

Connectional AME Women in Ministry presents

Handling "Small Church" **BUSINESS**

A series focused on helping and encouraging smaller congregations

Part One — Understanding Payroll & Accounting



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CHURCH AND CLERGY TAX MATTERS

Romans 13:1-7
(The Message Translation)

To Be a Responsible Citizen

Be a good citizen. All governments are under God. Insofar as there is peace and order, it's God's order.

So live responsibly as a citizen. If you're irresponsible to the state, then you're irresponsible with God, and God will hold you responsible. Duly constituted authorities are only a threat if you're trying to get by with something. Decent citizens should have nothing to fear.



CHURCH AND CLERGY TAX MATTERS

Do you want to be on good terms with the government? Be a responsible citizen and you'll get on just fine, the government working to your advantage. But if you're breaking the rules right and left, watch out. The police aren't there just to be admired in their uniforms. God also has an interest in keeping order, and he uses them to do it. That's why you must live responsibly—not just to avoid punishment but also because it's the right way to live.



CHURCH AND CLERGY TAX MATTERS

That's also why you pay taxes—
so that an orderly way of life
can be maintained. Fulfill your
obligations as a citizen. Pay
your taxes, pay your bills,
respect your leaders. - Romans
13:6-7, MSG



CHURCH AND CLERGY TAX MATTERS

Let's start with Payroll



CHURCH AND CLERGY TAX MATTERS

How do you set up a payroll system?



CHURCH AND CLERGY TAX MATTERS

Step One:

If you do not already have an Employer Identification Number (EIN), you will need to apply for a number.



CHURCH AND CLERGY TAX MATTERS

If you are required to report
employment taxes or give
tax statements to employees
you need an Employer
Identification Number (EIN).



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Purpose of an Employer Identification Number

Employer Identification Numbers are issued for the purpose of tax administration and are not intended for participation in any other activities (e.g., tax lien auction or sales, lotteries, etc.)



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The EIN is a nine-digit number the IRS issues. The digits are arranged as follows: 00-00000000.

It is used to identify the tax accounts of employers. Use your EIN on all of the items you send to the Internal Revenue Service (IRS) and Social Security Administration (SSA).



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If you do not have an EIN, you may apply for one:

- ▶ On-line. Go to the IRS.gov and click on the *Apply for an EIN Online* link under *Tools*.
- ▶ By calling 1-800-829-4933
- ▶ By faxing Form SS-4, Application for Employer Identification Number, to the IRS
- ▶ By mailing Form SS-4, Application for Employer Identification Number, to the IRS



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Step Two:

Get state and local identification numbers if they are required in your area. Contact your state revenue department directly for information on applying to be a payroll provider in your state.



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Step Three:

Determine who is an
independent contractor and
who is an employee.



CHURCH AND CLERGY TAX MATTERS

Who Are Employees?



CHURCH AND CLERGY TAX MATTERS

- ▶ Employees Under Common Law
- ▶ Statutory Employees
- ▶ Statutory Non-Employees
- ▶ H2A - Agricultural Workers



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Generally, employees are defined either under common law or under statutes for certain situations.

Common Law

Generally, a worker who performs services for you is your employee if you have the right to control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed.



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Ministers...

Under common-law rules, you are considered either an employee or a self-employed person. Generally, you are an employee if you perform services for someone who has the legal right to control both what you do and how you do it, even if you have considerable discretion and freedom of action.

- ▶ If you are employed by a congregation for a salary, you are generally a common-law employee and income from the exercise of your ministry is considered wages for income tax purposes. However, amounts received directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services, are not considered wages; such amounts are self-employment income for both income tax purposes and social security tax purposes.
- ▶ **Form SS-8.** If you are not certain whether you are an employee or a self-employed person, you can get a determination from the IRS by filing Form SS-8.



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Employer...

You do not withhold these taxes from wages earned by a minister, but if the minister is your employee, you may agree with the minister to voluntarily withhold tax to cover the minister's liability for self-employment tax and federal income tax.



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Step Four:

Determine a pay period.

Your Church is entitled to pay based on any schedule you want; however, most states require you to pay your employees on regular paydays.



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Step Five:

Have each employee fill out and sign an IRS Form W-4 and U.S. Citizenship and Immigration Service Form I-9.

Follow this link to download the IRS Form w-4

<https://www.irs.gov/pub/irs-pdf/fw4.pdf>

Follow this link to download a Form I-9

https://www.uscis.gov/system/files_force/files/form/i-9.pdf?download=1



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Employee's Social Security Number (SSN)

You are required to get each employee's name and SSN and to enter them on Form W-2. This requirement also applies to resident and nonresident alien employees. You should ask your employee to show you his or her social security card.

Do not accept a social security card that says "Not valid for employment." A social security number issued with this legend does not permit employment.



Note: *Most states have their own exemption certificate form, so check with your state's tax and labor laws.*



CHURCH AND CLERGY TAX MATTERS

Another form you **MUST** have on file for every employee is U.S. Citizenship and Immigration Services Form I-9

Form I-9 is used for verifying the identity and employment authorization of individuals hired for employment in the United States. All U.S. employers must ensure proper completion of Form I-9 for each individual they hire for employment in the United States. This includes citizens and noncitizens. Both employees and employers must complete the form.



CHURCH AND CLERGY TAX MATTERS

Step Six:

Do report new hires! In accordance with the
Personal Responsibility and Work Opportunity
Reconciliation Act of 1996 (PRWORA)

ALL EMPLOYERS MUST REPORT ALL NEW HIRES...to
their state(s) within 20 days or sooner depending on
the state's requirement. Check your state's
designated state agency for more details and ensure
that the payroll tax obligation pertains to churches
and nonprofits.



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Step Seven:

Do establish payroll records.



CHURCH AND CLERGY TAX MATTERS

For federal tax purposes, you must keep the following information on file:

- ▶ the name, address and Social Security Number of each employee
- ▶ the total amount and date of each payment
- ▶ the portion of each payment that constituted taxable wages
- ▶ copies of each employee's W-4
- ▶ copies of returns you filed
- ▶ copies of any undeliverable W-2 forms



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Step Eight:

Do calculate payroll taxes and withholding.

For income tax purposes the federal government provides tax tables (*IRS's Circular E*) that calculate the amount you must withhold once you have established the appropriate amount of taxable wages.



Some employees may ask you to withhold an extra amount, especially your ministers as they are required to pay their own self employment tax. Have them put the extra amount they want withheld from each paycheck on their W-4.



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Step Nine: Prepare and file payroll tax returns.

The IRS requires that you file a quarterly Form 941, reconciling the amount of tax you owe and the amount you have paid.

Most states have their own payroll tax forms due in the same month as the Form 941. Check with your state for the appropriate forms and due dates.



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Step Ten:

Prepare annual W-2 forms each January for all of your employees, showing how much they were paid and summarizing their withholding for the previous year. These forms are filed electronically with the Social Security Administration and copies are sent to your employees.



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Payroll is not easy!



You can do
it!

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Free On-Line Paycheck Calculators

On-Pay Payroll Calculator

- ▶ <https://onpay.com/payroll-calculator-tax-rates>

eSmart Paycheck Calculator

- ▶ https://www.esmartpaycheck.com/FreeCalculator/free_calculator.aspx

ADP Salary Paycheck Calculator

- ▶ <https://www.adp.com/resources/tools/calculators/salary-paycheck-calculator.aspx>



CHURCH AND CLERGY TAX MATTERS

What does the
Bible say about
pastoral
compensation?



CHURCH AND CLERGY TAX MATTERS

Let the elders who rule well be considered worthy of double honor, especially those who labor in preaching and teaching. For the Scripture says, “You shall not muzzle an ox when it treads out the grain,” and, “The laborer deserves his wages.”

I Timothy 5:17-18, ESV



CHURCH AND CLERGY TAX MATTERS

I Corinthians 9: 9-14



CHURCH AND CLERGY TAX MATTERS

For it is written in the Law of Moses, “You shall not muzzle an ox when it treads out the grain.” Is it for oxen that God is concerned? Does he not speak entirely for our sake? It was written for our sake, because the plowman should plow in hope and the thresher thresh in hope of sharing in the crop. If we have sown spiritual things among you, is it too much if we reap material things from you?



CHURCH AND CLERGY TAX MATTERS

If others share this rightful claim on you, do not we even more? Nevertheless, we have not made use of this right, but we endure anything rather than put an obstacle in the way of the gospel of Christ. Do you not know that those who are employed in the temple service get their food from the temple, and those who serve at the altar share in the sacrificial offerings?



CHURCH AND CLERGY TAX MATTERS

In the same way, the Lord commanded that those who proclaim the gospel should get their living by the gospel.

I Corinthians 9: 9-14, ESV



CHURCH AND CLERGY TAX MATTERS

What does The
Doctrine and
Discipline of the
African Methodist
Episcopal Church say?



CHURCH AND CLERGY TAX MATTERS

Part VIII - Ministerial Classifications, Rules and Support

Section II - Ministerial/Pastoral Support

B. Salary of Ministers



CHURCH AND CLERGY TAX MATTERS

Salary to be negotiated
by the pastor and the
Steward Board

Benefits to be included



CHURCH AND CLERGY TAX MATTERS

Three Federal taxes are paid
on wages and self-
employment income

- ▶ Federal Income Tax
- ▶ Social Security
- ▶ Medicare



CHURCH AND CLERGY TAX MATTERS

Social Security and Medicare are collected under one of two systems

- ▶ **Federal Insurance Contributions Act (FICA)**
 - ▶ The employee and employer each pay half of the Social Security and Medicare taxes
- ▶ **Self Employment Contributions Act (SECA)**
 - ▶ The self-employed person pays all the taxes.



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Are your
ministerial
earnings covered
under FICA or
SECA?



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CHURCH AND CLERGY TAX MATTERS

Whether the minister is an employee or self-employed, the earnings of a minister are not subject to federal income, social security, and Medicare tax withholding.



CHURCH AND CLERGY TAX MATTERS

What about the
church staff ???



CHURCH AND CLERGY TAX MATTERS

Religious workers (church employees) wages are generally subject to Social Security and Medicare tax under FICA, not SECA.



CHURCH AND CLERGY TAX MATTERS

	Pastor	Musician
Gross Wages	\$100	\$100
Federal Income Tax W/H	\$0	-\$2.69
Social Security W/H	\$0	-\$6.20
Medicare W/H	\$0	-\$1.45
Net Pay	\$100	\$89.66
Total Deductions	\$0	\$10.34
Amount Due to IRS	\$17.99	\$17.99 (\$10.34 from Musician, \$7.65 from church)
Who pays the IRS?	Pastor	Church



The earnings are taxed under the rules that apply to an employee.



CHURCH AND CLERGY TAX MATTERS

Amounts Included in Gross Income (for SECA)

- ▶ Salaries and fees for your ministerial services
- ▶ Offerings you receive for marriages, baptisms, funerals, etc.
- ▶ The value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience
- ▶ Any amount a church pays toward your income tax or self-employment (SECA) tax. This amount is also subject to income tax.
- ▶ The fair rental value of a parsonage provided to you (including the cost of utilities that are furnished) and the rental allowance (including an amount for payment of utilities) paid to you



CHURCH AND CLERGY TAX MATTERS

Let's talk about housing!

Ordained or licensed ministers of the Gospel may be able to exclude from income tax the housing allowance or fair rental value of a parsonage that is provided to them for their ministry service.

This exclusion applies only for income tax purposes. It does not apply for self-employment purposes.



CHURCH AND CLERGY TAX MATTERS

*This is important.....pay
attention*

The church that employs
you must officially
designate the payment as a
housing allowance before it
makes the payment!



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- ▶ It must designate a definite amount
- ▶ It can't determine the amount of the housing allowance at a later date
- ▶ If you are employed and paid by a local congregation, a resolution by a national church (Connectional) agency does not effectively designate a housing allowance for you
- ▶ The local congregation must officially designate the part of your salary that is a housing allowance



CHURCH AND CLERGY TAX MATTERS

Since, the housing allowance is not subject to federal income tax, why not negotiate my entire compensation package as a housing allowance?



CHURCH AND CLERGY TAX MATTERS

Your housing
allowance can not be
more than the
reasonable pay for
your services!



CHURCH AND CLERGY TAX MATTERS

The congregation is required to provide the minister an annual W-2 for the wages paid by the congregation. The W-2 should also note any allowances provided to the minister.



For Employers

- ## For Clergy

- All of these resources can be found online at www.IRS.gov*



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so that an orderly way of life
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your taxes, pay your bills,
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QUESTIONS????



CHURCH AND CLERGY TAX MATTERS

Thank you and God bless
you and your ministry with
more than enough