



WELCOME TO

Progressive Church Finance Management Seminar

Deacon Robert Dwight, Presenter



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Who should be in attendance?

- **Pastors**
- **Deacons**
- **Church Finance Committee**
- **Bookkeepers**



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Topics that will be covered in this seminar:

1. **IRS Laws that govern non-profit Churches and Religious Organizations**
2. **Compensation of Ministers**
3. **Payment of Employee Business Expenses**
4. **Financial Bookkeeping procedures**
5. **Recordkeeping Requirements**
6. **Reporting requirements**



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1 IRS Laws benefits of 501 (c) (3) Status

Tax exemption under Internal Revenue Code (the Code) section 501 (c) (3) provides a number of benefits:

- **Exemption form Federal income tax;**
- **Tax-deductible contributions;**
- Possible exemption from state income, sales, and employment taxes;
- Reduced postal rates; Exemption from Federal unemployment tax;
- And Tax-exempt financing.



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Tax-Exempt Organizations and 501 (c) (3)s

A **501 (c) (3)** is a type of exempt organization. It must be organized and Operated for one or more exempt purposes described in Code section 501 (c) (3):

- Charitable,
- Educational,
- Religious,
- Scientific,
- Literary,
- Testing for public safety,
- Fostering national or international amateur sports competition, and/or
- Preventing cruelty to children of animals.



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IRC section 501 (c) (3) for all organizations, including churches and religious organizations, must abide by certain rules:

- Their net earnings **may not** inure to any private shareholder or individual,
- They **must not** provide a substantial benefit to private interests,
- They **must not** devote a substantial part of their activities to attempting to influence legislation,
- They **must not** participate in, or intervene in, any political campaign on behalf of (or in opposition to) any candidate for public office, and
- The organization's purposes and activities **may not** be illegal or violate fundamental public policy,



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IRS Laws that govern non-profit Churches and Religious Organizations

- **Legal**

 - Articles of incorporation

 - By-laws

 - Minute book (Minutes of all meeting)

- **Employer Identification Number (EIN) Tax-Exempt Status**

 - Every tax-exempt organization, including a church, should have an employer identification number (EIN), whether or not the organization has any employees.



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2 Compensation of Ministers

- **Withholding Income Taxes for Ministers**

Is the church required to withhold income taxes from compensation of the pastor? **Yes** or **No**

- **Social Security and Medicare Taxes – (FICA) vs. Self-Employment Contributions Act (SECA)**

Is the church required to withhold (FICA) or (SECA) from compensation of the pastor? **Yes** or **No**



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- **Housing Allowances**

The Clergy Housing Allowance Clarification Act of 2002

KEY POINT.

Congress enacted the Clergy Housing Allowance Clarification Act In 2002. This Act amended the tax code to limit the nontaxable portion of a Church-designated housing allowance for ministers who own their home to the fair rental value of the home (furnished, plus utilities)



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- **Housing Allowances Continued ...**

The income tax regulations specify that the designation of the allowance may be contained in *“an employment contract, in minutes of or in a resolution by a church or other qualified organization or in its budget, or in any other appropriate instrument evidencing such official action.”*

The church’s designation should be in writing, although if a board orally agrees to a specific allowance and neglects to make a written record of its action, it could draft an appropriate record of its action at a later time, dated as of the earlier meeting.

Kizer v. Commissioner, T.C. Memo. 1992-584.



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- **Housing Allowances Continued ...**

It is important to note that the housing allowance designated by a church is not necessarily exempt from tax in computing federal income taxes.

Section 107 of the tax code specifies that a housing allowance is excluded from income in computing federal income taxes **only to the extent it is used for actual expenses incurred** by the minister in owning or renting a home.



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- **Housing Allowances Continued ...**

AMOUNT A MINISTER MAY CLAIM AS A HOUSING ALLOWANCE EXCLUSION:

If you own your home and you receive as part of your pay a housing or rental allowance, you may exclude from gross income the smallest of the following.

- *The amount actually used to provide a home,*
- *The amount officially designated as a rental allowance, or*
- *The fair rental value of the home, including furnishings, utilities, garage, etc.*



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3 Payment of Employee Business Expenses

A church or religious organization is treated like any other employer as far as rules regarding employee business expenses. The rules differ depending upon whether the expenses are paid through an accountable or non-accountable plan, and these plans determine whether the payment for these expenses is included in the Employee's income.



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Accountable Reimbursement Plan:

An arrangement that an employer establishes to reimburse or advance **Employee business expenses** will be an accountable plan if it meets four requirements:

- (1) Involves a business (church) connection;
- (2) Requires the employee to substantiate expenses incurred;
- (3) Requires the employee to return any excess amounts, and
- (4) Keeping good accounting records



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Continued...

Benefits of employee business expenses reimbursed under an accountable plan are:

- (a) excluded from an employee's gross income;
- (b) not required to be reported on the employee's IRS Form W-2;
- (c) exempt from the withholding and payment of wages subject to FICA taxes and income tax withholdings and
- (d) reported to the church and not the IRS.



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Non-accountable Reimbursement Plan:

A reimbursement arrangement is nonaccountable if it
Either:

- (1) **Fails to** require substantiation of the actual amounts, Date, place and business purpose of each reimbursed expense within a reasonable time;
- (2) **Fails to** require excess reimbursements to be returned to the employer within a reasonable time.



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Continued...

What are the tax consequences of a nonaccountable plan?

This plan depends on whether a worker is an **employee** or **self-employed** for federal income tax reporting purposes.

For employees, the full amount of the church's reimbursements must be reported as income on Form W-2 and 1040.

For self-employed, the full amount of the church's reimbursement must be reported as income on Form 1099-MISC.



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Continue...

CAUTION. *If a church's reimbursement of an employee's expenses under a nonaccountable plan are not reported as taxable income in the year the reimbursements are paid, two consequences result:*

- (1) The employee is subject to back taxes plus penalties and interest on the unreported income; and*
- (2) If the reimbursed expenses were incurred by an officer or director of the church (a "disqualified person"), or a relative of such a person, they will expose the recipient and possibly other members of the church's governing board to intermediate sanctions in the form of substantial excise taxes, since the IRS views these benefits as automatic excess benefits unless reported as taxable income by the church or recipient in the year provided. The lesson is clear: sloppy church accounting practices can be costly to church staff.*



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4 Financial Bookkeeping procedures:

All tax-exempt organizations, including churches and religious organizations, are required to maintain books of accounting and other records necessary :

- **to produce an audit trail of all funds received and disbursed.**
- **to produce financial reports on a monthly or yearly basis (receipts, disbursements, journals, income statement, balance sheets).**
- **to accurately file any federal tax and information returns that may be required.**



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Church bookkeeping and Accounting Continued...

The church received funds through contributions of:

1. Tithes
2. Offerings
3. Donations

All of these must be accounted for through the **envelope system**, except for non-cash types of donations. Every contributor should be encouraged to use an envelope and designate where contributions are to be recorded.



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The Envelope System

Why is it the “Best Method” for contributions?

The “Envelope System” has been adopted by churches across the nation. It is considered the best method for contribution management.

Benefits:

- An envelope is a back-up record of specific contributions.
- It enables the church to substantiate the contribution records of a member if audited.
- It aids in avoiding non-deductible transactions as being recorded as charitable contributions.
- When the envelope is designed and worded properly, the church will have more control with regard to designated gifts.



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Continued.....

Proper cash asset security begins with personnel.

Who should handle the money in your church?

A. Supporters

A. Past giving records should be the first area reviewed.

Low commitment = small vision

B. People who are accustomed to handling money and who know and understand its true value

C People who understand “ministry dynamics”

D. People who understand the pastor’s vision and the source of the vision.



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Continued...

A System of accountability for the protection of you and the ministry.

- There should be at least two (2) people counting the offering at all times.
- Funds in envelopes must match the total designated amount on the front of each envelope.
- A **contribution sheet** must be prepared for each offering collected.
- The contribution sheet must show the separation of tithes and others contributions from the general offering for the service.
- All funds given in the offering without an envelope should be totaled and an envelope should be completed (no envelope) for that total amount.
- The total of all envelopes must match contribution sheet for that service.



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Continue.....

Is there adequate control?

- Separation of duties should be adhered to if qualified personnel is available.
- Persons counting funds received and persons performing bookkeeping duties should be separate.
- There should be only one checking account for receiving of funds and disbursement of funds.
- The person who performs the bank reconciliation should not be the one who run the reports.
- In writing checks, the church should require two signatures for its checking account.



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Church bookkeeping and Accounting

Which bookkeeping system are you using **single entry** or **double entry**?

- A. **Single-entry** bookkeeping is a system that is based on the flow of Income and expenses through the use of a daily summary of cash receipts and Disbursements. It is a simple system that based on the income Statement and not on the balance sheet.

- B. **Double-entry** bookkeeping uses journals (debit and credit entry) and ledgers (chart of accounts).



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Continued...

Which method of bookkeeping is your church using?

1. Manual
2. Computer software program
3. A created bookkeeping program from software on your computer

Whichever method is being used you must have records showing an audit trail of all transactions.

If you keep your records in a computerized system, you must be able to produce from that system, legible records that will provide proof of tax liability.



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5 Recordkeeping Requirements

Legal documents

- Articles of incorporation
- By-laws
- Minute book (Minutes of all meeting)

Financial documents

- Envelopes
- Contribution data sheets
- Bank Statements
- Financial reports & documents
- W-4's
- W-9's
- W-2's
- 1099's



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6 Reporting requirements

Everyone must submit himself to the governing authorities, for there is no authority except that which God has established. The authorities that exist have been established by GodTherefore, it is necessary to submit to the authorities, not only because of possible punishment but also because of conscience.

Romans 13:1, 5



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Continued...

Ten payroll reporting requirements for churches.

- (1) Obtain an employer identification number (EIN)
- (2) Determine whether each worker is an employee or self-employed, and obtain each worker's Social Security number.
- (3) Obtain a completed Form W-4 from each employee.
- (4) Compute employee wages.
- (5) Determine the amount of federal income taxes to withhold from each employee's wages from tables published in IRS Circular E (Pub. 15)



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CONTINUE.....

- (6) Withhold FICA taxes from employee wages.
- (7) Deposit withheld taxes (both income taxes and employees' share of FICA taxes) plus the employer's share of FICA taxes with a bank if they exceed \$2,500 at the end of any month.
- (8) File Form 941 (employer's tax return) with the IRS quarterly if the church has any employees who are paid wages or whose wages are subject to tax withholding.
- (9) Issue a Form W-2 to every employee before February 1 of the following year and send copies of all W-2's to the Social Security Administration before March 1 with a Form W-3 transmittal form.



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CONTINUE.....

- (10) Issue a Form 1099-MISC to any nonemployee worker (who was paid \$600.00 or more) before February 1 of the following year (and send copies to the IRS before March 1 of the following year with a 1096 transmittal form).

KEY POINT!

Church leaders must take these rules seriously, since penalties are assessed for noncompliance. For example, a church officer may be personally liable for a penalty equal to the amount of payroll taxes that are not withheld or deposited. It is essential for church leaders to understand these rules.



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6 Reporting requirements to National Church

Quarterly Reports

- Due at the end of every calendar quarter (April, July, October, and January)
- Ten percent of all General offerings

Missions

- Reported monthly or when your quarterly report

Progress Report

- Due at the Annual Holy Convocation



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QUESTIONS?