

Year End Procedures

Based on an article by Richard Hammar
alsbom.org/ccs

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See Financial Issues 2021, page 110

Resources

1. PinnacleAlabama.org,
www.onegreatsunday.org. Click on archive
2018, then Financial
2. www.alsbom.org/ccs. Click on Resources.
Click on Blog
3. Follow us on FaceBook
4. www.guidestone.org/compensationplanning

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

<p>1 Number of employees who received wages, tips, or other compensation for the pay period including: Mar. 12 (Quarter 1)</p> <p>2 Wages, tips, and other comp</p> <p>3 Total income tax withheld fr</p> <p>4 If no wages, tips, and other compensation are subject to social security or Medicare tax</p> <p>5 Taxable social security and Medicare wages and tips:</p>	<p>Line 1 – include minister Line 2 – include minister taxable income Lines 5 – do not include minister</p>	<p>1 2</p> <p>2 \$4750. .</p> <p>3 \$150. .</p>											
		<input type="checkbox"/> Check and go to line 6.											
		<table border="0"> <thead> <tr> <th style="text-align: center; width: 30%;">Column 1</th> <th style="text-align: center; width: 30%;">Column 2</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">\$3000.00 .</td> <td style="text-align: right;">× .124 =</td> <td style="text-align: right;">\$372.00 .</td> </tr> <tr> <td style="text-align: right;">\$0.00 .</td> <td style="text-align: right;">× .124 =</td> <td style="text-align: right;">\$0.00 .</td> </tr> <tr> <td style="text-align: right;">\$3000.00 .</td> <td style="text-align: right;">× .029 =</td> <td style="text-align: right;">\$87.00 .</td> </tr> </tbody> </table>	Column 1	Column 2	\$3000.00 .	× .124 =	\$372.00 .	\$0.00 .	× .124 =	\$0.00 .	\$3000.00 .	× .029 =	\$87.00 .
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<p>5d Total social security and Medicare taxes (Column 2, lines 5a + 5b + 5c = line 5d)</p> <p>6 Total taxes before adjustments (lines 3 + 5d = line 6)</p>		<p>5d \$459 .</p> <p>6 \$609 .</p>											

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	Nonemployee Compensation
		Form 1099-NEC	
PAYER'S TIN	RECIPIENT'S TIN	1 Nonemployee compensation \$	
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>	
		3	
		4 Federal income tax withheld \$	
		5 State tax withheld \$	6 State/Payer's state no. \$
Account number (see instructions)			

Year End Procedures

- 1. Housing allowance.** New housing allowance should be approved in writing before first payment in 2021. May state “for 2021 and all future years until changed.” May be changed at any time but not retroactive.

Court Case about the housing allowance has been resolved. 7th Circuit Court of Appeals affirmed the constitutionality of the housing allowance.

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 \$24k or with box checked will claim about \$12k. 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

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 2020.
- 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 2021 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 2020, page 54 concerning substantiation
- Review church policies concerning designated gifts (Suggestions on page 53).

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 2019 standard deduction is now \$24,400. 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, 2020. 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. Reclassification of Workers.** 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 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

- Check classifications of workers regarding Department of Labor exempt or non-exempt.
- Ministers are exempt even if not paid \$684 per week.
- 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

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

- 8. 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.**

9. 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 2020 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 2020. 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

Prepare for 2021

- 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 2020, update computer for
2021 payroll numbers

Very important update

- **Disability Insurance or Life Insurance as a multiple of income. Update staff salaries for 2021 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 2020, 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	Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile .				
b Employer identifies Include taxable income, not housing		OMB No. 1545-0008			
c Employer's name First Baptist Church 101 Main Street Anytown, AL		1 Wages, tips, other compensation \$8000.00		2 Federal income tax withheld	
		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 Pastor Jones 301 Broad Street Anytown, AL		11 Nonqualified plans		12a See instructions for box 12 E \$2000	
		13 Statutory employee <input type="checkbox"/>	Retirement plan <input checked="" type="checkbox"/> V	Third-party sick pay <input type="checkbox"/>	12b <input type="checkbox"/>
		14 Other		12c <input type="checkbox"/>	
f Employee's address and <input type="checkbox"/>		15 State <input type="checkbox"/>		16 State wages, tips, etc. \$8000.00	
		17 State income tax		18 Local wages, tips, etc.	
				19 Local income tax	
				20 Locality name	
W-2 Wage and Tax Statement Form B —To Be Filed With Employee's FEDERAL Tax Return. Copy B—To Be Filed With Employee's FEDERAL Tax Return. This information is being furnished to the Internal Revenue Service.					
Department of the Treasury—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.** 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 2018 or older; or if you prefer a 3-year schedule, 2017 or older.
- Have historical documents microfilmed by the Samford University Library if you have not already done so.
- See Financial Issues 2020, page 116

Resources

- Church Finance Today. Richard Hammar.
www.churchlawtoday.com
- 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.