment check-out and fixed asset perpetual forms
14. Rotate treasurer
15. All books and records remain at the church
16. Encourage all members to use envelopes; thus, envelopes (contribution ledgers) can be balanced to deposits
17. Calculate/investigate budget variances

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18. Establish a Returned Check perpetual
19. CDs, notes, etc. should be maintained in a safety deposit box at the bank -- require 2 signatures for entry
20. Computer - password(s) protection
21. TV monitor
22. All mail and vendor statements should be opened and reviewed by an independent third party
23. Quarterly review of members' statements by members (random basis)
24. Check writer does not sign checks
25. Centralized treasury - no auxiliary accounts
26. Check signer should review documentation before signing checks
27. Fund raisers are monitored and controlled by centralized treasurer
28. Independent person should review financial statements to make sure all expenses and deposits are reflected
29. Independent person should review financial statements to make sure calculations are correct

FINANCIAL PRINCIPLES TO MANAGE YOUR CHURCH BY

1. Spend money as if it belongs to God because it does *Matt. 25:14*
2. Develop your ability to handle money. When God can trust you, He will entrust you *Kings 4:1-6*
3. Plan ahead *Proverbs 22:3 (LB)*
4. Give up present day desires for future benefits *Proverbs 6:6-11*
5. Save something every service *Proverbs 21:20 (LB)*
6. Don't spend more as you collect more *Ecclesiastes 5:10-12 (LB)*
7. Obtain wise counsel before making financial decisions *Proverbs 15:22 (LB)*
8. Attack debt as an enemy *Sam 17:13-17*
9. Review your financial status regularly *Proverbs 27:23-24 (LB)*
10. Learn from the mistakes of others and yourself *Proverbs 24:30-31 (LB)*
11. Develop and follow a "biblically" based budget *Luke 14:28-30*
12. Establish a written financial vision *Habakkuk 2:1-3*
13. Think before you buy (how will it help achieve the vision?) *Proverbs 4:26*
14. Buy bargains without sacrificing quality *Proverbs 20:14 (LB)*
15. Obtain an understanding of all financial transactions before you spend money *Proverbs 18:13*
16. Become financially informed *Proverbs 14:15 (LB)*
17. Don't loan money or co-sign *Proverbs 21:5 (LB)*
18. Follow your plan consistently *Proverbs 21:5 (LB)*
19. Borrow only when the return will be greater *Kings 4:3-7*

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20. Stop making excuses for your lack, face the facts and deal with them *Proverbs 14:8 (LB)*
21. Build your business (ministry) before you buy your house (spend money) *Proverbs 24:27 (LB)*
22. Establish an emergency/opportunity fund *Proverbs 6:6-11*
23. Pay your bills on time *Proverbs 3:27*
24. Never make hasty decisions, be patient *Proverbs 21:5*
25. Invest or spend your money on things that multiply in value *Matt. 25:6-7*
26. Maintain good credit *Proverbs 22:1*
27. Surround yourself with ambitious word people *Proverbs 27:17*
28. Follow the plan to the end *Proverbs 24:16*
29. Be honest in business dealings and with creditors *Proverbs 16:11*
30. Don't try to acquire things too quickly *Proverbs 21:5 (LB)*
31. Needs before greed *Proverbs 21:17*
32. Make decisions based on the long term benefits *Proverbs 6:6-11*
33. Despise not the day of small beginnings *Job 8:7*

WEEKLY CASH REQUIREMENT

Projected Income	Due Date	1 st -8 th	9 th -15 th	16 th -24 th	25 th -31 st	Total
Disbursements:						
Payroll						
Taxes						
Insurance						
Utilities						
Loans						
Office Supplies						
Educ. Supplies						
Honorarium						
Maintenance						
Fellowship						
Printing						
Travel						
Missions						
Postage						
Radio/TV						
Flowers/Gifts						
Leases						
Other(list)						
Total Disbursements						

SURPLUS/<DEFICIT>

Under the "Due Date", put the date the particular item is due to be paid (weekly, monthly, quarterly, the actual date - 1st, 15th, etc.).

Put the monetary amount (\$45.76) underneath the week in which the bill is to be paid.

Example: The water bill is due on the 5th of every month. Under Due Date put "Monthly" and under 1st-8th put \$45.76.

BE SURE TO INCLUDE ALL BILLS AND ALL WAYS THAT MONIES ARE SPENT!!

DID YOU KNOW ...

1. That when churches do not issue their employees (including ordained ministers) W-2s, the churches can be penalized 10% of the total earnings?
2. That all anniversary gifts, love offerings and other gifts (including non-cash) to the pastor, employees or guest speakers are considered taxable income?
3. That the Form I-9 "Employment Eligibility Verification" must be completed by all employees hired after November 1986?
4. That churches are required to post the "Fair Labor Act" for its employees?
5. That payroll checks must contain pay stubs outlining all deductions?
6. That all wages paid to employees (non-ordained) are subject to withholding of taxes?
7. Churches are required to pay time-and-a-half for overtime?
8. That if payroll taxes are not paid, the IRS can assess a 100% penalty and hold the controlling Board liable?
9. Payroll taxes of more than \$500 can not be paid to the IRS, but it must be "deposited" at your local bank?
10. Churches must complete Form SS-8 "Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax withholding" to properly determine who is an employee versus a non-employee (independent contractor)?
11. Churches can not withhold and match Social Security taxes on ordained ministers?
12. Churches are not required to pay unemployment taxes?
13. Ministers should not receive 1099s from their churches, but should receive W-2s?

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14. That ordained ministers can choose not to have income tax withheld, while Withholding of taxes is required for all non-ordained employees?
15. That most payroll records, per IRS guidelines, must be maintained for 4 yrs?
16. That a properly designated housing allowance is not reported on Form 941, "Employer's Quarterly Federal Tax Return"?
17. That all monies paid to employees are subject payroll taxes?

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COMMON PAYROLL ERRORS AND VIOLATIONS

1. Failure to obtain an Employer Identification Number (and State Identification Number).
2. Failure to issue W-2s to ordained ministers.
3. Withholding Social Security taxes on ordained ministers.
4. Including the Housing Allowance on Form 941.
5. Failure to obtain I-9s, W-4s and State withholding forms (NC-5) to determine tax withholdings.
6. Failure to withhold taxes based on the W-4s and State withholding forms.
7. Failure to report all taxable income on W-2s.
8. Failure to file W-2s and W-3s (including ministers).
9. Withholding taxes on ordained employees without written authorization.
10. Improperly calculating Social Security taxes and Medicare taxes.
11. Failure to file reports in a timely manner.
12. Failure to pay taxes withheld to the IRS in a timely manner.
13. Calculating Social Security taxes on ordained ministers on Form 941.
14. Failure to file or improperly filing Form 941 and State quarterly or monthly reports (NC-5 for North Carolina).
15. Failure to include the Fair Rental Value of the parsonage on the minister's tax statement.
16. Failure to provide employees with pay stubs outlining all deductions.
17. Failure to withhold taxes on miscellaneous work performed by church employees.

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18. Failure to pay taxes of more than \$500 to the bank, and not to the IRS.
19. Failure to maintain payroll records for at least 4 years.

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PAYROLL REPORTING

Listed below are the necessary steps to follow to insure compliance with Federal and State reporting requirements.

Payroll reporting for churches can be difficult because of the different laws affecting non-ordained employees versus ordained employees.

1. Obtain an Employer's Identification Number (EIN) by filing Form SS-4, "Application for Employer Identification Number". If State taxes are required to be withheld, a State Identification Number may be required also.
2. Determine who are employees versus non-employees by completing Form SS-8, "Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding".
3. Post the Fair Labor Laws in a highly visible area. This policy states:
 - that overtime pay must be paid
 - that minimum wage must be paid
 - must give equal pay for equal work
4. Obtain W-4s, "Employee's Withholding Allowance Certificate", from all non-ordained employees. This is optional for ordained employees. If State taxes are required to be withheld, then the comparable State forms should be completed.
5. Form I-9, "Employment Eligibility Verification" is required to be completed by all employees who were hired after November, 1986 including ordained ministers.
6. Obtain work permit or high school diploma for all workers less than 18 years old.
7. Verify that pay rates are properly included in Church/Board minutes.
8. Withhold income taxes on all monies paid, even non-cash gifts. Withholding should be based on W-4s and applicable State withholding forms - NC-4 for North Carolina - (Withholding amounts are found in the "Circular E, Employer's Tax Guide" and in the State withholding tables).
9. Calculate and withhold Social Security and Medicare taxes based on current rates (not required for ordained employees).

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10. Obtain written authorization for all non-tax deductions and withholdings for all ordained ministers.
11. Post gross wages, withholdings and net pay to the Payroll and Disbursements register.
12. Issue payroll checks for the net amount with check stubs outlining all deductions.
13. Deposit taxes at a Federal Reserve Bank by using Form 8109, "Federal Tax Deposit Coupon" when amount exceeds \$500 within a quarter. States that have income taxes, will have similar reporting requirements.

NOTE: Churches are exempt from State and Federal unemployment taxes.

NOTE: Penalties are assessed when taxes exceed \$500 and are not deposited by the fifteenth of the subsequent month.

14. Prepare quarterly Form 941, "Employer's Quarterly Federal Tax Return". The State may require a similar report.

NOTE: The Housing Allowance is not reported on Form 941

NOTE: Ordained ministers' wages are included on Line 2 "Total wages...plus other compensation", but they are not included in the taxable Social Security wages or taxable Medicare wages

15. Prepare, at year-end, W-2s, "Wage and Tax Statement", which should include all taxable wages and submit to employees, State agencies and the Social Security Administration.
16. Prepare W-3s, "Transmittal of Income and Tax Statement" and submit to the Social Security Administration for updating of benefits. Some states may require an annual reconciliation of State wages and income taxes withheld.
17. Retain payroll records for at least 4 years.

PAYROLL

One of the areas of greatest confusion for church leaders is that of payroll. Two reasons why this area causes such confusion is because there are numerous reporting requirements and the laws differ between non-ordained and ordained employees.

Outlined below is a summary of the reporting requirements and differences in non-ordained and ordained, which will be clarified in our example:

Non-ordained versus Ordained

<u>Law</u>	<u>Non-ordained</u>	<u>Ordained</u>
Required to complete an I-9 if hired after 11/86	Y	Y
Required to complete a W-4 & State withholding form (NC-5 for North Carolina)	Y	N
Required to have federal & state income taxes withheld (based on W-4 & State forms)	Y	N
Required & allowed to have Social Security and Medicare taxes withheld	Y	N
Church can match Social Security and Medicare taxes	Y	N
Can have a church designated Housing Allowance	N	Y
Wages reported on 941 and State reports	Y	Y
Wages reported in Social Security calculation on 941	Y	N
W-2s required	Y	Y
W-2s reflect Social Security, Medicare, wages and taxes	Y	N
Wages included on W-3 sent to Soc. Sec. Admin.	Y	Y
All income reported on W-2s	Y	Y

PAYROLL EXAMPLE

A) Employees

NOTE: Before any payroll checks are disbursed, each employee is required to complete an 1-9; Mary Smith would also be required to complete a W-4 & an NC-4 to determine income tax withholding.

NAME	TYPE	MONTHLY GROSS	HOUSING ALLOWANCE	FED	STATE	SS	MED	NET
Rev. Joe Doe	Ordained	1,100	900	0	0	0	0	2000
Mary Smith (married- 1 allowance)	Non-Ordained	1,000	0	43	38.70	62	14.50	841.80
Monthly Totals		2100	900	43	38.70	62	14.50	2841.80
Quarterly Totals		6300	2700	129	116.10	186	43.5	8525.4
Yearly Total		25200	10800	516	464.40	744	174	34101.60

B) Explanation

MONTHLY GROSS - amounts before taxes which should be approved in the Minutes

HOUSING ALLOWANCE - only allowed to be given to an ordained minister; amount must be outlined in the Minutes or budget, prior to payment

FEDERAL TAXES - not required for ordained ministers, but they can elect to have them withheld by completing a W-4 Form. Amount for Mary Smith comes from the "Circular E". Find the correct page for "Married, Monthly Payroll Period, at least \$1,000 and 1 allowance".

STATE TAXES - not required for ordained ministers, but they can elect to have them withheld by completing a State withholding form. Amount for Mary Smith comes from the State Withholding Book. Find the correct page for "Married, Monthly Payroll Period, at least \$1,000 and 1 allowance".

SOC. SEC. - ordained ministers can not have Social Security taxes withheld because they are viewed as self-employed for Social Security tax purposes. Non-ordained employees are required to have Social Security taxes withheld and the church must match that amount. Gross wages (\$1,000) x Social Security Rate for 1995 (6.2%) = \$62.00

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MEDICARE - ordained ministers can not have Medicare taxes withheld because they are viewed as self-employed for Medicare tax purposes. Non-ordained employees are required to have Medicare taxes withheld and the church must match that amount. Gross wages (\$1,000) x Medicare Rate for 1995 (1.45%) = \$14.50

TAX DEPOSITS - churches must deposit Federal income taxes, Social Security taxes and Medicare taxes withheld, plus the churches' matching amount of Social Security and Medicare taxes. Taxes of \$500 or more withheld per quarter must be paid directly to the bank (use Form 8109 - see example); however, if this limit is not reached within the quarter, as in our example, they can be paid to the bank at quarter-end, or mailed to the IRS, along with the Form 941.

Taxes are due by the 15th of the following month if the taxes are \$500 or more. If the taxes are less than \$500, the money should accompany Form 941 and are due by the last day of the following month.

Calculating taxes due: Federal taxes withheld	\$ 43.00
Social Security taxes withheld	62.00
Social Security matched by church	62.00
Medicare taxes withheld	14.50
Medicare taxes matched by church	<u>14.50</u>
Total Monthly Amount	\$ 196.00
<500 not Due monthly	
Two-month Total	\$ 392.00
<500 not Due monthly	
Quarterly Total	<u>\$ 588.00</u>

The \$588.00 is due because it's the end of the quarter and because it's \$500 or more. Even if it had been less than \$500, it would be due because of the quarter end (we are assuming that this is 4th quarter).

Form 941, "Employer's Quarterly Federal Tax Return", should be filed quarterly with the IRS to report total wages, Federal income taxes withheld, Social Security taxes withheld and matched by the church, payroll taxes due and tax deposits made. It is noteworthy to mention that Form 941 should not include the housing allowance nor the ordained minister's gross wages in the Social Security calculation (Lines 6A & 7 -1995 forms).

A Form 941 is not required if all of the following are present:

- church only has 1 employee
- employee is an ordained minister
- ordained minister chooses not to have taxes withheld from his/her check

To avoid a notice from the IRS, you should explain on the Form 941, that total wages and Social Security wages are different because "some wages were paid to an ordained minister".

State version of Form 941 (NC-5 for North Carolina) - most states require similar reporting concerning state taxes withheld. In North Carolina, the NC-5 is used to file quarterly, when taxes are generally less than \$500 for the quarter. The NC-5M is used when taxes are \$500 or more for the month. In our example, state taxes were \$38.70 per month and \$116.10 per quarter. Taxes are paid using the NC-5 or the NC-5M. Check with your state for the applicable laws.

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State Annual Reconciliation of Income Tax Withheld - the NC-3 for North Carolina (most states have similar forms) is filed annually to verify that state taxes that are paid monthly or quarterly agree with the state's taxes on the W-2s. The state copy of the W-2 must be submitted with the NC-3

Form W-2, " Wage and Tax Statement", should be issued to all church employees (including ministers and pastors) reflecting taxable wages for the year. Taxable wages, per IRS guidelines, would include such things as salary, anniversary gifts, love offerings, non-cash gifts, Pastor's aide, expense allowance (if a non-accountable reimbursement plan), matching of Social Security taxes, etc. It is noteworthy to mention that per IRC 1402(c)4, ministers should receive W-2s and not 1099s. If W-2s are intentionally not prepared or intentionally prepared incorrectly, a 10% penalty of the understatement can be assessed.

Form W-3, "Transmittal of Income and Tax Statement", is used by the church to summarize and transmit W-2s to the Social Security Administration so Social Security benefits can be updated. The SS Administration then forwards the information to the IRS for income tax purposes.

Common Payroll Tax Reporting Penalties

Code Section	Action	Penalty
3403	Failure to withhold payroll taxes from non-employee wages	Church liable for full amount of taxes
3509	Failure to withhold payroll taxes from a “self-employed” worker the IRS later reclassifies as an employee	<p>Church liable for 1.5% x wages paid to the worker (3% if no 1099 was filed) for income tax purposes, and 20% x employee’s share of FICA taxes (40% if no 1099 is filed)</p> <p>Church liable for full employer’s share of FICA taxes</p> <p>Church generally liable for full amount of taxes if intentionally disregards withholding rules</p>
6721		<p>3-tier penalty: \$15 per return (if correct return filed within 30 days after due date); \$30 per return (if correct return filed by Aug. 1st); \$50 per return (if correct return not filed by Aug. 1st)</p> <p>No penalty if failure due to reasonable cause (and not willful neglect)</p>

6722	Failure to furnish a correct “payee statement” (1099, W-2) to workers, by due date (Jan. 31 st of following year)	<p>In case of intentional disregard of filling requirement, penalty is larger of \$100 per return or 10% of the total amount of items required to be reported correctly</p> <p>Penalty of \$50 per statement</p> <p>No penalty if failure due to reasonable cause (and not willful neglect)*</p>
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DID YOU KNOW...

1. That W-9s "Request for Taxpayer Identification Number and Certification" must be given to all guest speakers, musicians, etc. before payment is **made**?
2. That fines and penalties can be assessed if reports are not properly and timely filed?
3. **That there are over 100 IRS and State forms that churches may have to file?**
4. That Form 1099 "Miscellaneous Income" must be filed with the IRS for all non-employees who receive \$600 or more for the year?
5. That rent paid to an individual or an unincorporated business must be reported to the IRS on Form 1099 "Miscellaneous Income"?
6. Churches must file Form 1023 "Application for Recognition of Exemption" with the IRS before they can claim that they are tax-exempt?
7. That churches may be required to file a tax return 990T "Exempt Organization Business Income Tax Return" when they have income that is unrelated to their church activities?
8. Taxes must be withheld from employees' wages and deposited at a bank on a monthly or quarterly basis?
9. That W-4s "Employee's Withholding Allowance Certificate" must be completed by all non-ordained employees to determine federal taxes to be withheld?
10. That W-3s, "Transmittal of Wage and Tax Statements", must be sent to the Social Security Administration so that employees' Social Security benefits can be updated?
11. That whenever a church moves, it must notify the IRS on Form 8822, "Change of Address"? If this is not done, any penalties that arise because mail was not received by the IRS or State, the church is liable for.

12. That quarterly 941s, "Employer's Quarterly Federal Tax Return", in most cases must be filed with the IRS outlining wages and taxes withheld (many states have similar reports)?
13. That the IRS will waive penalties if the church has a reasonable cause for filing or paying taxes late (Form 4571, "Explanation for Filing Return Late or Paying Tax Late")?
14. That daycares and schools must file Form 5578, "Annual Certification of Racial Nondiscrimination for a Private School Exempt from Federal Income Tax", annually to certify that they do not racially discriminate?
15. That IRS and State reports should be filed on a calendar year basis, even if church's accounting year is on a fiscal year basis?
16. That in addition to issuing Form 1099 for services rendered, it should also be issued for rent payments, prizes and awards?
17. That ministers' estimated tax payments should not be included on Form 941 nor should the tax payments be made by the church?

FORMS

IRS

1. **W-2C "Statement of Corrected Income and Tax Amounts"**
 - To correct errors made on the W-2
2. **W-3C "Transmittal of Corrected Income and Tax Statements"**
 - To correct errors made on the W-3
3. **941C "Statement of Correct Information"**
 - To correct errors made on the 941
4. **1040ES "Estimated Tax for Individuals"**
 - For ordained ministers to pay estimated taxes if they elect not to have their church withhold taxes
5. **4562 "Depreciation and Amortization"**
 - To calculate annual depreciation of assets as required by F.A.S.B. 93
6. **W-5 "Earned Income Credit Advance Payment Certificate"**
 - Employees request to receive the earned income credit in advance
7. **W-10 "Dependent Care Provider's Identification and Certification"**
 - Provides day care's TIN to parents for tax purposes
8. **843 "Claim for Refund and Request Abatement"**
 - Request refund of Federal telephone excise taxes
9. **911 "Application for Taxpayer Assistance Order"**
 - Request relief from hardship created by IRS demands
10. **1098 "Mortgage Interest Statement"**
 - Reports mortgage interest of \$600 or more received/earned by the church during the year

11. **8300 "Report of Cash Payments Over \$10,000 Received in a Trade or Business"**
 - Reports to the IRS any gifts of more than \$10,000 given to the church
12. **9465 "Installment Agreement Request"**
 - Filed with the IRS to establish a payment plan for past due taxes
13. **4782 "Employee Moving Expense Information"**
 - A statement given to employees detailing reimbursements or payments for moving expenses
14. **8809 "Request for Extension of Time to File Information Returns"**
 - Request an extension of time to file information returns (e.g., W-2s, 1099's)
15. **8821 "Tax Information Authorization"**
 - Authorizes an individual to receive tax information for the church without them being able to act on the church's behalf
16. **1099-1 NT "Interest Income"**
 - Reports interest paid of \$10 or more to individuals; not to other churches
17. **1099-R "Distribution from Pensions, Annuities, Retirements, Etc."**
 - Reports to the IRS payments made to individuals that are generally retirement related
18. **1099-S "Proceeds from Real Estate Transactions"**
 - Report to the IRS gross proceeds from a real estate sale
19. **W-4P "Withholding Certificate for Pension and Annuity Payments"**
 - Authorizes church to withhold taxes on retirement payments
20. **656 "Offer in Compromise"**
 - Used to make the IRS an offer on outstanding taxes
21. **940 "Employer's Annual Federal Unemployment Tax Return"**
 - Payment of Federal unemployment taxes; optional for churches
22. **941M "Employer's Monthly Federal Tax Return"**
 - Monthly filing of 941 due to noncompliance with quarterly 941 laws

23. **1127 "Application for Extension of Time for Payment of Tax"**
 - Filed to request, with reasonable cause, extension to pay taxes
24. **4029 "Application for Exemption from Social Security and Medicare Taxes and Waiver of Benefits"**
 - For individuals (not just ministers) to opt out of Social Security taxes because they are part of a religious group that is religiously opposed to Social Security
25. **8274 "Certification by Churches and Qualified Church-Controlled Organizations Electing Exemption from Employer Social Security and Medicare Taxes"**
 - Churches who oppose, for religious reasons, the payment of Social Security taxes may elect exemption from their share
26. **8718 "User Fee for Exempt Organization Determination Letter Request"**
 - Form to submit fee to apply for 501 (c)(3)
27. **4852 "Substitute for Form W-2"**
 - Filed with the IRS by employees when the church has not issued W-2's
28. **2159 "Payroll Deduction Agreement"**
 - Submitted to church by the IRS notifying the church that one of its employees is required to have taxes withheld for back taxes
29. **8123 "Questions Regarding Status as a Church"**
 - Provides information to the IRS on ministers who filed Form 4361 and their ordaining body

STATE

1. **NC-3 "Employer's Annual Reconciliation of NC Income Tax Withheld"**
 - Reconciles State wages on W-2s to monthly/quarterly NC-5s
2. **NCUI-1011 "Employer's Quarterly Tax and Wage Report"**
 - Payment of unemployment taxes; optional for churches
3. **E-501 "Sales and Use Tax Report"**
 - Reports and pays monthly sales tax on items sold (e.g., tapes, books, etc.)

4. **B-202 "Application for Privilege License"**
 - Required when goods are sold (e.g., tapes, books, etc.) or services rendered (e.g., day care)
5. **AV-10**
 - Filed to request exemption from property taxes on property owned and used by the church
6. **CD-427 "Return of Organization Exempt from Income Tax"**
 - Filing of a tax return when non-religious monies are earned
7. **NC-5 "Amend"**
 - To correct an NC-5 or NC-5M; write "AMEND" across the top of the corrected form
8. **NC-3 "Amend"**
 - To correct an NC-3; write "AMEND" across the top of the corrected form

NOTE: In NC, to request copies of information returns (e.g., NC-5) and extensions of time to file or pay, a letter must be sent to the NC Department of Revenue, signed by an authorized person

FORM:	1099-MISC- Miscellaneous Income
PURPOSE:	Informs the IRS/State of monies (\$600 or more) paid to individuals/institutions for services rendered, rent collected, prizes & awards received, etc.
RELATED FORMS:	<p>1096 – Annual Summary & Transmittal of U.S. Information Returns</p> <p>W9 – Request for Taxpayer Identification Number and Certification</p>
FILING REQUIREMENT:	Must be filed with the IRS by 2/28 (or 2/29 if leap year) of the subsequent year and must be forwarded to the individual by 1/31 of the subsequent year
PENALTY:	For each 1099 not submitted by 8/1, a \$50 penalty is assessed
GENERAL INFO:	<p>Requires individual's Social Security # and address (can be obtained from the W9)</p> <p>Not required for individual/institution within 1 calendar year</p> <p>A penalty can be assessed if the information is omitted (e.g., amount or SS#)</p> <p>A copy is sent to the IRS and copies to the individual</p> <p>Must be kept in church's file for 4 years</p> <p>Requires \$600 is paid to an individual/institution within 1 calendar year</p>

Filed on **non-employees only**, in most cases, a church's pastor would be considered **an employee**

Taxes are only withheld if individuals refuse to sign the W9, "Request for Taxpayer Identification Number and Certification", or if the IRS notifies church that an individual/institution is subject to backup withholding taxes

FORM: 1099 Int – Interest Income

PURPOSE: Informs the IRS/State of interest paid to individuals/institutions if the amount is more than \$10

RELATED FORMS: 1096- Annual Summary & Transmittal of U.S. Information Returns

W9 – Request for Taxpayer Identification Number and Certification

FILING REQUIREMENTS: Must be filed with the IRS by 2/28 and sent to the individual/institution by 1/31 of the subsequent year

PENALTY: For each 1099 not submitted by 8/1, a \$50 penalty is assessed

GENERAL INFO: See 1099-MISC

Mortgage interest is reported on Form 1098

FORM:	1096 – Annual Summary & transmittal of U.S. Information Returns
PURPOSE:	Transmits and summarizes the 1099 forms to the IRS (summarizes number of forms and dollar amounts)
RELATED FORMS:	1099-MISC – Miscellaneous Income 1098-Mortgage Interest Statement 1099-INT – Interest Income 1099-R – Distribution from Pensions, Annuities, Retirement or Profit Sharing Plans, IRAs, Insurance Contracts, etc. 1099-S – Proceeds from Real Estate Transactions
FILING REQUIREMENTS:	File with FORMS 1099 or 1098 to the IRS by 2/28 (or 2/29 if leap year) of the subsequent year, and forward to the individual by 1/31 of the subsequent year
PENALTY:	If not filed by 8/1, a \$50 penalty is assessed
GENERAL INFO:	A different Form 1096 must be used for each type of 1099 and 1098 Forms are filed and signed declaring that under penalty of perjury, the forms are correct
FORM:	I-9 – Employment Eligibility Verification
PURPOSE:	A requirement of immigration to verify U.S. citizenship
RELATED FORMS:	W-4 – Employee’s Withholding Allowance Certificate NC-4 – NC Dept. of Revenue, Employee’s Withholding Allowance Certificate (NC Only)

FILING

REQUIREMENT:	Do not mail; the church retains the file
PENALTY:	\$100-\$1000 per employee who does not properly complete an I-9
GENERAL INFO:	<p>Required to be completed by all employees hired after 11/6/86. Two types of identification should accompany the form, and the form should be kept for 3 years after the date of hire or 1 year after the date employment ends, whichever is later.</p> <p>The form does not affect taxes withheld</p>
FORM:	941-Employer's Quarterly Federal tax Return
PURPOSE:	<p>Informs the IRS of total wages (salaries, anniversary gifts, love offerings, expense allowances – if not accountable, and pastor's aide), Federal income taxes, Social Security and Medicare taxes are withheld as well as matched by the church, payroll taxes due and tax deposits made</p>
RELATED FORMS:	<p>W-2 – Wage and Tax Statement W-3 – transmittal of Wage and Tax Statement 8109 – Federal Tax Deposit Coupon</p>
PENALTY:	If not filed or filed late, \$50 penalty
GENERAL INFO:	<p>A 941 does not have to be filed if all of the following criteria are met:</p> <ul style="list-style-type: none"> - 1 employee - The employee is an ordained minister - The ordained minister does not elect to have Federal taxes withheld <p>If the ordained minister receives a housing allowance, do not report this on the 941, neither include their gross wages in the Social Security or Medicare calculation</p>

The 941 is due to the IRS by the last day of the month following the quarter end:

- 1st quarter (Jan - Mar) – April 30th
- 2nd quarter (Apr – Jun) – July 31st
- 3rd quarter (Jul – Sept) – Oct.31st
- 4th quarter (Oct – Dec) – Jan. 31st

FORM: 8109 – Federal Tax Deposit Coupon

PURPOSE: Reports to the IRS the Federal taxes, the Social Security and Medicare taxes withheld from an employees' check, as well as the portion matched by the employer

RELATED FORMS: 941 – Employer's Quarterly Federal Tax Return Schedule A (for reporting backup withholding)

FILING REQUIREMENT: Must be paid to the local bank on a monthly basis (by the 15th) if \$500 or more

PENALTY: 4-tier penalty based on the underpayment after due date:

1-5 days – 2%

6-15 days - 5%

- After 15 days, but not more than 10 days after 1st delinquent notice – 10%
- After 15 days and more than 10 days after 1st delinquent notice – 15%

GENERAL INFO: Separate 8109s are used for different types of deposits (e.g., 941, 945, etc.)

Copies of the form cannot be submitted – only submit original forms

Must be at the bank by the 15th of the month, in most cases (e.g., if tax is less than \$500, due by quarter-end)

Take to your bank; **do not mail to the IRS**

Use an *8109B* if no pre-printed 8109s are received from the IRS

8109 cannot be used to pay delinquent taxes; delinquent taxes must be paid directly to the IRS

FORM: W-2 – Wage and Tax Statement

PURPOSE: Reports to employees and the IRS all wages, tips, other compensation, Federal and State taxes withheld, Social Security and Medicare taxes withheld, advanced EIC payments, bonuses, vacation allowances, severance pay, non-cash gifts, love offerings, pastor's aide and expense allowances, if not accountable

RELATED FORMS: W-4 – Employee's Withholding Allowance Certificate
NC-4 – NC Dept. of Revenue Employee's Withholding Allowance Certificate
W-3 – Transmittal of Wage and Salary Statements
941 – Employer's Quarterly Federal tax Return

FILING REQUIREMENT: Must be sent to the employees by 1/31 and to the Social Security Administration by 2/28 (or 2/29 if leap year) of the subsequent year

PENALTY: If W-2 is intentionally not prepared, a fine of 10% of the understatement is charged

If W-2 is intentionally prepared incorrectly, a fine of 10% of the understatement is charged

GENERAL INFO: Ministers should receive W-2s and not 1099s, per IRS Code 1402(c)4

Required for all employees, even ministers

No Social Security tax can be withheld on ordained ministers, but is required for non-ordained ministers

Gross wages, Federal, Social Security and Medicare taxes are summarized on the W-3, Transmittal of Wage and Tax Statements, which should agree to quarterly 941s, Employer's Quarterly Federal Tax Return

The Housing Allowance is not required to be on the W-2, but is recommended to be placed in Box 14 (1995 W-2)

W-2 must be maintained in the church's file for 4 years

FORM: W-3 –Transmittal of Wage & Tax Statement

PURPOSE: Summarizes and transmits W-2 information to the Social Security Administration so benefits can be updated

RELATED FORMS: W-2 – Wage and Tax Statement
W-4 – Employee's Withholding Allowance Certificate
NC-4 – NC Dept. of Revenue Employee's Withholding Certificate

FILING REQUIREMENTS: Must be filed with the Social Security Administration by the last day of February of the subsequent year

PENALTY: \$50 penalty if not filed

GENERAL INFO: Once the Social Security Administration updates the benefits of employees, the information is then forwarded to the IRS for income tax purposes

Must be maintained for 4 years

“Kind of payer” on W-3, “Transmittal of wage and tax Statements” will generally be “941”

FORM: NC-5 –Employer’s Report of NC Income Tax Withheld

PURPOSE: Reports to the NC Department of Revenue the amount of State taxes withheld from the employees’ pay checks and gross wages for the quarter

RELATED FORMS: NC-4 –NC Dept. of Revenue Employee’s Withholding Allowance Certificate
NC-3 – Employer’s Annual Reconciliation of NC Income tax Withheld

FILING REQUIREMENT: Must be reported to the Department of Revenue by the last day of the month following the quarter end

Must be reported to the Department of Revenue by the 15th of every month if taxes are greater than \$500 – must use **Form NC-5M**

PENALTY: If late, even by one day, penalty of 25% of taxes due, plus interest is assessed

GENERAL INFO: Gross wages do not include Housing Allowance

Gross wages, per quarter, should agree to the 941, “Employer’s Quarterly Federal Tax Return” gross wages

State Identification Number is required; if not yet received, write/type “Applied For” in the box designated for the State Identification Number

FORM: AS/RP – Sales &Use Tax and/or Income Tax Withholding

PURPOSE: To apply for a State Identification Number and/or a State Sales Tax Identification Number

RELATED FORMS: W-2 – Wages and Tax Statement
NC-5 – Employer’s Report of NC Income Tax Withheld
E-501 – Sales and Use Tax Report

FILING REQUIREMENT: Submit before the 15th of the subsequent month in which you have gross or collect sales tax

PENALTY: No penalty

GENERAL INFO: Sales and Use Tax: Sales tax must be collected on church sales of tapes, books, etc. in most states and possibly on fundraisers (NC)

State Identification Number (SIN): Generally, not required, but it is recommended that one be obtained

The SIN is not a tax exemption number, only a number for identification purposes

FORM: E-585A – Claim for Refund of State & County Sales & Use Taxes

PURPOSE: To request a refund of sales taxes paid by a not-for-profit organization

RELATED FORMS: None

FILING REQUIREMENT: The organization may file for the refund twice per year through the State, for the periods January through June and July through December.

PENALTY: If filed 30 days after the due date, can receive only 75%

If filed after 30 days & within 6 months, can receive only 50%
If filed after 6 months, refund is denied

GENERAL INFO:

Refunds cannot be given for sales tax on utilities, gas, hotel or vehicles

For first-time filers, the State may request bylaws or Articles of Incorporation to prove tax-exempt status

Receipts and invoices do not have to be submitted, but the State could request them in an audit

Once the first refund is approved, the State will assign a five-digit number with alpha character "R" at the end

FORM:

5578- Annual Certification of Racial Nondiscrimination for a Private School Exempt from Federal Income Tax

PURPOSE:

To report to the IRS that an organization exempt from Federal income tax under section 501 (c)(3) does not practice racial discrimination in reference to students

RELATED FORMS:

None

FILING REQUIREMENT:

Must be filed by the 15th of the 5th month that follows the end of the organization's calendar or fiscal year

PENALTY:

None

GENERAL INFO:

The document is open for public inspection

Includes day cares and academies

FORM:

8822 – Change of Address

PURPOSE: To inform the IRS of a change in your church's mailing address or your church's location

RELATED FORMS: All IRS forms

FILING REQUIREMENT: Mail this form to the IRS Center based on your old address (look for the address listing on the back of the form)

PENALTY: If you fail to provide the IRS with a current address you may not receive notices of deficiencies or notices and demands for taxes. Despite the failure to receive such notices, penalties and interest will continue to accrue on the tax deficiencies

GENERAL INFO: This is not the form to use if the church changes its name

FORM: 8283 – Non-Cash Charitable Contributions

PURPOSE: To report the IRS certain required information about non-cash charitable contributions

RELATED FORMS: 8282 – Donee Information Return

FILING REQUIREMENT: Should be given to the church at the time the non-cash gift is donated

PENALTY: No penalty

GENERAL INFO: The donor must complete and give to the church, if they believe the gift is valued at more than \$500

The church should request Form 8283 if the gift is close to \$500, so that the donor can certify that the gift is less than \$500; therefore, relieving the church of the reporting requirements of Form 8282

Not required for out-of-pocket expenses for volunteer work amounts given by check or credit card

Church must sign donee's Form 8282 (Part IV):

- Acknowledging receipt of the property
- Stating that if they sell, transfer, dispose or exchange any of the property within 2 years that they will file Form 8282

When the church signs (by authorized person) Form 8283, this does not represent concurrent with the claimed fair market value

The donor will file Form 8283 with their personal tax return

FORM: 8282 – Donee Information Return

PURPOSE: To report information to the IRS about disposal of certain charitable donated property made within 2 years after the donor gives the property

RELATED FORMS: 8283 – Non-Cash Charitable Contributions

FILING REQUIREMENTS: If the donee (church) disposes of donated property within 2 years of the date the original donee (normally the church is the first to receive the property) received it, generally, the church must file within 125 days after the date of disposal

Form 8282 is filed with IRS, Cincinnati, OH 45944

PENALTY: A \$50 penalty is assessed

GENERAL INFO: Not required to file Form 8282 if on Form 8283, “Non-Cash Charitable Contributions”, the donor certifies that the donation was valued at \$500 or less

Church should maintain Form 8283 from the donor when property is donated which is valued near \$500

Form 8282 is not required if donated to a 501 (c)(3) organization without consideration

If the donee (church) sells donated goods to another 501(c)(3) organization within the 2 year period, the original donee must give the new donee the following:

- Name, address and EIN
- Copy of the appraisal summary (Form 8283 that was received from the donor or the previous donee)
- Copy of Form 8282 that was filed with the IRS within 15 days

The donee is required to give a copy of Form 8282 to the donor of the property

Form 8283 should be kept in the donee's (church's) file

FORM:

W-4 – Employee's Withholding Allowance Certificate

PURPOSE:

Allows the church to determine the correct amount of Federal income tax to be withheld from employees' salaries

RELATED FORMS:

NC-4 – NC Dept. of Revenue Employee's Withholding Allowance Certificate

I-9 – Employment Eligibility Verification

FILING REQUIREMENTS:

Should be completed by employees before receiving initial salaries from employer

Maintain in the church's file; do not send to the IRS

PENALTY:

If a W-4 is not completed by the employee, the church is required to withhold taxes as if the individual is single with no allowances

GENERAL INFO:

If the employee claims 10 or more allowances, a copy of the W-4 must be sent to the IRS

Ordained ministers are not required to complete W-4s, but all other employees are

Forms should be updated annually

Employees, especially ministers, can have additional taxes withheld (Line #6 of the 1995 W-4) to offset Social Security taxes

If ordained ministers do not elect to complete a W-4, the 1040 ES, "Estimated Tax for Individuals", may be required. In most cases, taxes cannot be paid at year-end, rather throughout the year

Once the W-4 is completed, the amount of Federal taxes to be withheld is determined by referencing the "Circle E, Employer's Tax Guide"

Form SS-8, "Determination of Employee Work Status for the Purpose of Federal Employment and Income Withholding", can assist in determining who is an employee versus an independent contractor

Form W-4 should be retained for 4 years

FORM:

NC-4 – NC Dept. of Revenue Employee's Withholding Allowance Certificate

PURPOSE:

Allows the church to determine the correct amount of State income tax to be withheld from employees' salaries

**RELATED
FORMS:**

W-4 – Employee’s Withholding Allowance Certificate
I-9 – Employment Eligibility Verification

**FILING
REQUIREMENT:**

Should be completed prior to receiving initial salary from employer

PENALTY:

If the NC-4 is not completed by the employee, the church is required to withhold taxes as if the individual is single with no allowances

GENERAL INFO:

If employee claims 10 or more allowances, a copy of the NC-4 must be sent to the NC Department of Revenue

Ordained ministers are not required to complete the NC-4; however, all other employees must do so

Forms should be updated annually

If ordained ministers do not elect to complete NC-4s, NC-40s may be required to pay estimated taxes. In most cases, taxes cannot be paid at year-end, but throughout the year

Once the NC-4 is completed, the amount of State tax to be withheld is determined by the “State of NC Income Tax Withholding Tables and Instructions for Employers”

Form SS-8, “Determination of Employee Work Status for the Purpose of Federal Employment and Income Withholding”, can assist in determining who is an employee versus an independent contractor

FORM:

The NC-4 should be retained for 4 years
1023 – Application for Recognition of Exemption under Section 501 (c)(3) of the Internal Revenue Code

PURPOSE:

To apply for and receive written verification from the IRS that your organization has obtained tax-exempt status according to IRS guidelines

**RELATED
FORMS:**

None

**FILING
REQUIREMENTS:**

None

**GENERAL
INFORMATION:**

Enables church to establish themselves as tax-exempt organizations with the IRS; thus, insuring that gifts given are tax-deductible to the donor

Once approved, a church's tax-exempt status is retroactive to the beginning of the church's existence

Generally, churches must be incorporated before the tax-exempt status can be applied for

IRS charges a one-time user fee of \$465 (1995)

Examples of some information needed:

- 3 years of financial statements
- Bylaws
- Copies of leases and loans
- Organizational charts
- Church history
- Church literature
- Description of activities
- Major contributors

After the application is approved, the IRS will send a *Letter of Determination* stating that you are a tax-exempt organization, assuming you operate as you stated in your application

Major changes in the operation of your organization (amending of Bylaws) must be reported to the IRS

FORM:

990T – Return of Organization Exempt from Income Taxes

PURPOSE: To report to the IRS gross income of \$1,000 or more from business unrelated to the church's tax-exempt purpose

RELATED FORMS: None

FILING REQUIREMENTS: Should be submitted to the IRS by the 15th day of the 5th month after the organization's accounting period ends

PENALTY: \$10 per day; not to exceed the smaller of \$50 or 5% of gross receipts

GERNERAL INFO: Income that churches receive from their tax-exempt activities (tithes, offerings, retreats, fundraisers, etc.) are exempt from Federal income taxes; however, when income is received from unrelated business activities, these monies become taxable income (IRC 511). This type of tax is called an "Unrelated Business Income Tax".

For amounts received of <\$1,000, a 990-T is not required

For monies to be classified as Unrelated Business Income (UBI), the activities must meet all 3 conditions listed:

- Activity must be a trade or business
- Activity must be carried on regularly
- Trade or business must not be substantially related to the exempt purpose

Note: "Trade" or "Business" means any activity carried on for the production of income from the sale of goods or the performance of services

Exceptions to "UBI" per IRC 513(a):

- Activities are substantially performed by unpaid volunteers
- Activities carried on primarily for the benefit and convenience of its members or employees
- Selling merchandise when substantially all of it has been received as a gift or contribution to the church

Taxable Activities:

- Rental property with unrelated “debt-financing”
- Parking lot rental
- Selling of “non-religious” material
- Selling of church’s mailing list
- Advertising outside businesses in church bulletins
- Rental of church’s assets for personal benefit (e.g., fellowship hall, car, van, gym, etc.)

Churches are exempt from filing 990, “Return of Organizations Exempt from Income Tax”

FORM: 4506 – request for Copy of Transcript of Tax Return

PURPOSE: This form is designed to request a copy of a tax form, tax return transcript, and verification of non-filing or a W-2 (Wage and Tax Statement)

RELATED FORMS: All forms filed with the IRS

FILING REQUIREMENTS: Filed at any time, based on your need

PENALTY: No penalty

GENERAL INFO: Forms may be requested in order for the church to adhere to record retention requirements

The most requested forms will be the W-2 (Wage and Tax Statement), W-3 (Transmittal of Income and Tax Statement) and the 941 (Employer’s Quarterly Federal Tax Return)

If 1099s are needed, do not file the 4506. You must request from the payer or contact the IRS

If the tax account information is needed, do not file 4506. Instead, file Form 882, “Tax Information Authorization” or visit your local IRS office

W-2s, “Wage and Tax Statement”, are only available 18 months after they are submitted by the church

Make sure the check has the church’s TIN on it and “form 4506 Request” written in the Memo section

Ministers can also use the 4506 to obtain copies of their tax returns that they’ve filed

FORM: 4361 – Application for Exemption from Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners

PURPOSE: To acquire an exempt status from self-employment tax on ministerial earnings only. This exemption will apply to ordained ministers, members of a religious order not vowed unto poverty, Christian Science practitioners, or anyone who has the authority to and does perform the sacerdotal duties

RELATED FORMS: Schedule SE – Self-Employment Tax

FILING REQUIREMENTS: Must be filed with the IRS by the date your tax return is due, including extensions, for the second tax year in which you had at least \$400 of net earnings from self-employment, any of which came from services performed as a minister, member of a religious order, or Christian Science practitioner

PENALTY: No penalty

GENERAL INFO:

A two-year window reopens if you become a part of another denomination which has substantially different beliefs

Exemption only applies to ministerial earnings

An original and two copies of Form 4361 should be sent to the IRS, along with an ordination certificate or license

Exemption is effective after an approved Form 4361 has been received from the IRS

After receiving the approved Form 4361, amended returns can be filed for the previous 2 years to recover a refund of previous Social Security taxes paid

Exemption cannot be revoked once it is approved

Exemption does not affect secular earnings or any benefits that are “vested” due to previous earnings

Form 4361, especially Line #7, should be carefully read because ministers are certifying several very significant issues

When filing Form 1040, “U.S. Individual Income Tax Return”, ministers will need to write “Exempt-Form 4361” on the self-employment line in the **Other Taxes** section

The organization that ordain the ministers must show that they are exempt from Federal income taxes under IRC 501(c)(3)

FORM:

SS-4 – Application for Employer Identification Number

PURPOSE:

Used to apply for an Employer Identification Number (EIN) with the IRS; also known as a Taxpayer Identification Number (TIN)

RELATED

FORMS:

8109 – Federal Tax Deposit Coupon
1023 – Application for Recognition of Exemption
W-2 – Wage and Tax Statement
W-3 – Transmittal of Income and Tax Statement
1099 – Miscellaneous Income
1099 INT – Interest Income
1096 – Annual Summary and Transmittal of United States
Information Return
941 – Employer's Quarterly Federal Tax Return
941C – Statement to Correct Information
990T – Return of Organization Exempt Income Tax
5578 – Annual Certification of Racial Non-
Discrimination for Private Schools Exempt from Federal
Income Tax

**FILING
REQUIREMENT:**

Obtain an Employer Identification Number (EIN) before
bank accounts are opened

PENALTY:

No penalty for not obtaining Form SS-4; however, banks
are required to withhold 31% of interest accrued on
accounts if you do not have an EIN

GENERAL INFO:

Complete the application and mail – IRS should send an
EIN within 4 to 6 weeks

Or

Complete the application and call the IRS, giving them
the information they request, and they will give you an
EIN over the phone. Put the EIN in the upper right hand
corner of the application and mail

You can use the EIN immediately

In order to open a bank account, take the EIN to the bank,
along with the church resolution

The bank will require completion of a W-9, "Request for
Taxpayer's Identification Number and Certification".
They will ask for the EIN or a Social Security Number;

use the EIN (SS# makes an individual liable for interest earned)

EIN is required even if the church has no employees

The EIN is an identification number, **not a tax-exemption number**

The EIN should be used on all accounts (checking, savings, etc.)

Each church, church day care, etc. should have their own EIN

FORM: 945 – Annual Return of Withheld Federal Income Tax

PURPOSE: This form is used to report all income tax withheld from non-payroll payments made after 1993. Such non-payroll payments include: pensions, annuities and backup withholdings

RELATED FORMS: 1099-R – Distribution from Pensions, Annuities Income
1099-M – Miscellaneous Income
W-9 – Request for Taxpayer's Identification Number and Certification

FILING REQUIREMENTS: Form 945 should be filed by January 31st of the subsequent year; however, taxes will be due monthly (by the 15th) or quarterly (last day of the quarter) depending on the amount. If all taxes are paid and deposits have been made in a timely fashion, the form may be filed by February 10th.

PENALTY: \$50 per failure to file; penalty for late payment and late filing (same as penalties that apply to Payroll)

GENERAL INFO: Once you have filed the initial Form 945, the IRS requires that you continue to file this form each year, even if the tax liability is zero

You have the right and responsibility to file a final return if there is an assurance that no future non-payroll tax liability will be incurred (be sure to check appropriate box indicating your final payment)

Where you file depends on whether or not you are including payments (see Form 945 for locations)

Starting in 1994, you can no longer report non-payroll income tax withholding on Form 941, "Employer's Quarterly Federal Tax Return" or on Form 941E (obsolete as of 1994)

The initial Form 945 is not required until there is non-payroll tax liability

Do not report payroll taxes on Form 945; payroll taxes are reported on Form 941, "Employer's Quarterly Federal Tax Return"

Use Form 8109, "Federal Tax Deposit Coupon", and darken the circle next to "945" to indicate the type of taxes that are being paid. Do not combine with other types of taxes. Also, delinquent taxes must be paid directly to the IRS

Form 945 is scanned by the IRS; therefore,

- Use the **blue** Form 945 provided by the IRS
- Entries **should not** be handwritten
- Do not staple, tape or paper clip anything to the form
- Do not tear the form

If you do not have an EIN, type "Applied For" and give the date you applied for it in the space designated for the EIN

Retain a copy of Form 945 for 4 years

If corrections are being made to a prior period, file a 941C, "Statement to Correct Information", along with the current 945

FORM: W-8 – Certificate of Foreign Status

PURPOSE: Verifies that the individual/entity who claims foreign status is a nonresident/alien or exempt foreign entity and is not required to report certain information to the IRS, nor comply with certain tax and backup withholding tax rules

RELATED FORMS: None

FILING REQUIREMENTS: Certificate must be completed before any monetary transactions or exchanges take place

Certificate stays in effect for three calendar years

Payee has the option to file a new certificate each time a payment is made

Certificate must be filed with the payer (church) who serves as the withholding agent (until certification is verified)

PENALTY: \$50 for each W-8 not completed

GENERAL INFO: Generally, the W-8 does exempt the payee from nonresident withholding taxes. Several criteria must be met:

- If the individual is in the US no more than 31 days in a calendar year

Or

- 183 days during the current and 2 preceding years, then the individual is within the window and is exempt (proof can be obtained through passport or green card entry/exit seal)

Do not file with IRS; maintain in the church files for 4 years

1099-M, "Miscellaneous Income", will not be required if the criteria above are met; if not, a 1099-M would be issued if \$600 or more is paid

FORM: 4571 – Explanation for Filing Late or Paying Tax late

PURPOSE: The official form used to explain to the IRS why taxes were paid late or reports filed late

RELATED FORMS: All forms required to be filed with the IRS

FILING REQUIREMENTS: Explanation should be filed immediately once you are aware that taxes or reports cannot be filed in a timely manner

PENALTY: If a proper 4571 is not filed, penalties will be assessed based on the taxes not paid or forms not filed, and how late they are

GENERAL INFO: Failure to file the 4571 could result in additional penalties, interest and an IRS audit of the church books

Narrative should clearly and concisely explain the circumstances surrounding your failure to pay or file at the appropriate time. Acceptable reasons:

- Death of accountant or bookkeeper
- Sickness of accountant or bookkeeper
- Destruction of records
- Weather (unable to get to church due to ice storm, etc.)

File the form with the IRS district

Failure to accurately and honestly disclose information concerning tardiness could possibly result in perjury charges against the individual(s) or church

If the explanation is acceptable, penalties and interest will be waived; however, taxes still must be paid and reports must still be filed

FORM: W-9 – Request for Taxpayer Identification Number and Certification

PURPOSE: To obtain an individuals/entity's identification number, address and certification that they are not subject to backup withholding taxes. This allows for proper information returns to be filed with the IRS

RELATED FORMS:

- 1099-M – Miscellaneous Income
- 1099-INT – Interest Income
- SS-8 – Determination of Employee Work Status for the Purpose of Federal Employment income Withholding
- 8109 – Federal Deposit Coupon
- 945 – Annual Federal Return of Federal Income Tax

FILING REQUIREMENT: Should be obtained from the individual before payments are made

PENALTY: \$50 for each W-9 not completed

GENERAL INFO: Required to be completed by all individuals/entities who meet the following criteria:

- Not an employee of the church
- Not incorporated
- Render a service to the church
- Receive payment for that service(s)

Required to be completed regardless of age, church membership or amount paid

Forms are not filed with the IRS, but should be retained by the church for 4 years

Information on the W-9 is used to properly complete the 1099, if required

When the W-9 is signed by an individual/entity, they are certifying that they

- Are not subject to backup withholding taxes
- That the information they have given is correct

Information (SS#/EIN and address) obtained without the use of a W-9 is a violation – actual W-9 must be completed

If an individual/entity refuses to complete the W-9, 31% of their compensation must be withheld and paid to the IRS via Form 8109, “Federal Deposit Coupon” and reported to the IRS on Form 945, “Annual Federal Return of Federal Income Tax”

W-9s are not completed by employees, only by independent contractors

FORM: SS-8 – Determination of Employee Work Status for the Purpose of Federal Employment Income Withholding

PURPOSE: To determine if a worker is an employee or an independent contractor

RELATED FORMS: If an employee:

- W-4 – Employee Withholding Allowance Certificate

- State Allowance Withholding Certificate (e.g. NC-4)
- I-9 – Employment Eligibility Verification

If an independent contractor:

- W-9 – Request for Taxpayer Identification Number and Certification
- 1099-M – Miscellaneous Income

FILING

REQUIREMENTS:

None, but it should be completed before individuals are compensated

PENALTY:

No penalty if not completed; however, if workers are incorrectly classified, Board members could be liable for taxes and various penalties

GENERAL INFO:

A major issue in determining whether an individual is an employee or an independent contractor is the amount of control the church (employer) has over the position of the worker and the relationship that is established

The SS-8 should be completed by the church if there is a question concerning the worker's status. If after completing the form, the church is still unsure, the completed SS-8 can be forwarded to the IRS for them to make the determination

If the church can make a determination about the worker's status after completing the SS-8, the form is maintained in the church's files for at least 4 years, not sent to the IRS

If there is an improper determination made by the church because an SS-8 was not completed, the Executive/Trustee Board could be held liable for any unpaid taxes, plus penalties

If there is a reclassification of a worker by the IRS, based on the misclassification made by the church, then the

potential penalties could be waived, assuming an SS-8 was completed

Insurance

Church leaders must always obtain proper insurance to protect the church against potential liability. Liability against churches and church leaders has drastically increased over the past few years. At a minimum, the following types of insurance should be obtained - amounts and types of coverage will vary greatly depending on the size, location, activities, types of ministries, value of churches' assets, etc. It is imperative that churches be properly covered by insurance companies who understand the unique needs of churches, to have the right amount of coverage, but the wrong type is worse than having none at all.

GENERAL LIABILITY - covers individuals who are injured on church premises; includes members and volunteers. Employees can be covered by Worker's Compensation

BUILDING - covers the church building and its structure when damaged by fire, flood, etc.

CONTENTS - covers non-structural items that are lost, stolen or damaged (e.g., PA system, furniture, etc.)

VEHICULAR- covers damage to the church's vehicle(s), plus any other vehicles, if the church is at fault will also cover medical-related expenses

HIRED-NON-OWNED - covers vehicles that are rented or owned by members when used on the church's behalf

PROFESSIONAL COUNSELING - provides protection to the Pastor and the entire Ministerial Staff in the event lawsuits are brought against them as they function in their counseling capacities

SEXUAL MISCONDUCT & CHILD MOLESTATION - provides liability protection for certain claims involving actual or alleged acts of sexual misconduct or molestation

WORKERS' COMPENSATION - when workers (full- or part-time) are injured on the job, the church is responsible for loss of wages and medical expenses. Workers' Compensation insurance provides the needed protection

D.O.T. - Directors, Officers and Trustees insurance is designed to protect church officials if lawsuits are brought against them as they are acting within the scope of their official capacities

THEFT & DISHONESTY - theft covers if church is robbed by outsiders, while dishonesty covers embezzlement of funds by members

DATA PROCESSING - coverage is provided when church must incur additional expenses to retrieve data lost on computers due to humidity, power failures, computer malfunctions, etc.

PERSONNEL MANUAL CHECKLIST

Churches must consider developing a personnel manual or handbook so that all employees are made aware of what is expected of them. This will greatly reduce the chances of misunderstandings or confusion. Outlined below are some items that should be considered in developing your personnel manual. Due to the sensitivity of this issue, and the potential liability, a competent attorney should review your manual before you begin to use it.

- ☐ Legal church/day care name
- ☐ Mission statement
- ☐ Statement of faith
- ☐ Person/board/position that can terminate
- ☐ Person/board/position that should be notified of policy violations
- ☐ Type of employees who earn vacation
- ☐ Outline vacation days by length of service
- ☐ Persons or positions to whom requests for vacation are submitted
- ☐ Type of employees who earn holiday pay

- ☐ Requirements to receive holiday pay - how many continuous service years
- ☐ List of paid holidays
- ☐ What is the policy for part-time employees to receive holiday pay?
- ☐ Requirement to get leave of absence - how many continuous service years
- ☐ Maximum time for leave of absence (without pay)
- ☐ Maximum time of medical leave - how many continuous service years
- ☐ Maximum time of medical leave (without pay)
- ☐ Jury pay - 2 options
 - Option 1 - Church pays difference between job and jury pay
 - a) How many days to pay difference?
 - b) Number of days required to serve on jury duty before asking to take off without pay
 - Option 2 - Jury duty without pay
- ☐ Type of employee who is eligible for educational leave
- ☐ How much continuous service is required to get educational leave?
- ☐ How much time can be taken for educational leave (with pay) and how frequently?
- ☐ Notification period for educational leave
- ☐ How long will church group insurance coverage apply to employees on leave?
- ☐ For approved leave of absences, at what point will employees be required to pay insurance premiums?
- ☐ Person/positions required to approve leave of absences

- ☐ Type of employee eligible for sick pay
- ☐ How much continuous service is required to get sick pay?
- ☐ How many sick days are earned each employment anniversary?
- ☐ Maximum number of sick days that can be accumulated
- ☐ Type of employees who are eligible for bereavement pay
- ☐ How much continuous service is required to receive bereavement pay?
- ☐ How much time can be taken for bereavement with pay?
- ☐ Who is considered "immediate" family for bereavement purposes?
- ☐ How many days can be taken for bereavement before other days must be taken?
- ☐ Type of employees that are eligible for group insurance plans
 - what type(s) of group insurance is/are offered?
- ☐ How many years of continuous employment are required before eligible for group insurance?
- ☐ What percentage of insurance premiums will the church pay?
- ☐ Person/positions who approve educational assistance and professional membership
- ☐ How many hours must full-time employees work?
- ☐ How many hours must part-time employees work?
- ☐ What to do about tardiness and absenteeism?
- ☐ How much notice should employees give before terminating employment?
- ☐ What is the pay period: Option 1 - semi-monthly
 - Option 2 - any time

- ☐ How often are employees reviewed for merit increases?
- ☐ Person/positions to whom sexual harassment reports should be made
- ☐ Full-time employees cannot have outside employment without prior approval from which persons/positions
- ☐ Who can modify these policies for the employees?

NOTE: The word "church" shall apply to all other facilities of the ministry

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RISK MANAGEMENT ASSESSMENT

Childcare Workers:	Yes	No	Comments
1. Applications and Interviews			
2. Screenings			
3. Police reports obtained			
4. References contacted			
5. CPR or other training			
6. Two Adult Rule			
7. Time requirements			
Nursery/Dare Care:			
1. Electrical outlets covered			
2. Toys meet safety standards and age requirements			
3. Investigate cleaning chemicals used on floor			
4. Discard/repair damaged toys			
5. Proper child-to-adult ratio			
6. Child check-in and check-out procedures			
7. Locked doors to prevent unauthorized entry			
8. Visitation rules and sign-in and sign-out sheets			
9. Medication disbursement authorization forms			
10. Reporting of suspected child abuse to proper authorities			
11. Disciplinary actions approved by State a) authorized personnel b) disciplinary method			
12. Accident reporting			
13. Education of children on "good & bad touching"			
14. Medical treatment authorization			
15. Children's medical records a) communicable diseases b) immunization			
16. Policy on sick children			

17. Trip/Travel authorization			
18. Activity certification from parents			
19. Fire drills and evacuation plan			
20. Nondiscrimination policy (e.g., race)			
21. Copy of court order restraining a parent			
22. Unlocked dead bolt locked during operations			
23. Obtain day care procedure “KIT” from State child care agencies:			
24. Use of rubber gloves			
25. Crib & mattress meet safety standards			
26. Sanitation signs in restrooms			
27. Accessibility of first aid kit			
28. Capacity limits adhered to			
29. Sanitation procedures			
30. Review State laws relating to child abuse reporting			
31. Discuss child abuse reporting laws with appropriate state agent			
32. Parent’s listing of authorized individuals to pick up child			
Building and Grounds:			
1. Limited access to baptismal pool			
2. Review playground equipment for safety			
3. Check stairwells a) well lit b) sturdy handrails & steps c) secured carpet d) sufficient overhead clearance			
4. Limited access to cleaning supplies			
5. Limited access to kitchen area			
6. Limited access to electrical areas			
7. Limited access to furnace			
8. Limited access to attic, storage areas, etc.			
9. Construction area sealed off			
10. Easy access to exits			

11. Lighted Exit signs functioning			
12. Accessible & functional fire extinguishers			
13. Evacuation plan communicated to Ushers, Deacons, Teachers, etc.			
14. Inspection of fire extinguishers			
15. No dead bolt locks/barricaded doors during services or other activities			
16. Regular review of building structure & grounds			
17. No exposed wires, cables, etc.			
18. Building inspector's review of contractors' work			
19. Well lit parking area			
20. Easy entrance for emergency vehicles			
21. Proper railing for balcony areas			
22. Locked doors during services to prevent unauthorized entry			
23. Abandoned church properties properly secured			
24. Proper restraints & warning signs for surrounding hazards			
(A) Abandoned properties			
(B) Rivers, lakes, etc.			
(C) Cemetery			
(D) Cliffs, drop-offs, etc.			
(E) Busy intersections			
(F) Other			
25. Used/unused freezers, refrigerators, etc. securely locked			
26. Capacity limits adhered to			
27. Trained and qualified baptizers			
28. Slip grips on steps and in pool			
29. Sturdy handrails for pool steps			
30. Functional emergency lights			
31. Periodic walk-through with assessment sheets			
32. Fire department's familiarity with facilities			
33. Fire alarms regularly tested			

34. Training of designated			
35. Proper labeling of flammable material			
36. Proper storage of and limited access to flammable material			
37. Emergency numbers listed on all phones			
38. Electrical equipment properly grounded			
39. Premises checked for environmental hazards (e.g., asbestos)			
40. Easy access to phones for emergencies			
41. Plan for snow & ice removal			
Insurance:			
1. Annual review with agent			
2. Cost fixed asset ledgers with identifying numbers			
3. General liability			
4. Directors, Officers, & Trustees			
5. Child molestation & sexual misconduct			
6. Theft & dishonesty			
7. Professional counseling			
8. Workers' Compensation			
9. Hired and non-owned automobile			
10. Umbrella coverage			
11. Carrier informed of major changes			
Employee (non-child related):			
1. Applications with release to check referrals*			
2. Job description			
3. Quarterly evaluations (written)			
4. Personnel file (confidential)			
5. Employee handbook reviewed by employees			
6. Documentation & communication of warnings			
7. Withholding & payment of employment all taxes			
8. Posting of Labor Laws			

9. Adherence to Fair Labor Laws			
10. Obtain withholding certificated from employees			
11. Authorization for all non-tax deductions			
12. Written waiver of benefits			
13. Notification to employee of church's SUTA & FUTA exemption			
14. Exit interview			
15. Accident reports			
Driver/Vehicle/Activities:			
1. Copy of driver's license			
2. Obtain the driver's record			
3. Police report			
4. Application			
5. Interview and screening			
7. Maintenance Checks:			
(A) Before trips			
(B) On a regular basis			
8. Trip authorization			
9. Medical treatment authorization			
10. Accident reporting			
11. Proper child-adult ratio			
12. Qualified instructors			
13. Two Adult Rule			
14. New drivers added to insurance			
Counseling:			
1. Insurance			
2. Understand privileged communication law			
3. Child molestation reporting requirements			
4. Release forms			
5. General training			
6. Documentation of sessions (confidential)			
7. Designated persons			
8. Fee based sessions			

9. Contact insurance co. to determine coverage for clergy and laypersons			
10. Adequately screen applicants (obtain a statement by the applicant releasing the church from any liability for seeking information about his/her suitability for working as a counselor)			
11. Consider implementing a policy that prohibits opposite sex counseling without a 3 rd person being present			
12. Establish a training program for each “lay” person conducted by trained personnel			
13. Review the State laws addressing child abuse reporting to insure that all counselors are aware of their reporting obligations (annually)			
14. Maintain all information in confidential files			
15. Proper supervision for “lay person”: (A) non-licensed counselors should be closely monitored & supervised by a licensed Mental Health professional			
(B) counseling policy should address the issue of “referrals” to Mental Health professionals with “special” cases (e.g., suicide)			
NOTE: The First Amendment guarantee of religious freedom protects clergy from liability for their counseling activities in the course of their ecclesiastical duties. “Lay” counsels are not included!			
General:			
1. Incorporated (church & day care as one)			
2. Preparation of financial statements			
3. Annual audits			
4. Regular & proper church/board meetings			
(A) Notices			

(B) Voting procedures			
(C) Quorum			
5. Bylaws			
6. Minutes			
7. Internal Audit Committee			
8. Training of:			
(A) Board Members			
(B) Bookkeeper			
(C) Pastor/Ministers			
9. Two signatures on checks			
10. Internal controls on deposits			
11. Proper signing of contracts			
12. Auxiliary accounts			
13. Equipment check-out forms			
14. Records kept at church			
15. Registration of all computer software			
16. Assets in church's name			
17. W-2's include all income			
18. Political involvement			
19. Mingling restrictive contributions			
20. Centralized treasurer			
21. Registration of bylaws with State			
22. Review of all forms & authorization by insurance co. or attorney			
23. Political involvement by <u>any</u> church leader			

Other:			
1. Amend Articles when other churches are under its incorporation			
2. Investigate for old bylaws and have minutes to super side all prior bylaws before new ones are approved			
3. Annual verification that corporation status has not “lapsed”			
4. Maintain all old insurance policies (case could arise 5 years later)			