

TAX GUIDE FOR

CHURCHES &

MINISTERS OF THE

GOSPEL

PRESENTED BY

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TAX-EXEMPT STATUS

Recognition of Tax-Exempt Status

Form 1023 _____

Form 1023 EZ _____

Applying for Tax-Exempt Status

Public Listing of Tax-Exempt Organizations

CHURCH LEADERSHIP

- Pastor
- Governing Boards
 - Trustee Board
 - Deacon Board
 - Finance Board
 - Other Board (s)
Responsible for
 - Church Administration

WHO QUALIFIES FOR THE SPECIAL TREATMENT THAT MINISTERS RECEIVE

- Must be a minister and perform the services of a minister:
 - Ministration of sacerdotal functions;
 - Conduct religious worship
 - Control, conduct and maintenance of religious organizations (including the religious boards, societies, and other integral agencies of the ministers church), under the authority of a church or denomination.
 - Supreme Court Rulings

GENERAL OVERVIEW OF MINISTERS AS AMENDED IN THE INTERNAL REVENUE CODE OF 1986

Common Law Employee

W-2 Form

wages (all taxable compensation)
Income Tax
Housing Allowance
Retirement / Other deductions

Income tax Form 1040

- Report all wages and non accountable reimbursement and excess housing allowance

Schedule SE

Report wages/non accountable reimbursements

Schedule A

- Contributions
- Mortgage Interest

Schedule C

Non employee compensations and Expenses to earn the compensation

MINISTERIAL COMPENSATION

Any payment to a Minister is Compensation and therefore is subject to income tax UNLESS it is allowable Parsonage/Housing Allowance.

Compensation includes but is not limited to the following:

- All payments from the church
- Cash or other tangible Form
- Bonus, Pounding, Pastor appreciation, other
- Fees, funerals, baptisms, masses, other contributions received for services (given directly to the minister)

What is a Gift?

- Governed by the facts and circumstances of each transfer.
- Minister bears the burden of proof. (Minister must prove that money was a gift).
- Most significant fact is the intention behind the money.
- Supreme Court Rulings

MINISTER'S COMPENSATION

- MINISTER'S FEDERAL & STATE RETURN EXAMPLE
- 1040 RETURN
- SCHEDULE A (ITEMIZED DEDUCTIONS)
- SCHEDULE C-EZ (NET PROFIT FROM BUSINESS)
- WORKSHEET REVIEW
- NC STATE RETURN

RETIRED MINISTER

- May receive a donation from the church at retirement AS A GIFT that is NON TAXABLE.
- May receive a housing allowance subject to the “least of these” principle.
 - May not exceed the amount that actually spent on housing
 - Must be designated in the previous year as the current year housing amount
 - Must be the lesser of designated amount and actual amount spent

EMPLOYEE OR INDEPENDENT CONTRACTOR

- **All employers to include a church must make a determination as to whether a Person is an Employee or an Independent Contractor**
- **See Internal Revenue Service 20 Factor Checklist**

COMPENSATION- PAYROLL

- EMPLOYER'S QUARTERLY
FEDERAL RETURN

AND

- W-3 AND W-2 FORMS

JEOPARDIZING TAX- EXEMPT STATUS

Inurement to Insiders

- Churches are prohibited from insider transactions that result in **any** excess payments to insiders
- Insiders are defined as “Persons having a personal and private interest in the Activities of the Organization.
- Examples: Pastors and their families, Board Members, Officers, and in certain instances employees.
- Examples: Undocumented payments, unreasonable compensation to insiders, transfers of church property at less than fair market value.
- **THE PROHIBITION IS ABSOLUTE**
NO AMOUNT IS OK

JEOPARDIZING TAX-EXEMPT STATUS

○ *Private Benefit*

- Church must be for religious and charitable purposes
- May not serve the private interest of an individual or group
- Private benefit may occur even if the persons benefited are not “insiders”

○ *Substantial Lobbying Activity*

- Some Lobbying is permitted
- Substantial Lobbying is prohibited
- May not attempt to Influence Legislation
- **CAUTION: Hire a professional to guide you in the area of Lobbying**

JEOPARDIZING TAX- EXEMPT STATUS

Political Campaign Activity

- ***Absolute Prohibition*** from directly or indirectly participating in , or intervening in , any political campaign on behalf of or in opposition to a candidate for political office
- Voter Education is allowable and encouraged
- Partisan Politics not allowed.

CAUTION: Hire a professional to guide you in the area of Lobbying

REBUTTABLE PRESUMPTION

- Provides a safe harbor for church leadership decisions

- Provides a frame work for church leaders/insiders to make compensation decisions with reasonable assurance

- Facts and Circumstances approach.

UNRELATED Page 1 BUSINESS INCOME TAX (UBIT)

- **Net Income subject to the UBIT**
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- **Examples of UBIT**

- **Advertising**
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- **Gaming**
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- **Sales of Merchandise and publications**
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- **Rental Income**
-

- **Interest Income**
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- **Business Activities**

- **Parking Lot**
-

- **Tax on Income-Producing Activities**
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EMPLOYMENT TAX

- **Social Security and Medicare Taxes- Federal Insurance Contributions Act (FICA)**

- **Federal Unemployment Tax Act (FUTA)**

RECORDKEEPING REQUIREMENTS

- **BOOKS OF ACCOUNTING AND OTHER TYPES OF RECORDS**
- **LENGTH OF TIME TO RETAIN RECORDS**

FILING REQUIREMENTS

- **INFORMATION AND TAX RETURNS- FORMS TO FILE AND DUE DATES**

CHARITABLE CONTRIBUTIONS- SUBSTANTIATION AND DISCLOSURE RULES

- **RECORDKEEPING**

- **RECORDKEEPING RULES**

- **SUBSTANTIATION RULES**

- **DISCLOSURE RULES THAT APPLY TO QUID PRO QUO CONTRIBUTIONS**

- **EXCEPTIONS TO DISCLOSURE STATEMENT**

SPECIAL RULES LIMITING IRS AUTHORITY TO AUDIT A CHURCH

- **TAX INQUIRIES AND
EXAMINATION OF CHURCHES**

- **AUDIT PROCESS**

HELP FROM THE IRS

- **IRS TAX PUBLICATIONS TO ORDER**

- **IRS CUSTOMER SERVICE**

- **EO CUSTOMER SERVICE**

- **EO WEB SITE**

- **EO UPDATE**
