



IRS Reporting for Churches An Overview

FIRST STEPS IN IRS REPORTING PROCESS

1. Obtain an Employer ID number (EIN) from the IRS.

Similar to a Social Security number for individuals, this is a 9 digit number used to identify an employer. Get this number using IRS Form SS-4 or on line at www.irs.gov. Every church should have an EIN whether you have employees or not. Once you have this number, include it on all correspondence with the IRS. It will also be needed at various other times, such as when opening a bank account.

This is not a "tax exemption number" and has no relation to non-profit status. The sales tax exemption number is a separate number obtained through the state. The IRS has no similar number.

2. Determine if each individual worker is an EMPLOYEE or SELF-EMPLOYED

Use IRS criteria to determine an individual is a "contract workers" rather than an employee. *(The document on this web site entitled "Is a Minister an Employee of the Church or is a Minister Self-Employer?" includes a summary of those criteria. The same criteria applies to non-ministers.)*

Prime examples of a "contract worker" (self-employed) in a church would be an evangelist or a short-term interim pastor. Sometimes it is difficult to determine whether a worker is an employee or self-employed. If in doubt, treat a worker as an employee. This is always a "safe" approach and penalties can be imposed against a church for treating a worker as self-employed if the IRS later reclassifies them as an employee.

Note: Most ministers serving a church are generally considered an employee for income tax purposes even though self-employed for social security.

3. Use the appropriate process below for reporting all compensation paid.

IRS Reporting for SELF-EMPLOYED WORKERS

1. Obtain the Social Security Number

Each self-employed worker should complete a W-9 form to provide their social security number and mailing address. If a self-employed worker is paid \$ 600 or more for services rendered during the year but fails to provide their social security number, a church is required to do "backup withholding" of 28% of compensation. All backup withholding is reported separately to the IRS using Form 945. (If needed, see IRS publications for more guidance on paying and reporting backup withholding.)

2. Issue a 1099-MISC Form

At year end (By Jan. 31), issue a 1099-MISC form to each person paid non-employee compensation of \$ 600 or more during the year. This includes guest speakers receiving a "love gift" of \$ 600 or more during a year. Valid expenses paid through accountable reimbursement do NOT count in the \$ 600. No 1099-MISC form is required if payment is made to a corporation. A 1099-MISC form may be submitted for "contract workers" earning less than \$ 600 but is not required.

3. Submit 1096 Form to IRS

By February 28, submit a 1096 Form to the IRS with Copy A of all 1099 forms issued in the previous year. The 1096 is like a "cover sheet" for 1099 forms. It is used to report to the IRS the totals for all 1099 forms issued during the year by an employer.

IRS Reporting for EMPLOYEES

1. Each Employee completes a W-4 Form

The W-4 form is used to determine withholding based on the employee's filing status (single, married, etc.) and on the number of exemptions they report (self, spouse, children, etc.). If no W-4 form is submitted, withhold based on single with no exemptions. Employees can request additional withholding on their W-4. Do not send W-4 forms to the IRS.

(Ministers are exempt from required income tax withholding but may do voluntary income tax withholding. (See note under # 3 below.)

2. Compute Each Employee's Taxable Wages

Tax withholding will be based on this figure. Taxable wages include pay (cash or other forms) to employees for services performed. For ministers, be sure to include salary, social security equivalent, gifts or bonuses provided by the church, expenses paid as an allowance or non-accountable reimbursement, and group term life insurance in excess of \$ 50,000.

Items typically excluded from taxable wages include:

- Employer provided medical coverage (Group coverage, Qualified reimbursements).
In 2014 and subsequent years, a church should make sure any forms of medical coverages or reimbursements for medical costs qualify under the Affordable Care Act as being tax exempt.
- Group Term Life Insurance up to \$ 50,000
- 403(b) retirement plan contributions
- Disability insurance premiums
- Dental Insurance
- Accountable reimbursement of expenses
- Housing for ministers
- Eligible moving expenses

3. Determine Income Tax Withholding Amount

Using the taxable wages, withhold income tax based on tax tables in IRS Publication 15. You can use a printed copy or view it on line at www.irs.gov. Publication 15 is updated annually to reflect current tax rates so be sure to use the current version. Employees may opt for increased voluntary income tax withholding.

NOTE: Ministers are exempted from required income tax withholding [IRC 3401(a)(9)]. As employees for income tax purposes, ministers may do voluntary income tax withholding and may increase the withholding sufficient to cover their self-employment social security. This withholding must be reported and paid to the IRS as "income tax withholding". When the minister files their personal tax forms, instead of receiving a refund of excess income tax withholding, those funds may be credited toward their self-employment social security tax.

4. For NON-MINISTERS, withhold Social Security and Medicare Taxes

- Any employee with wages during the year of more than \$ 108.28 is subject to social security tax.
- Withhold 1.45% Medicare hospital insurance to be matched with 1.45% by the employer (church)
- Withhold 6.2% old age, survivor and disability to be matched with 6.2% by the employer (church). The 6.2% part applies only up to a specified amount that changes each year. (\$ 118,500 in 2015)
- The employer's retirement plan contributions are NOT subject to social security. Salary reduction retirement contributions by non-ministers are included in wages subject to social security.

NOTE: No Social Security Tax should ever be withheld for ministers. Any withholding for a minister that is to cover their self-employment social security must be withheld, remitted and reported by the church as "Income tax withholding".

5. Deposit Withheld Taxes Per IRS Rules

Churches accumulate 3 kinds of federal payroll taxes:

- Income tax withheld from employee's wages
- The employee's share of FICA Social Security withheld from wages
- The employer's matching share of FICA Social Security

Deposit frequency is determined by total taxes reported during a "lookback" period. Many smaller churches accumulate less than \$ 2,500 per quarter. If so, payments can be made with the quarterly 941 form. Higher amounts require more frequent deposits. See IRS Publication 15 for details. All deposits must be made using the Electronic Federal Tax payment System (EFTPS). For more information, go to www.eftps.gov.

6. Submit 941 Form to the IRS each Quarter

- On the 941 form report totals for the previous quarter for all employees of:
 - **Total wages subject to income tax**
 - **Total wages subject to social security tax**
 - **Total withholding for income tax & social security tax.**
- **The 941 form is due the last day of the month following the end of each quarter.**
- **If a church's only employee is a minister with no tax withholding to report, no 941 is needed.**
- **IMPORTANT: 941 Form totals for the four quarters must balance with the total wages and withholding reported on W-2 forms for all employees at the end of the year.**

7. Issue W-2 Forms for each employee at the end of the year, INCLUDING MINISTERS

Give triplicate copies of W-2 forms to employees before February 1.

An additional copy is to be sent to the Social Security Administration – see # 8 below.

NOTE: A separate document available on this web site provides guidance in completing a W-2 form for ministers and church employees. A sample of a completed W-2 is included.

8. Submit a W-3 Form to the IRS with copies of W-2 forms by March 1.

A W-3 form is to be submitted to the IRS as a transmittal form with a copy of all W-2 forms issued by the church. This must be sent to the Social Security Administration by February 28 (By March 31 if filing electronically). No money is sent with the W-3 form.

REMINDER: Total compensation and withholding amounts on all W-2 forms from the church must balance with amounts reported on quarterly 941 forms.

HOW TO COMPLETE A W-2 FORM for MINISTERS and CHURCH EMPLOYEES

A separate document available on this web site provides a sample W-2 form for a minister along with instructions for completing each box on a typical minister's W-2 form.