

# Small Church Tax Reporting

Alabama Baptist State Board of Missions  
Lee Wright  
334-613-2241, [lwright@alsbom.org](mailto:lwright@alsbom.org)



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## 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](mailto:lwright@alsbom.org)
2. **Church Compensation Services** – [www.alsbom.org/ccs](http://www.alsbom.org/ccs)  
Salary Study, events, blogs
3. **One Great Sunday** – [www.onegreatsunday.org](http://www.onegreatsunday.org) – Click on Archive, then 2018, then Finance.
4. **Follow the State Board of Missions on Facebook or Twitter** for news, events, etc.
5. **GuideStone** – [www.guidestone.org](http://www.guidestone.org)
6. GuideStone financial resources - [www.guidestone.org/compensationplanning](http://www.guidestone.org/compensationplanning)



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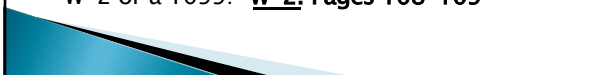
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## Reporting for the Bivo Pastor

- ▶ Can 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? **W-2, Pages 108-109**



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### 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

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### 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
- See **Financial Issues, page 7**

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### Classification common mistakes

1. Classifying as a contract worker a person who should be an employee
2. If in doubt, the IRS and DOL are both leaning more and more toward classifying as an employee in recent rulings.
3. A person who does 2 jobs at the church will generally be classified as an employee for both unless there is a clear reason to do otherwise. Example: Mary the church pianist also operates Mary's lawn service. The lawn service could be given a 1099.

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### 4 Forms needed + E-Verify, p 8

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

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### 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

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### 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 18.
- ▶ **Most Common Mistakes:**
  1. Many are doing business expenses, medical, and benefits incorrectly.
  2. The "package approach" results in more taxable income.

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### 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. **Treating as tax free wrong type of health coverage.**
- 6. Many churches have health reimbursements especially for ministers. According to our phone calls, 95% are incorrect.
- 7. Treating as tax free wrong type of life insurance

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### Payment of Individual Insurance

- ▶ Health insurance premiums paid by the employer or reimbursed to the employee for **individual** plans is taxable with some exceptions:
- ▶ **Group plans remain a tax free benefit**
- ▶ **GuideStone remains a tax free benefit**
- ▶ **There is an exception for groups fewer than 2 employees**
- ▶ **2 New HRA Provisions**
- ▶ See Financial Issues Book, page 16

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### 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 \$5,250 (\$10,600 for family)

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### 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.

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### 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.

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### 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)

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**Mary Smith W-2, see page 21**

a Employer's social security number		Safe, accurate, FAST! Use <b>e-file</b> Visit the IRS website at <a href="http://www.irs.gov/efile">www.irs.gov/efile</a> .	
b Employer identification number (EIN)		1 Wages, tips, other compensation <b>\$11000.00</b>	2 Federal income tax withheld <b>\$600.00</b>
c Employer's name, address, and ZIP code <b>First Baptist Church 101 Main Street Anytown, AL</b>		3 Social security wages <b>\$12000.00</b>	4 Social security tax withheld <b>\$744.00</b>
		5 Medicare wages and tips <b>\$12000.00</b>	6 Medicare tax withheld <b>\$174.00</b>
d Control number		7 Social security tips	8 Allocated tips
e Employer's first name and initial Last name Suffix <b>Mary Smith 334 Main Street Anytown, AL</b>		9 Advance EIC payment	10 Dependent care benefits
		11 Nonqualified plans	12a See instructions for box 12 <b>E   1000.00</b>
f Employer's address and ZIP code		13 State income tax	13b State income tax
15 State Employer's state ID number	16 State wages, tips, etc. <b>\$11000.00</b>	17 State income tax <b>\$0.00</b>	18 Local wages, tips, etc.
		19 Local income tax	20 Locality name

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.

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### W-2 most common mistakes

1. Failure to include bonus or love offering in box 1,3,5 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. Failure to properly handle retirement contributions: ER contributions not on W-2; EE contributions – 3, 5 and 12

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### 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

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### Pastor Jones group term insurance

- ▶ The church provides \$50,000 in term life insurance through GuideStone
- ▶ Looking at the table in IRS Publication 15-B, page 11, the taxable amount will be \$0
- ▶ 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

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### Pastor Jones W-2, see page 20

a Employee's social security number		b Employer identification number (EIN)		1 Wages, tips, other compensation <b>\$8000.00</b>		2 Federal income tax withheld	
c Employee's name First Bag 101 Main Anytown		Note that boxes 3,4,5,6 are blank		3 Social security wages		4 Social security tax withheld	
d Control number		e Employee's first name and initial Pastor Jones 301 Broad Street Anytown, AL		5 Medicare wages and tips		6 Medicare tax withheld	
f Employee's address and ZIP code		11 Nonqualified plans		7 Social security tips		8 Allocated tips	
15 State Employer's state ID number		16 State wages, tips, etc. <b>\$8000.00</b>		9 Advance EIC payment		10 Dependent care benefits	
17 State income tax		18 Local wages, tips, etc.		11a See instructions for box 12 <b>F \$2000.00</b> <b>DD \$5000.00</b>		12a	
19 Local income tax		20 Locally rat		14 Other <b>Housing Allowance \$15,000.00</b>		12b	

Form **W-2** Wage and Tax Statement  
Copy B—To Be Filed With Employee's FEDERAL Tax Return.

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### 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 always blank

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### Minister W-2 common mistakes

- 5. Improperly handling housing allowance on W-2 (Box 14 or not on W-2)
- 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)

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### Form 941, part 1

#### 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	<input type="text"/>	× .124 =	<input type="text"/>
5b Taxable social security tips	<input type="text"/>	× .124 =	<input type="text"/>
5c Taxable Medicare wages & tips	<input type="text"/>	× .029 =	<input type="text"/>

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

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### Form 941, part 1

#### 2. Wages, tips & compensation **Pastor \$2000 + Mary \$2750 =**

Good news! The IRS does not reconcile Box 2 with anything.

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	<input type="text"/>	× .124 =	<input type="text"/>
5b Taxable social security tips	<input type="text"/>	× .124 =	<input type="text"/>
5c Taxable Medicare wages & tips	<input type="text"/>	× .029 =	<input type="text"/>

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

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### Form 941, part 1

#### 3. Total Income Tax withheld

**Pastor \$0+  
Mary \$150=**

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... <input type="checkbox"/> Check and go to line 6.		
5	Taxable social security and Medicare wages and tips:		
	Column 1	Column 2	
5a	Taxable social security wages	$\times .124 =$	
5b	Taxable social security tips	$\times .124 =$	
5c	Taxable Medicare wages & tips	$\times .029 =$	
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

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### Form 941, part 1

#### 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... <input type="checkbox"/> Check and go to line 6.		
5	Taxable social security and Medicare wages and tips:		
	Column 1	Column 2	
5a	Taxable social security wages	$\times .124 =$	\$372.00
5b	Taxable social security tips	$\times .124 =$	\$0.00
5c	Taxable Medicare wages & tips	$\times .029 =$	\$87.00
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

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

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### 941 common mistakes

- ▶ 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)
- ▶ Minister wages not included in lines 5
- ▶ Addition mistakes
- ▶ Failing to deposit taxes monthly (or more often) when required. Small churches can often send the payment quarterly if less than \$2500.

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### Pastor – Taxable? On W-2?

- ▶ Salary – \$8000 – Box 1 & 16 of W-2
- ▶ Plus \$12 taxable amount group term life
- ▶ Housing – \$15000 – Not on W-2
  - But **may** be placed in Box 14 labeled housing
- ▶ Church contribution retirement \$1000 – NO. employer contributions not listed on the W-2
- ▶ Retirement SRA \$2000 – Box 12
- ▶ Health Insurance listed in Box 12. Optional. Only required by employers over 250 EEs.

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### Form 1099

VOID     CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1    Dividends	OMB No. 1545-0115	<b>Miscellaneous Income</b>
<b>Don't Use Box 3 – Other Income</b>		2    Royalties	Form 1099-MISC	
PAYER'S federal identification number		3    Other income	4    Federal income tax withheld	
RECIPIENT'S identification number	5    Fishing boat proceeds	6    Medical and health care payments	<b>Copy 1 For State Tax Department</b>	
FIR BR	7    Nonemployee compensation	8    Substitute payments in lieu of dividends or interest		
	9    Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient for resale <input type="checkbox"/> )	10    Crop insurance proceeds		
City, state, and ZIP code	11	12		
Account number (see instructions)	13    Excess golden parachute payments	14    Gross proceeds paid to an attorney		
15a    Section 408A deferrals	15b    Section 408A income	16    State tax withheld	17    State/Payer's state no.	18    State income

Form 1099-MISC      Department of the Treasury - Internal Revenue Service

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### Additional Steps

- ▶ Alabama A-1 – Quarterly
- ▶ Alabama A-3 – Annual (similar to W-3)
- ▶ W-3 – Annual – totals amounts on W-2s
- ▶ 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

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### Form 1099 common mistakes

- ▶ Classifying as a contract worker a person who should be an employee
- ▶ A person who does 2 jobs at the church will generally be classified as an employee for both unless there is a clear reason to do otherwise.
- ▶ Recording non-employee compensation in box 3 - Use box 7 for almost 100% of church situations.
- ▶ Failure to first obtain a W-9

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### 1099 mistake failure to obtain a W-9

- ▶ Be sure to obtain a W-9 on any person 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.

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### Questions?

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