What's New 2022?

alsbom.org/ccs
Click on Administrator Resources

Alabama Baptist State Board of Missions
Lee Wright
334-613-2241, lwright@alsbom.org

Resources

1. **Alabama Baptist State Board of Missions, Church Compensation Services, LeaderCare & Church Health, Lee Wright** 800-264-1225 ext 241, cell 334-549-1383, or direct line 334-613-2241, lwright@alsbom.org
2. **Church Compensation Services** – www.alsbom.org/ccs Salary Study, events, blogs
3. **Pinnacle Alabama** – www.pinnaclealabama.org
4. **Follow the State Board of Missions on Facebook** or Twitter for news, events, etc.
5. **GuideStone** – www.guidestone.org
6. GuideStone financial resources - www.guidestone.org/compensationplanning

The IRS business mileage rate for 2022 is __ cents per mile

New W-4 Cautions

- The new W-4 contains 5 sections and is very easy for the employee. If there are multiple jobs in the home, be sure to check the box in #2. Concerning the Child Tax Credit, step 3, be sure to not claim it on withholding and receive it monthly at the same time. The W-4 calculations do not work well for ministers so obtain the Minister Estimate of Taxes at www.alsbom.org/ccs. Click on Administrator Resources.

New Child Tax Credit Cautions

- The Child Tax Credit is $3000 per child for children under age 18 and $3600 for children under age 6 and is fully refundable. Be careful not to count it as a part of withholding and receive it monthly at the same time.
- The Child Tax Credit for 2022 is unknown at this time. It is proposed to be $3000 and $3600 as it was in 2021, but has not passed in the Senate. If nothing is done, it would likely go back to the $2000 child tax credit. If you need to do W-4s now, it might be advisable for employees to not consider the Child Tax Credit or to consider a portion of it to be safe.

Family Medical Leave Act 2022

- The proposal requires 4 weeks of paid leave for all employees beginning January 1, 2022 at up to 85% of pay. The requirement tapers off as incomes go higher. However, it has not passed in the Senate at this time

Concerns from conference – Work From Home

1. We should have work from home agreements
   a. OSHA. A safe work environment. Frank Sommerville suggests workers take a picture of their home office showing no dangerous items such as loose cords, etc. OSHA did not check this at all during 2020, but promise to in the future.
   b. Workers Comp Claim. If someone is hurt at home, it could be a worker's comp claim.
   c. Non-exempt employees working more hours or overtime hours not reported. Receiving and Sending emails
   d. Computer, Internet and document security

More Concerns from the conference

2. Concerns about Child Sexual Abuse and Sexual Misconduct. www.ministrysafe.com
3. Frank Sommerville expanded on the Ministerial Exception that it would include more than we have been thinking. The ministerial exception would exclude the worker from all labor laws.

More concerns from the conference

4. Paula Burns on Risk. We have had the perfect storm in the past 2 years. Weather disasters, supply issues causing extreme spikes in building cost and replacement, sympathetic court awards much larger than before. Therefore, insurance companies are limiting risks and policies are becoming more restrictive. Churches should check their coverage.
5. The Boy Scouts no longer have insurance. Any church hosting BSA takes on the full risk – background checks, policies and procedures, insurance, etc.

GuideStone Church Retirement

- Contributions must now be $50 or more to receive protection benefits
- The Survivor Benefit is unchanged
- The disability benefit is limited to 5 years and ends at age 65
- The $17.50 per month for ministers paid by the State Board of Missions is now paid annually.

There are 3 new IRS forms

1. W-4 New Form to work with standard deduction, child credit and lack of deductions for most Americans
2. 941. Added lines for new FMLA, Credits for keeping employees on the job, etc.
3. 1099 NEC – Non Employee Compensation. Do not use 1099-MISC

QSE HRA

The Qualified Small Employer HRA is not a group health plan. A QSE HRA is an arrangement offered by an eligible employer that meets the following criteria:

1. The arrangement is funded solely by an eligible employer, and no salary reduction contributions may be made under the arrangement.
2. The arrangement provides, after the employee provides proof of coverage for the payment to, or reimbursement of, an eligible employee for medical care expenses incurred by the employee or the employee's family members
3. The amount of annual payments and reimbursements do not exceed $5,300 ($10,700 for family)

Qualified Small Employer HRA

A QSE HRA meets the following criteria:

4. The arrangement is provided on the same terms to all eligible employees of the eligible employer.
5. To be an eligible employer that may offer a QSE HRA, the employer may not be an applicable large employer (ALE) and may not offer a group health plan to any of its employees.
6. Written plan and 90-day notice required.

Another new HRA for 2020 – ICHRA

An Individual Coverage HRA has more flexibility than a QSEHRA.

- It may cover individual insurance premiums and out of pocket costs. QSEHRA is only for insurance premium.
- It may cover different classes of people – salaried, hourly, full time, part time
- Generally tax free except to pay for a Christian sharing ministry plan.

Questions?

Year End Procedures

Based on an article by Richard Hammar and Frank and Elaine Sommerville
alsbom.org/ccs
click on Administrator Resources

Lee Wright and Jo Ellen Johnson
Alabama Baptist State Board of Missions
334-613-2241 * 800-264-1225

See Financial Issues 2021, page 108

Monthly Procedures

1. Review all paid invoices to make sure nothing has been missed
2. If you are a monthly payroll tax depositor, process payroll tax deposit.
3. Reconcile bank statements
4. Print monthly financial statements and review for any errors or unusual items.

Quarterly Procedures

- File payroll tax forms:
  Form 941
  Form A-1
  Unemployment tax forms if not exempt (Churches are exempt)

Fall is a good time to review

- Internal control procedures
- Basic accounting procedures
- Financial Report formats
- Chart of accounts

Review Accounting Basis

Cash Basis	Accrual
Common for churches	Less common, but helpful
Very simple	More complex but useful
Tracks only cash flow	Tracks assets and liabilities
	Can produce a balance sheet
	Necessary for GAAP
	CPA audit will use this basis
	Many churches use a modified cash basis – accrual for liabilities. Churches do not have receivables.
	A good computer program can assist

Develop a good Chart of Accounts

- Income lines
- Expense lines
- Off budget lines for special offerings and pass through expenses
- Work with your finance committee in the fall to prepare for the new year

Develop good reports

- Congregation: Usually no more than 2 pages. Simpler is better.
- Finance Committee: More comprehensive. Any type of report or information needed.
- Audit team or CPA: May be able to export everything into format needed for reports not commonly distributed to congregation such as balance sheet and export info to CPA for GAAP compliance

There are 3 new forms

- W-4 New Form to work with standard deduction, child credit and lack of deductions
- 941. Added lines for new FMLA, Credits for keeping employees on the job, etc.
- 1099 NEC – Non Employee Compensation. Do not use 1099-MISC

941 Sample – Church differences

941 Sample

Line 1 – include minister
Line 2 – include minister taxable income
Lines 5 – do not include minister

1 Number of employees who received wages, tips, or other compensation for the pay period including: *Mar. 12* (Quarter 1 ... 4)	1	2
2 Wages, tips, and other comp ...	2	$4750.
3 Total income tax withheld fr ...	3	$150
4 If no wages, tips, and other compensation are subject to social security or Medicare tax		☐ Check and go to line 6.

5 Taxable social security and Medicare wages and tips:

	Column 1		Column 2
5a Taxable social security wages	$3000.00	× .124 =	$372.00
5b Taxable social security tips	$0.00	× .124 =	$0.00
5c Taxable Medicare wages & tips	$3000.00	× .029 =	$87.00

5d Total social security and Medicare taxes (*Column 2*, lines 5a + 5b + 5c = line 5d)	5d	$459
6 Total taxes before adjustments (lines 3 + 5d = line 6)	6	$609

IRS Form 1099 NEC

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116 2021 Form **1099-NEC**	**Nonemployee Compensation**
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation $	**Copy 1** **For State Tax Department**
RECIPIENT'S name		2 Payer made direct sales totaling $5,000 or more of consumer products to recipient for resale ☐	
Street address (including apt. no.)		3	
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld $	
Account number (see instructions)		5 State tax withheld $ $	6 State/Payer's state no.	7 State income $ $

Form **1099-NEC** www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

Year End Procedures

1. **Housing allowance.** New housing allowance should be approved in writing before first payment in 2022. May state “for 2022 and all future years until changed.” May be changed at any time but not retroactive.

Housing Allowance Procedure

1. Minister presents request for housing allowance. See www.guidestone.org/compensationplanning
2. Church officially approves the request in writing.

- Then it is up to the minister to be ready to prove the amount at tax time.

W-4 Forms

2. **W-4 forms.** December is a good time to complete new W-4 & A-4 forms. W-4 forms often become obsolete because of changes in an employee's circumstances. (withholding is optional for ministers)
   - The IRS recommends that without a W-4 form the employees withholding should be Single.
   - employees can use the "IRS withholding calculator tool in conjunction with completing the Form W-4

New 2020 W-4 Form

- Here are the instructions and form https://www.irs.gov/pub/irs-pdf/fw4.pdf
- For most people, there are really only 3 considerations
  1. Filing status, married filing jointly, filing separately, head of household or single
  2. Standard deduction
  3. Child tax credits
- **Simple for the employee. Complete Step 1 personal information and filing status and Step 5 Signature. The rest is optional.**

New 2020 W-4 Form

- Step 1. Personal Information and filing status
- Step 2. Multiple jobs. (Married filing jointly for example). The employee can simply check the box. This will claim half of the standard deduction for each spouse and both are instructed to check the same box. This is the easiest answer. On page 7 of the instructions, Married filing jointly will claim the full $25k or with box checked will claim about $12.5k. Or there is a multiple income worksheet which will adjust the withholding to withhold more on the higher income earner. Getting this wrong will cause underpayment of tax!
- Step 3. Child Tax Credits
- Step 4. Adjustments for extra deductions or for extra withholding
- Step 5. Sign and date

2021 Estimated Tax for Minister

- **2021 Estimated Taxes for Ministers Living in a Parsonage**
- **Federal Income Tax Estimate**
- Salary (don't include housing) $_______________

Get a copy from Lee Wright at alsbom.org/ccs. Administrator Resources or lwright@alsbom.org or lhicks@alsbom.org.

$_______________
$_______________
$_______________
$_______________
$_______________
$_______________
$_______________

Child Tax Credit Cautions

- Since the IRS is sending the Child Tax Credit as monthly payments, employees may wish to not consider it concerning their W-4.
- Or employees can request that the IRS not send the monthly payments.
- The $3000 per child ($3600 for under 6) has passed the house, but not the Senate for 2022

Year End Forms

- December is a good time to have employees complete Salary Reduction Agreements (Now called Retirement Contribution Agreements) for the Church Retirement Plan (These SRAs can be changed at any time). SRAs are kept at church not sent to GuideStone.
- Flexible Spending Accounts have only one time per year to make an election and may not be changed unless there exists certain kinds of family changes: marriage, birth, death, etc.

Year End Procedures

3. **Staff Christmas gifts or bonus.** These are taxable income and not a tax-free gift and must be reported as income on the recipient's W-2 form.

- **Is there anything the church can give tax free?** A gift of property having a value so small "as to make accounting for it unreasonable or administratively impracticable" is a nontaxable "de minimis fringe benefit." This exception does not apply to cash or "cash equivalents" (i.e., gift certificates).

de minimis fringe benefit

- Some examples include:
- Cokes, coffee, or occasional doughnuts in the office
- Occasional use of the church copy machine
- A staff meal to celebrate birthdays, anniversaries, etc.
- A meal to keep an employee on the job for overtime
- Ham or turkey at holiday time
- Occasional entertainment event ticket
- Cell phone used primarily for business purposes
- Source: http://www.irs.gov/Government-Entities/Federal,-State-&-Local-Governments/De-Minimis-Fringe-Benefits

Non-cash gifts to employees

- “Information on noncash gifts that may not be considered as ‘de minimis’ will need to be provided to the payroll system prior to the end of the year to allow for correct reporting on the recipient’s Form W-2 and the church’s Form 941,” Elaine Sommerville said.

Report Taxable Fringe Benefits on the W-2

- Non-accountable car allowance
- Non-compliant Health Care payments: Christian Ministries Plan; not a group plan or a group of one; not GuideStone, etc. See page 16
- Moving expense paid by the church for a move during 2021.
- Did you forgive interest or principal on a loan to your pastor during the year? Did you allow children of employees to attend your summer camp without charge? Did you provide employees with free memberships to the local gym? The value of such benefits needs to be reported on your employees' W-2

Cash gifts to volunteers should be avoided

- **Caution.** Monetary gifts to volunteers of any amount should be avoided, said Frank Sommerville. “Once you give people money, they are no longer volunteers,” he said. “They are employees. . . . Once you compensate them, then you’re getting into all kinds of issues. Does employment law apply? Does workers’ comp apply? Once you give them anything of value, they no longer qualify as a volunteer under many, many statutes.”

Year End Procedures

4. **Notice to donors.** Donors should be advised in the church bulletin or newsletter not to file their federal income tax return before they receive their contribution statement from the church.

It is good to provide a charitable giving educational insert in the bulletin at the same time. Church Law Today has an excellent one.

Year End Procedures

4. **Handling end-of-year contributions.** Ways members meet the deadline:
   1. Physically received by the church by 12/31
   2. Postmarked by 12/31

   However, check dated 12/31 and postmarked 12/31, but sticky note saying "Please do not deposit until January 5" would be a 2022 contribution
   3. Bank transaction by 12/31
   - Debit/Credit card. Deductible in the year the donor makes the charge
   - ACH
   - Text message donations are deductible in the year text sent if the donation is charged to the telephone or wireless bill

Year End Procedures

- Concerning Contributions
- Review Financial Issues 2021, page 52 concerning substantiation
- Be sure to include the vital “no goods or services were provided in exchange for your contributions” language on all statements and donation letters.
- Review church policies concerning designated gifts (Suggestions on page 51).

Contributions

- Consider an educational bulletin insert. Richard Hammar has an excellent one through www.churchlawtoday.com. Include:

1. must be delivered or postmarked by December 31
2. Giving ideas such as stocks and bonds
3. Giving idea: Charitable IRA distribution for those over 70 1/2
4. Giving ideas such as including the church in your estate planning (not just for the rich)
5. Information about the church's policies about designated contributions

A New Way to Give to your Church

- There is a great new way to give for people 70-1/2 and older who have an IRA. Actually, it is not new, but now it is permanent and advantageous even for middle class taxpayers for their federal and state income tax.
- Many people will not be able to itemize deductions on federal income taxes since Congress doubled the standard deduction. For a married couple, the 2021 standard deduction is now $25,100. In 2017, 70% of Americans did not have enough to itemize. Now, with the doubled standard deduction, it is estimated that 90%-95% of Americans will not have enough to itemize deductions.

A New Way to Give to your Church

- The IRS calls this a **QCD (Qualified Charitable Distribution).** You must be 70-1/2 years old and give to a qualified charity (church) directly from your IRA. You can use it to satisfy the RMD (required minimum distribution) that you must take beginning in the year that you reach 70-1/2 years old.
- There are significant tax advantages to giving to the church this way as opposed to taking the RMD to your taxable account, giving to the church from a taxable account and then trying to claim a deduction on your income taxes.

A New Way to Give to your Church

- The tax advantage of this is not that it is tax deductible (it is not); it is that the donor never received it as taxable income.
- See your tax advisor for more information.

Important Information for the Church Treasurer

- If the church receives a Qualified Charitable Distribution, the check will come directly from the IRA provider. The paperwork will explain that it is a QCD. You are not to include this as a tax-deductible contribution on the giving statement.
- Instead you should acknowledge it with a letter on church letterhead: "Thank you for your donation of $10,000 given to First Baptist Church on January 25, 2021. This was a Qualified Charitable Distribution direct from your IRA, so it will not be reported on your contribution statement. No goods or services were given in exchange for your contribution."

Be careful about accepting certain types of end-of-the-year noncash donations

- Near the end of the year, churches should be wary of a noncash donation of significant value, such as an antique car or a gift of real estate. Some gifts might be hard to sell. With land, there could be unresolvable zoning issues or issues with toxic soil. With a building, there could be structural issues or a problem with lead or asbestos. “You don’t want to be rushed into making a decision,” said Frank Sommerville. “If a gift comes in near the end of the year, you don’t have the time to do your due diligence.” He stressed that the gift could end up costing you a lot more than it is worth. An exception: publicly traded stock. “Stock is pretty easy to address appropriately as a year-end gift,” he said.

Year End Procedures

6. **Business expenses.** Caution: If you have an accountable reimbursement arrangement, distributing any balance in the reimbursement account to your employees at year-end makes all reimbursements for the year non-accountable. If you do not have an accountable plan, this is the perfect time to begin one.
7. **Classification of Workers for IRS and for DOL.** Now is the time to decide if you should reclassify any of your workers for tax reporting purposes. A minister who serves a church should receive a W-2. (See Financial Issues, page 7)

Reclassification of workers – IRS

- *IRS Voluntary Worker Classification Program*
- If the employer realizes that a worker has been misclassified as a contract worker, and wants to change the status, the IRS has a Voluntary Worker Classification Program. File Form 8952 at least 60 days prior to when you want to reclassify the employee and pay the calculated tax. Then begin treating the worker as an employee (at the beginning of a quarter).

Exempt/Nonexempt – DOL

- Check classifications of workers regarding Department of Labor exempt or non-exempt.
- Ministers are exempt even if not paid $684 per week. Check job descriptions to see if some employees qualify under the ministerial exception.
- Most other workers in a church are non-exempt
- See if any exempt employees become non-exempt in 2021 due to new DOL rules. Non-ministers must make $35,568 and have exempt job description to be exempt. Ministers are exempt regardless of their income.
- See page 23

8. Make sure ministers are properly classified for paying into the Social Security system

- A church must also determine who is a minister for IRS and Social Security purposes. Many churches incorrectly report ministers as employees for paying into the Social Security system by withholding Social Security and Medicare taxes from their wages.
- This is incorrect, since the tax code classifies ministers as self-employed for purposes of paying into Social Security/Medicare.
- **Caution.** "Ministers incorrectly classified for Social Security and Medicare jeopardize their ability to receive the tax-free housing allowance," Elaine Sommerville warned.

Year End Procedures

9. Voluntary withholding. Ministers' wages are-exempt from withholding but may voluntarily have federal income tax and state income tax withheld by submitting a W-4. Never withhold and match FICA on an ordained minister.

Review payments to any independent contractors

- Preparation for filing Forms 1099-NEC should include a review of payments to independent contractors and related Forms W-9. “If a Form W-9 hasn’t been obtained for a contractor, determine if the church has the correct address and Social Security/employer identification number for the contractor,” Elaine Sommerville stressed. “And don’t forget to include payments to attorneys even if paid to a law firm that is incorporated.”
- **Use box 1 on the 1099-NEC – Non-Employee Compensation.**

10. Order IRS tax forms and publications.

- December is a good time to order your new copy of IRS Publication 15 (withholding tables), and copies of Forms *W-2,* W-3, 1099, and 1096 that you will be issuing. Call the IRS toll-free telephone number-1-800-TAX-FORM (1-800-829-3676). You can also download many forms directly from the IRS website (irs.gov). (but may not use some downloaded forms W-2s, 1099s)

Year End Procedures

- Do not close out 2021 until you have done the following:
- Make backups and place in secure location (this should be done on a regular basis)
- Run general ledger reports
- Review the W-2 information on pages 19-21 of Financial Issues 2021. If not entered into your computer system, calculate Group Term Life insurance taxable amounts. Calculate employee contributions to Church Retirement Plan to be prepared to enter in box 12.

Possible additional info to gather

- **Box 12 W-2 Codes (common church situations)**
- C – Group Term Life Insurance in excess of $50k or $2k for dependents
- E – 403(b) contributions (employee)
- W – employer contributions to Health Savings Account
- BB – Contributions Roth 403(b)
- DD – Employer provided Health Insurance (optional for less than 250 employees, most will not do it)

Before closing out the year

- Check wage reports
- Suggestion: print out 941, W-2 and W-3 on plain paper. Check figures: Totals of 941 Federal Income Tax should equal total on W-3. Totals of 941 Social Security Tax and Medicare Tax should be double those reported on W-3

11. Prepare for 2022

- Update Chart of Accounts to reflect new budget
- Update financial software for withholding tables. If manual, obtain Circular E, Publication 15-A
- After last payroll of 2021, update computer for 2022 payroll numbers

Very important update

- **Disability Insurance or Life Insurance as a multiple of income. Update staff salaries for 2022 with GuideStone**
- This is very important because if not updated, the benefit would be based on the last reported salary.

Deadlines

- **Alabama A-6 monthly (if required).**
- **January 31. W-2.** Churches must issue W-2 to employees. Ministers serving a church must receive a W-2. See Financial Issues 2021, pages 19-21 for how to complete.
- **January 31. 1099-NEC.** (Get a W-9 to determine those to whom you give a 1099.) Issue 1099s for all non-corporations you have paid for services $600 or more.

Minister W–2

Minister W-2 Sample

a Employee's social security number

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

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

b Employer identifi

Include taxable income, not housing

1 Wages, tips, other compensation $8000.00

2 Federal income tax withheld

c Employer's name

First Baptist Church
101 Main Street
Anytown, AL

3 Social security wages

4 Social security tax withheld

5 Medicare wages and tips

6 Medicare tax withheld

Note that boxes 3,4,5,6 are blank

d Control number

9 Advance EIC payment

10 Dependent care benefits

e Employee's first name and initial Last name Suff.

Pastor Jones
301 Broad Street
Anytown, AL

11 Nonqualified plans

12a See instructions for box 12 Code E $2000

13 Statutory employee ☐ Retirement plan ☑ Third-party sick pay ☐

12b Code

14 Other

12c Code

12d Code

Note that housing allowance is not required but may be included in box 14

f Employee's address an

15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
	$8000.00				

Form **W-2** Wage and Tax Statement

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Deadlines

- New!!
- W-2, W-3, A-3, 1099, 1096 forms are due to both state of Alabama and Federal by January 31!

Deadlines

- **January 31. Contribution Statements.** January 31st is a recommended date by the IRS, not a legal requirement.
- **January 31. 4th Quarter 941. Do not file this form early in the month.** Wait to make sure there are no corrections. This can help to avoid filing a 941-X. Alabama A-1 is also due.
  - Sequence: give out W-2s first, days before the end of January. Ask if there are any corrections.
  - Then complete last quarter 941
- **January 31. Forms 1095** if an Applicable Large Employer. 50 FTE or more

Deadlines

- January 31. W-2 copy A, W-3, A-3 due even if you file electronically! NEW DATE
- January 31. 1096 and copy A of 1099s due, and 96 (Alabama) if you complete 1099-NEC (True for 99% of church situations). NEW DATE
- February 28. Form 1094 if an Applicable Large Employer (50 or more FTE). March 31 if filed electronically

Deadlines

- **Due Dates for 941s**
- 1. January, February, March – April 30
- 2. April, May, June –July 31
- 3. July, August, September –October 31
- 4. October, November, December – January 31

More Deadlines

- **May 15 – Form 990-T** Unrelated Business income tax
- **May 15 – Form 5578** Certification of Racial Nondiscrimination . If your church has a school, preschool, daycare, etc.
- These May 15th dates are based on the fiscal year being the calendar year.
- Note: many churches will not file these.

Discard – use shredder

- Documents pertaining to IRS older than 7 years.
- Contribution statements older than 7 years
- Most banking documents older than 3 years
- Contribution envelopes 2020 or older; or if you prefer a 3-year schedule, 2019 or older.
- Have historical documents microfilmed by the Samford University Library if you have not already done so.
- See Financial Issues 2021, page 110

Resources

- Church Finance Today. Richard Hammar and Frank and Elaine Sommerville. www.churchlawtoday.com
- Ultimate Tax and Legal Conference, Dallas, October 25, 2021
- www.ecfa.org
- NACBA Tax and Legal Update Webinar, December 2, 2010. Frank Sommerville. www.nacba.net
- Minister's Tax Guide by Richard Hammar. Available from GuideStone or Church Compensation Services.

Church Tax Requirements Payroll & Tax Procedures

for notes www.alsbom.org/ccs.
Click on Administrator Resources

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Resources

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2. **Church Compensation Services** – www.alsbom.org/ccs Church Compensation Study, events, blogs
3. **Pinnaclealabama.org**
4. **Follow the State Board of Missions on Facebook** or Twitter for news, events, etc.
5. **GuideStone** – www.guidestone.org
6. GuideStone financial resources - www.guidestone.org/compensationplanning

Reporting for the Bivo Pastor

- **C**an all my income be in housing? Yes, if that is appropriate for your situation.
- Is there a limit to housing? No percentage, can be up to 100% if appropriate
- Should I have 100% in housing? No, have some as taxable so that you may participate in the Church Retirement Plan
- If 100% is housing, do I need a W-2. No. A memo on church letterhead
- If I have some taxable income, do I receive a W-2 or a 1099? **<u>W-2</u>. Pages 106-107**

What other forms are needed?

1. If the pastor is the only employee and has only housing, **no additional IRS forms** are required. Memo statement for housing.
2. If the pastor is the only employee & has salary and housing

   Only a W-2 (and W-3, A-3)
3. If there are other employees such as a secretary
   a. 941 each quarter and corresponding AL form A-1
   b. W-2 (not a 1099)
   c. End of the year forms W-3, A-3

Determine if employee or contract

1. Degree of control employer has over details of the work
2. Which party invests in the facilities used for work?
3. Opportunity the worker has for profit or loss
4. Whether employer has right to discharge the worker
5. Whether the work is part of employer's regular business
6. Permanency of the relationship
7. Relationship the parties think they are creating
8. See **Financial Issues, page 7**

4 Forms needed + E-Verify, p 8

1. **W-4 Federal withholding.** – www.irs.gov
2. **A-4 Alabama Withholding** – www.revenue.alabama.gov
3. **I-9 Immigration Form** – www.uscis.gov/I-9
4. **E-Verify.** USCIS web site at www.uscis.gov/everify or Alabama http://verify.Alabama.gov
5. **NH 1 Alabama New Hire Form** – www.dir.alabama.gov/nh

Most common mistakes

1. Failing to do the forms at all – if so, start by completing the first 3 on all current employees. Keep these on file.
2. Failing to complete the forms on a minister. A minister is an employee in every way except Social Security taxes.
3. Failure to do E-Verify which is required by Alabama Immigration Law

New W-4 form for 2020-21

- Here are the instructions and form https://www.irs.gov/pub/irs-pdf/fw4.pdf
- For most people, there are really only 3 considerations
  1. Filing status, married filing jointly, filing separately, head of household or single
  2. Standard deduction
  3. Child tax credits
- **Simple for the employee. Complete Step 1 personal information and filing status and Step 5 Signature. The rest is optional.**

New W-4 form for 2020-21

- Step 1. Personal Information and filing status
- Step 2. Multiple jobs. (Married filing jointly for example). The employee can simply check the box. This will claim half of the standard deduction for each spouse and both are instructed to check the same box. This is the easiest answer. On page 7 of the instructions, Married filing jointly will claim the full $25k or with box checked will claim about $12.5k. Getting this wrong will cause severe underpayment of tax!
- Step 3. Child Tax Credits – each child under 17
- Step 4. Adjustments for extra deductions or for extra withholding
- Step 5. Sign and date

2021 Estimated Tax for Minister

- 2021 Estimated Taxes for Ministers Living in a Parsonage
- Federal Income Tax Estimate
- Salary (do not include housing)
- [illegible]
- [illegible]
- [illegible] --
- [illegible] $_____
- [illegible] $_____
- [illegible] $_____
- [illegible] $_____
- [illegible]
- [illegible] $_____
- [illegible]
- [illegible] $_____
- 13. Estimated 2019 Federal Income Tax $_____
- If less than $0, see IRS instructions for refundable portion of child tax credit.

Get a copy from Lee Wright at alsbom.org/ccs. Administrator Resources or lwright@alsbom.org or lhicks@alsbom.org.

Exempt or Non-Exempt?

- Non-Exempt – putting a person on “salary” does not make them exempt
- Non-Exempt – must pay for all hours worked
- Non-Exempt – must pay overtime if over 40
- Non-Exempt – cannot do “comp time” except in 7-day work week
- Non-Exempt – cannot “volunteer” in the same job description as paid
- Non-Exempt – must complete time sheet
- Financial Issues, page 23

New DOL Overtime Rules

- Employees with a salary below $684 per week (equivalent to $35,568 per year). Above this salary level, eligibility for overtime varies based on job duties.
- In effect January 2020.
- You are not required to increase the salary, but the worker might cease to be exempt.
- Ministers remain exempt even if they do not meet the salary requirement. Ministers by job description, not ordination.
- Ministerial Exception – DOL

Is it taxable?

- "Everything is taxable unless the Internal Revenue Code says that it isn't."
  - Frank Sommerville, CPA and attorney

- **See the chart in Financial Issues, page 17.**
- **Most Common Mistakes:**
  1. **Many are doing business expenses, medical, and benefits incorrectly.**
  2. **The "package approach" results in more taxable income.**
  3. **Many believe that the Affordable Care Act is no more. Actually, most of the provisions are still in effect. See page 16 for more information.**

Is it taxable?

- **2018 Major Tax Change**
- Employee Unreimbursed Business Expense is gone!
- This means to the minister that he cannot deduct any business expense related to his church income
- The church should provide an accountable reimbursement plan for the minister's business expenses

Most common mistakes-taxable

3. Failure to include Bonus and Love offerings. Include on the W-2. Do not do a separate 1099
4. Failure to include Gift cards from the church as taxable
5. Payments for individual health insurance (not a group plan) are taxable except a group less than 2 or GuideStone, or a Qualfied Small Employer HRA. See Financial Issues, page 16.
6. Treating as tax free wrong type of life insurance
7. Many churches have health reimbursements especially for ministers. Almost all are incorrect. Requires proper written plan available to all who work 30 hours.

Cash in lieu of benefits

- If an employee may elect to receive cash or benefits, then it is taxable either way.
- The lump sum or package approach does this.
- This applies to any benefit
- Also, reimbursement of business expenses from salary reduction is not an accountable plan.

Cash in lieu of benefits

- Therefore, the church needs written policies about the benefits provided and about reimbursement of business expenses
- If the church operates under the package approach, the only thing the minister can do is request a housing allowance and a salary reduction agreement for the Church Retirement Plan. Everything else is taxable.

Ministry Assistant Mary Smith

- Mary Smith serves as the part time ministry assistant for the church. Her salary is $12,000.
- In addition, the church contributes $1000 to her church retirement plan
- Also, through a Salary Reduction Agreement, she contributes $1000 to her church retirement plan
- The church provides $25K in Group Term Life Insurance (less than $50K, not taxable)

Mary Smith W-2, see page 20

a Employee's social security number	OMB No. 1545-0008	Safe, accurate, FAST! Use IRS e-file	Visit the IRS website at www.irs.gov/efile.
b Employer identification number (EIN)	1 Wages, tips, other compensation $11000.00	2 Federal income tax withheld $600.00	
c Employer's name, address, and ZIP code First Baptist Church 101 Main Street Anytown, AL	3 Social security wages $12000.00	4 Social security tax withheld $744.00	
	5 Medicare wages and tips $12000.00	6 Medicare tax withheld $174.00	
	7 Social security tips	8 Allocated tips	
d Control number	9 Advance EIC payment	10 Dependent care benefits	
e Employee's first name and initial / Last name / Suff. Mary Smith 334 Main Street Anytown, AL	11 Nonqualified plans	12a See instructions for box 12 Code E 1000.00	
	13 Statutory employee ☐ Retirement plan ☑ Third-party sick pay ☐	12b Code	
	14 Other	12c Code	
		12d Code	
f Employee's address and ZIP code			

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
		$11000.00	$0.00			

Form **W-2** Wage and Tax Statement

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

W-2 – Taxable? On W-2?

- **Mary Smith**
- Salary – $12,000 – Box 1, 3, 5, 16
- Less SRA contribution to Retirement plan (only reduced in box 1 and 16)
- ----------
- Church contribution retirement $1000 – NO
- Retirement SRA $1000 – Box 3, 5, 12
- Church retirement contributions from employer – not on W-2; if from employee, included in box 3, 5, 12
- Group term life insurance up to $50k not taxed

Pastor Jones

- Pastor Jones is the minister of First Baptist Church, Anytown, Alabama. He has a salary of $25,000 of which he has requested $15,000 in housing allowance and has signed a $2,000 salary reduction agreement for GuideStone church retirement plan contributions.
- The church provides health insurance as a benefit for Rev. Jones and $1000 contribution to Church Retirement Plan

Pastor Jones group term insurance

- The church provides $60,000 in term life insurance through GuideStone
- Looking at the table in IRS Publication 15-B, page 11, the taxable amount will be $12
- Note: The IRS only allows Group Term Life and has a 10 Employee Rule. There are exceptions to the 10 Employee Rule. GuideStone Term Life is group term even if fewer employees than 10. See IRS Pub 15-B

Pastor Jones W-2, see page 19, 21

a Employee's social security number

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

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

b Employer identification number (EIN)

1 Wages, tips, other compensation $8012.00

2 Federal income tax withheld

c Employer's name, a

First Bap
101 Mair
Anytown,

Note that boxes 3,4,5,6 are blank

3 Social security wages

4 Social security tax withheld

5 Medicare wages and tips

6 Medicare tax withheld

7 Social security tips

8 Allocated tips

d Control number

9 Advance EIC payment

10 Dependent care benefits

e Employee's first name and initial Last name Suff.

Pastor Jones
301 Broad Street
Anytown, AL

11 Nonqualified plans

12a See instructions for box 12
Code E $2000.00

13 Statutory employee Retirement plan Third-party sick pay

12b
Code C $ 12.00

12c
Code DD $5000.00

12d
Code

Note that placing Health Insurance in Box 12 is optional for employers less than 250. Most will not do it.

f Employee's address and ZIP code

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
		$8012.00				

Form **W-2** Wage and Tax Statement

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Minister W-2 common mistakes

1. Failure to include bonus or love offering in box 1 and 16.
2. Do not put bonus or love offering in box 14
3. Do not put bonus or love offering on a 1099 for an employee
4. For an ordained minister, box 3, 4, 5 & 6 are <u>always</u> blank

Minister W-2 common mistakes

5. Improperly handling housing allowance on W-2 (Box 14 or not on W-2; not in box 1)
6. Failure to properly handle retirement contributions: ER contributions not on W-2; EE contributions – box 12
7. Failure to include Non-accountable business expenses (car allowance concept). Should be included in box 1 and 16
8. Improperly handling health reimbursements which are taxable (unless correctly done)

Form 941, part 1, See page 21

1. Number of employees 2

1 Number of employees who received wages, tips, or other compensation for the pay period including: *Mar. 12* (Quarter 1), *June 12* (Quarter 2), *Sept. 12* (Quarter 3), *Dec. 12* (Quarter 4) 1

2 Wages, tips, and other compensation . . . . . 2 ▪

3 Total income tax withheld from wages, tips, and other compensation . . . . . 3 ▪

4 If no wages, tips, and other compensation are subject to social security or Medicare tax . . ☐ Check and go to line 6.

5 Taxable social security and Medicare wages and tips:

	Column 1		Column 2
5a Taxable social security wages	▪	× .124 =	▪
5b Taxable social security tips	▪	× .124 =	▪
5c Taxable Medicare wages & tips	▪	× .029 =	▪

5d Total social security and Medicare taxes (*Column 2*, lines 5a + 5b + 5c = line 5d) . . 5d ▪

6 Total taxes before adjustments (lines 3 + 5d = line 6) . . . . . 6 ▪

Form 941, part 1, See page 21

2. Wages, tips & compensation

Pastor $2000 +
Mary $2750 =

1 Number of employees who received wages, tips, or other compensation for the pay period including: *Mar. 12* (Quarter 1), *June 12* (Quarter 2), *Sept. 12* (Quarter 3), *Dec. 12* (Quarter 4)	1	2
2 Wages, tips, and other compensation	2	$4750.00
3 Total income tax withheld from wages, tips, and other compensation	3	
4 If no wages, tips, and other compensation are subject to social security or Medicare tax		☐ Check and go to line 6.

5 Taxable social security and Medicare wages and tips:

	Column 1		Column 2
5a Taxable social security wages		× .124 =	
5b Taxable social security tips		× .124 =	
5c Taxable Medicare wages & tips		× .029 =	

5d Total social security and Medicare taxes (*Column 2*, lines 5a + 5b + 5c = line 5d)	5d	
6 Total taxes before adjustments (lines 3 + 5d = line 6)	6	

Form 941, part 1, See Page 21

5a. Taxable Social Security Wages

Pastor $0 + Mary $3000

1 Number of employees who received wages, tips, or other compensation for the pay period including: *Mar. 12* (Quarter 1), *June 12* (Quarter 2), *Sept. 12* (Quarter 3), *Dec. 12* (Quarter 4)	1	2
2 Wages, tips, and other compensation	2	$4750.00
3 Total income tax withheld from wages, tips, and other compensation	3	$ 150.00
4 If no wages, tips, and other compensation are subject to social security or Medicare tax		☐ Check and go to line 6.

5 Taxable social security and Medicare wages and tips:

	Column 1		Column 2
5a Taxable social security wages	$3000.00	× .124 =	$372.00
5b Taxable social security tips	$0.00	× .124 =	$0.00
5c Taxable Medicare wages & tips	$3000.00	× .029 =	$87.00

5d Tot d)	5d	$459.00
6 Total ta	6	$609.00

Notice that Mary's Contribution to her Church Retirement Plan did not reduce her wages subject to Social Security and Medicare

941 common mistakes

- Do not file your last 941 yet! Print out your W-2s on plain paper by the 15th-20th. Have employees check for mistakes before filing 4th Quarter 941
- Minister should be included in EE count, line 1
- Minister wages included line 2 (but not housing)
- Minister federal withholding included in line 3 (if he requests withholding)
- Do not include Minister wages in lines 5
- Addition mistakes
- Failing to deposit taxes when required

Additional Steps

- Alabama A-6 – Monthly (if required)
- Alabama A-1 – Quarterly
- Alabama A-3 – Annual (similar to W-3)
- W-3 – Annual – totals amounts on W-2s
- **Note new due date for W-2, W-3, A-3 1099s**
- Form 944 – Employer's Annual Federal Tax Return (only if instructed to do so by the IRS)
- 1099s and 1096 Transmittal form if you have any contract workers and the Alabama form 96
- Form 1095 and 1094 for Applicable Large Employer (50 or more FTE)

Contract Worker–Form 1099–NEC

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116 2021 Form **1099-NEC**	**Nonemployee Compensation**
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation $	**Copy 1** **For State Tax Department**
RECIPIENT'S name		2 Payer made direct sales totaling $5,000 or more of consumer products to recipient for resale ☐	
Street address (including apt. no.)		3	
City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld $	
Account number (see instructions)		5 State tax withheld $ $	6 State/Payer's state no.
		7 State income $ $	

Form **1099-NEC** www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

New 1099-NEC for 2020

- There is a new 1099 for 2020
- 1099 NEC for Non-Employee Compensation.
- For 2020 reporting, it will be the form churches will use to be given in January 2021
- Do not use 1099 MISC!

Always obtain a W-9 before payment

- Be sure to obtain a W-9 on any contract worker you will pay.
- This will let you know whether the person is incorporated or not
- Will provide for you Tax ID number or SS number
- If you do not have a SS number, you still must provide a 1099. Your church will be penalized for providing a 1099 without a SS number
- You are required to do backup withholding of 28% if you have no SS number.

Is It Taxable 2022?

www.alsbom.org/ccs

Click on Administrator Resources

Lee Wright
Alabama Baptist State Board of Missions
334-613-2241, lwright@alsbom.org

Do not ordain for tax reasons! Ordination is about calling

- Non ordained youth minister, married
- $45,000
- Less $25,000 Standard deduction
- Fed Tax on $20k=$2k
- His portion of FICA =$3442
- Total tax $5442

- Ordained youth minister, married
- $45,000
- Requests $15,000 housing allowance
- Less $25000 Standard Deduction
- Fed Tax on $5k =$500
- SE Tax =$6358
- Total Tax $6858

Non Ordained	Ordained

Is It Taxable?

- *"Everything is taxable unless the Internal Revenue Code says that it isn't."*
  - Frank Sommerville
  - Financial Issues Book 2021, page 17

Medical – is it taxable?

- ***Medical expenses and tax treatment***
- The basic principle is that payment for a group healthcare plan is a non-taxable benefit; the payment or reimbursement of individual insurance is not allowed, and any money is taxable income. There are some exceptions:
- **The Individual Mandate Tax Penalty of $695 is gone, but most provisions of the Affordable Care Act remain.**
- Page 16

2021 Medical – is it taxable?

Type of Insurance	Tax Treatment	Notes
Group Health Insurance Plan	Non-taxable	
GuideStone insurance	Non-taxable	Even if only one employee; group plan of Southern Baptists
Medicare Parts B, D and supplement	Non-taxable if part of a group health plan or group fewer than 2. An expert is needed.	If not part of a group plan, then taxable.
Payment of individual plan	taxable	
Payment of individual plan with only one FT employee	Not taxable	IRS notes exceptions of groups less than two
Qualified Small Employer HRA for the purchase of individual plan up to $5450 or $11050 family	Non-taxable	Numerous rules to follow. See notes.
Reimbursement of individual plan through the govt. exchange	Likely Taxable. May be non-taxable but reduces the premium subsidy	Tax credit and/or subsidies are received from the government when signing up
Health Reimbursement Arrangement	Non-taxable	Can only be offered in conjunction with a group plan; never as a stand-alone, except QSE HRA or ICHRA

QSE HRA

Qualified Small Employer HRA

1. The arrangement is funded solely by an eligible employer, and no salary reduction contributions may be made under the arrangement.
2. The arrangement provides, after the employee provides proof of coverage for the payment to, or reimbursement of, an eligible employee for medical care expenses incurred by the employee or the employee's family members
3. The amount of annual payments and reimbursements do not exceed $5,450 ($11,050 for family)

QSE HRA

A QSE HRA is an arrangement offered by an eligible employer that meets the following criteria:

4. The arrangement is provided on the same terms to all eligible employees of the eligible employer.
5. To be an eligible employer that may offer a QSE HRA, the employer may not be an applicable large employer (ALE) and may not offer a group health plan to any of its employees.
6. Written plan and 90-day notice required.

Another new HRA – ICHRA

An Individual Coverage HRA has more flexibility than a QSEHRA.

- It may cover individual insurance premiums and out of pocket costs. QSEHRA is only for insurance premium.
- It may cover different classes of people – salaried, hourly, full time, part time
- Generally tax free except to pay for a Christian sharing ministry plan.

QSEHRA vs ICHRA

Business size	Fewer than 50 full-time	Any business of any size
Can it be offered with a group plan?	No	Yes, but not both the group policy and the HRA to the same class.
Is there a maximum contribution amount?	2022 $5,450 for single & $11,050 for family	ICHRAs don't cap out their annual allowance amounts.
Can amounts vary per employee?	Employer can vary allowance amounts by family status, age, and family size, but not based on classes.	can adjust allowance amounts according to different employee classes, as well as age & family size.
Who is eligible?	All full-time employees are eligible. May include part-time but must be on the same terms.	The HRA must be offered on the same terms to all employees in each class.

QSEHRA vs ICHRA

Works with premium tax credits?	can still receive premium tax credits, but the HRA amount is reduced	Employees participating in the ICHRA plan aren't eligible for premium tax credits.
Works with premium tax credits?	can still receive premium tax credits, but the HRA amount is reduced	Employees participating in the ICHRA plan aren't eligible for premium tax credits.
Requires individual health insurance	Yes, meeting MEC requirements	Doesn't require MEC
Can be used for	Individual Health Insurance	Health insurance and other medical expenses

Is It Taxable?

Type	Taxable ?	Limited $?	Written Plan Required?	Comments
Salary	Yes			
Love offerings & bonus	Yes			
Severance	Yes			
Social Security Offset	Yes			
Gift Cards	Yes			
Payment of personal expenses	Yes			
Forgiveness of debt	Yes			
Imputed interest of below market loan	Yes			Yes, if loan is more than $10,000. Note: Alabama law forbids loans to officers

Is It Taxable?

Type	Taxable ?	Limited $?	Written Plan Required?	Comments
Club dues	Yes			
Professional organization dues	No			
Pastor discretionary fund	Yes			Taxable unless completely accountable
Housing Allowance (for Minister)	No		Documentation required	Is taxable for Self Employment Tax

Reimbursements

Type	Taxable ?	Limited $?	Written Plan Required?	Comments
Non-accountable car allowance	Yes			
Reimbursements of business expense from salary reduction	Yes			
Accountable Reimbursement Plan	No		No, but recommended	Must follow IRS rules, See Compensation Planning Guide
Spouse Travel	Yes			Taxable unless spouse has business purpose
Cell phone	No			Primarily business use

Unreimbursed Business Expense

- **Employee Unreimbursed Business Expense deduction is gone!**
- On Schedule A, Itemized Deductions, the Employee Unreimbursed Business Expense deduction is gone!
- Minister serving a church can no longer write off business expenses related to his church on his taxes.
- Many ministers do not have an Accountable Reimbursement Plan from the church for their business expenses. Many ministers do not want an Accountable Reimbursement Plan thinking it is too much trouble.
- the amount of Unreimbursed Employee Business Expenses one will be able to write off will be **$0**!!!

Tuition & Continuing Education

Type	Taxable ?	Limited $?	Written Plan Required?	Comments
Tuition assistance plan	No	Yes	Yes	Must be equally available to all employees
Tuition assistance to one employee for bachelors	Yes			
Continuing education reimbursed as business expense	No			
Graduate level education as accountable reimbursement of business expense	No			

Moving Expenses

- Moving expenses are not tax deductible.
- Moving expenses paid by the employer are taxable income reported on the W-2.
- The only exception is the military

Benefits

Type	Taxable ?	Limited $?	Written Plan Required?	Comments
Group Health Insurance or group fewer than 2	No		Written statement recommended to avoid “package”	Must be employer benefit, not part of package approach
Health Reimbursements	No		Yes	Must be available to all employees working 30 hrs
Reimburse individual insurance	Yes			Unless QSEHRA or ICHRA
Group term life insurance	No	Yes		
Disability Insurance	No			As an employer benefit
Dental/Vision Insurance	No			

Retirement

Type	Taxable ?	Limited $?	Written Plan Required?	Comments
Employer contributions to retirement plan	No	Yes		Cannot exceed taxable income or $61k whichever is less
Employee contributions to retirement plan	No	Yes. $20,500, $27,000 over 50		Not taxable unless Roth. Non minister contributions subject to FICA
IRA	Yes			Taxable, then deductible as employee completes IRS 1040

Other Employee Benefits

Type	Taxable ?	Limited $?	Written Plan Required?	Comments
Dependent Care assistance	No	Yes	Yes	Must be equally available to all employees
Adoption Assistance	No	Yes	Yes	Must be equally available to all employees
Tuition reduction at church school	No		Yes	Only available to church school employees

Cash in lieu of benefits

- If an employee may elect to receive cash or benefits, then it is taxable either way.
- The lump sum or package approach does this.
- This applies to any benefit
- Also, reimbursement of business expenses from salary reduction is not an accountable plan.

Cash in lieu of benefits

- Therefore, the church needs written policies about the benefits provided and about reimbursement of business expenses
- If the church operates under the package approach, the only thing the minister can do is request a housing allowance and a salary reduction agreement for the Church Retirement Plan. Everything else is taxable.