

The background is a vibrant green with abstract, flowing white and light green lines that create a sense of movement and depth. The lines curve and sweep across the frame, adding a dynamic feel to the design.

**FREQUENTLY ASKED
QUESTIONS:
DONATIONS**

**GENERAL COUNCIL OF THE ASSEMBLIES OF GOD
DIVISION OF THE TREASURY**

FREQUENTLY ASKED QUESTIONS CONCERNING DONATIONS

QUESTIONS ADDRESSED IN THIS PAMPHLET

What are appropriate procedures for taking an offering?

What is the proper procedure to receipt donors for their contributions to the church?

A donor wishes to designate a gift to a pastoral staff member.
Can we do that?

A donor wishes to designate a gift to an individual in the church.
Can we do that and give the donor a charitable contribution receipt?

A donor wishes to donate their vehicle to the church.
What procedure should be followed?

We wish to create a benevolence fund for our church.
What procedures should be followed?

Exhibit 1: Sample Charitable Contribution Receipt

Exhibit 2: Sample Donor Acknowledgement for a Gift in Kind

What are appropriate procedures for taking an offering?

Whether the church chooses to count the offering during the service, after the service, or the next day, the church must ensure that the offering is kept secure at all times. This means that if the offering isn't counted immediately, it is placed in a secure safe until such time as it can be counted. Ideally, at least two individuals should be responsible for counting the offering. Offering envelopes should be provided by the church to ensure that donors receive proper credit for their donations. Those counting the offering will need to document the following:

- The correct amount of coin, cash and checks by completing an offering tally sheet.
- That the amount recorded on the donor envelopes does, in fact, match the amounts that were contained in these envelopes.

- That envelopes are completed for donations that were given without envelopes (unless the church will make copies or other record of these loose checks to serve as a record of the donation).
- Agreement and signature by both parties on the individual amounts of coin, cash and checks, as well as the total amount of the offering.

One copy of the offering tally sheet should be included in the church safe to assist with the preparation of the bank deposit while a second should be forwarded directly to the individual responsible for reconciling the bank account. This individual should be different than the individual who will prepare the deposit. In this manner there is a check in place that the amount counted is the same as the amount ultimately deposited to the bank.

What is the proper procedure to receipt donors for their contributions to the church?

In order for a donor to claim any single cash contribution to the church of \$250 or more, they must receive a written acknowledgment from the church containing the following information:

- Name of the church.
- Amount of the cash contribution.
- Description of non-cash contribution.
- Any of the following statements, as applicable:
 - › Statement that no goods or services were provided by the church in return for the contribution.
 - › Description and estimate of the value of goods and services, if any, that the church provided in return for the contribution.
 - › Statement that goods or services, if any, that the church provided in return for the contribution consisted entirely of intangible religious benefits if that was the case.

Although this written acknowledgment is only required for amounts of \$250 and above, a church will wish to include all of the donor's contributions to the church even if they do not individually exceed \$250. Contributions should be listed individually on the acknowledgment. It should also be noted that smaller contributions made in the same week are considered to be a single contribution for the purposes of this acknowledgment requirement. A sample acknowledgment is at the end of this document.

A donor wishes to designate a gift to a pastoral staff member. Can we do that?

In order for a charitable contribution to be granted by the church for a contribution received, the contribution must be to and for the use of the church. This means that individuals must not personally benefit from a contribution made to the church. So, for example, if Donor X writes a check to the church designating that the amount should be given to (added to the compensation of) Pastor Y, the church is simply acting as an intermediary for a personal gift (not a donation) from Donor X to Pastor Y. The IRS would view this no differently than a birthday card with money inside – no contribution receipt should be issued to the donor and no income should be recorded for the pastor.

There is an exception to this general rule for “special occasion” gifts. A church may take up an offering for the pastor or church staff on special occasions, such as Christmas, pastor appreciation week, or birthdays, for example. On such “special occasions,” it is best for the church to announce that an offering for this special occasion will be taken and that charitable contribution receipts will be given to donors for this offering. Under these circumstances, the church may issue charitable contribution credit to donors for amounts given and the amounts should be added to the taxable compensation (W-2 or 1099-MISC) of the pastor or staff members who receive the benefit of the offering.

A donor wishes to designate a gift to an individual in the church. Can we do that and give the donor a charitable contribution receipt?

Unfortunately, no. As is true with a donor who wishes to designate a contribution to the benefit of a church staff member, a donor may not receive charitable contribution credit for an amount given to the church that is designated to an individual in the church. Normally, a gift from one individual designated for another individual would not constitute funds being spent by the church “in the furtherance of the church’s exempt purposes.” This payment from the donor would be viewed by the IRS as simply a non-taxable gift from one individual to another. In this case, it is normally best for the church to simply communicate to the giver of the gift that the church does not need to be an intermediary in the transaction and that the gift should rather be given directly to the intended recipient without the church’s involvement.

However, the church may raise funds for a particular benevolent need that it has identified and may issue charitable contribution credit to donors for contributions made in response to a special appeal by the church to meet this benevolent need. For example, a family may have considerable unreimbursed medical expenses related to a child's illness or a family may be in great need due to a house fire. Under the following circumstances a church could give charitable contribution credit for donations to a benevolent need:

1. The offering was pre-authorized by the church board.
2. The recipient (or his/her family) is financially needy, and the unreimbursed medical expenses are substantial.
3. The offering is used exclusively to pay these expenses.
4. Immediate family members are not the primary contributors.
5. No more than one or two offerings are collected for the same individual.

A donor wishes to donate their vehicle to the church. What procedure should be followed?

A donor is entitled to a charitable contribution equal to the fair market value of the vehicle donated to the church if the vehicle is then used by the church to substantially further its regularly conducted activities, and the use must be significant. Establishing the "fair market value" of the donated vehicle is the responsibility of the donor and may normally be established by accessing established used-vehicle pricing manuals for identical make and model vehicles taking into consideration the vehicle's mileage and condition. The church should provide a written acknowledgment of the donation within 30 days and should also issue a Form 1098-C to the donor and to the IRS documenting the facts of the donation and the vehicle.

If a donated vehicle is not placed into use by the church to substantially further its regularly conducted activities, but is rather sold by the church, the donor is only entitled to take a charitable contribution in the amount of the lower of the fair market value (discussed above) or the sales proceeds of the sale of the vehicle by the church. Again, the church should issue a written

acknowledgment of the donation to the donor within 30 days and should issue a Form 1098-C to the donor and to the IRS documenting the facts of the donation and the vehicle, including the amount of the vehicle's sale by the church.

We wish to create a benevolence fund for our church. What procedures should be followed?

As a part of its mission to assist the needy, a church may wish to create a benevolence fund to which donors could contribute and assistance could be provided. As noted under the discussion of gifts designated to individuals in the church, donors are not permitted to receive charitable contribution credit for amounts given to the church which designate that those gifts be given to a certain individual. Churches may, however, create benevolence funds that donors may contribute to and receive charitable contribution credit. Still, donors may not in any way (by spoken word or written request) designate that their contribution be used to assist certain individuals. Individuals may make recommendations (apart from contributions) to the church concerning individuals that they feel are in need of assistance that the church could then consider in proper course. It should be noted that individuals who receive assistance from a church benevolence fund (or any monetary or tangible assistance from a church) should be individuals who could be categorized as "needy" and, therefore, individuals who are legitimate candidates for assistance from the church in line with church's mission and reason for being.

Exhibit 1:

SAMPLE CHARITABLE CONTRIBUTION RECEIPT (END OF YEAR)

January 31, 2012

Charitable Contribution Statement for 2011 for:

John & Jane Doe
123 Main St.
Springfield, MO 65802

For the calendar year 2011, our records indicate that you made the following cash contributions to First Assembly of God.

Date	General	Missions	Other	Total
1/31/11	\$100.00	\$50.00	\$0.00	\$150.00
3/31/11	\$100.00	\$0.00	\$60.00	\$160.00
4/30/11	\$300.00	\$50.00	\$0.00	\$350.00
5/15/11	\$100.00	\$0.00	\$0.00	\$100.00
7/15/11	\$300.00	\$50.00	\$25.00	\$375.00
8/31/11	\$0.00	\$0.00	\$250.00	\$250.00
10/01/11	\$200.00	\$50.00	\$0.00	\$250.00
12/15/11	<u>\$200.00</u>	<u>\$50.00</u>	<u>\$50.00</u>	<u>\$300.00</u>
Total	\$1,300.00	\$250.00	\$385.00	\$1,935.00

Should you have any questions concerning this statement or the amounts shown, please contact the church office immediately. No goods or services were provided to you in connection with these gifts except for those consisting entirely of intangible religious benefits. This document is necessary support for the claiming of charitable contributions for the above gifts on your federal income tax return. Please retain this for your records.

John Smith, Treasurer
First Assembly of God
1445 N. Boonville Ave.
Springfield, MO 65802

Exhibit 2:

SAMPLE DONOR ACKNOWLEDGEMENT FOR A GIFT IN KIND

August 1, 2011

John & Jane Doe
123 Main St.
Springfield, MO 65802

Mr. & Mrs. Doe:

First Assembly of God gratefully acknowledges your August 2011 gift of the following items for the use of the Music Department of First Assembly of God.

Electric Bass Guitar with amplifier – excellent condition
Five (5) Metal Music Stands – good condition

No goods or services, other than intangible religious benefits, were given to you in exchange for these gifts.

The value of your gift is established by the fair market value on the date the items were transferred to First Assembly of God. You, as the donor, are responsible for establishing the fair market value of these items.

Thank you for your interest in and support of this ministry.

John Smith, Treasurer
First Assembly of God
1445 N. Boonville Ave.
Springfield, MO 65802

Revision date August 10, 2011

For a current copy of this document, please e-mail treasurer@ag.org.

For more information on the topics contained in this document, see Rich Hammar's *2011 Church & Clergy Tax Guide*.

* * *

Disclaimer: The purpose of this FAQ is to provide basic information regarding church administration. Information contained within is generic in nature and is intended as a guide, not a substitute for seeking professional advice specific to your church or any state laws. If you have explicit concerns, please consult a professional.

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**FREQUENTLY ASKED
QUESTIONS:**

BUSINESS PRACTICES

**GENERAL COUNCIL OF THE ASSEMBLIES OF GOD
DIVISION OF THE TREASURY**

FREQUENTLY ASKED QUESTIONS CONCERNING BUSINESS PRACTICES

QUESTIONS ADDRESSED IN THIS PAMPHLET

Who should be check-signers on the church checking account?

Should the church have more than one checking account?

When do we send a 1099 to an evangelist or missionary?

Can a part or all of a church's payment to an evangelist be designated as a housing allowance?

Can a church rent out its parsonage without paying tax or jeopardizing its tax-exempt status?

What are appropriate budget percentages for salary, operations and maintenance?

How long should we keep certain church records?

How do we obtain an EIN (Employer Identification Number) for our church?

We are a new church. Do we need an EIN (Employer Identification Number)?

Does our church have tax-exempt status or do we need to apply for it?

Who should be check-signers on the church checking account?

There are a couple of key guidelines to keep in mind when determining who should be check-signers and how many signatures should be required on church checks.

First and most importantly, the check-signers should not have access to other accounting records that might permit them to alter records or conceal misappropriation of church funds. Ideally, a check-signer should be someone in authority in the church with no other involvement in the payment process (either in the accounting function or as an approver of payments). A check-signer's duty should be to compare the prepared check with supporting documentation (such as an original vendor invoice or check requisition). If the check-signer finds the check and supporting documentation to be in order and has no other cause for concern about the payment, he/she will sign the check. If there are concerns about the appropriateness of a payment, the check-signer should not sign the check until the matter is resolved.

Second, you should consider the pros and cons of having multiple check-signers. In general, it is recommended that a church have two check-signers for any significant amounts (perhaps \$500 or more). While it may be ideal to have two check-signers on every check, this process might become cumbersome if the church writes a large number of checks, or doesn't have quick access to the check-signers. Nevertheless, having multiple check-signers does allow for additional scrutiny of payments and is an important control that should be in place at least for larger payment amounts.

Under no circumstances should checks be pre-signed to be filled out at a later time. This practice makes it simple for individuals to misappropriate church's funds. If check-signers are not available on a regular basis to sign checks, the church should consider changing the authorized signers to other individuals in church management who are more readily available.

Should the church have more than one checking account?

With the organization and flexibility that is available with most accounting software programs for churches today, there isn't a compelling reason for a church to have multiple checking accounts. In the past, separate checking accounts for the various ministries of the church, or for designated funds such as building construction, was a way to ensure that ministry funds were kept separate. This could also help the church keep from over-spending ministry funds that weren't available. However, a current accounting software program tailored for a church setting is more than capable of keeping ministry funds segregated into separate funds, tracking and segregating funds received and spent, and properly reporting on available funds.

Separating church funds into several bank accounts with multiple check signers and attempting to consolidate these accounts for reporting purposes adds a level of complexity and risk that the church could avoid. The church board and leadership have responsibility to ensure that funds are properly safeguarded, are used for properly authorized expenditures and are accounted for accurately and in a timely manner. The use of separate bank accounts for the church's various ministries or funds, however, could only serve to frustrate all of these goals.

When do we send a 1099 to an evangelist or missionary?

In general, you are required to send an IRS Form 1099-MISC (that reports taxable income in box 7 of the form) if you have paid an evangelist or minister \$600 or more during the calendar year AND those payments are not being accepted and reported upon by another organization. However, if the payments are being directly or indirectly received by another organization (such as a missions organization or the evangelist's ministry corporation) and this organization will accept responsibility to report the income to the evangelist or missionary, the church is relieved of their responsibility to send a 1099-MISC. In either case, it is advisable for you to communicate with the evangelist or missionary concerning who the payment should be made payable to and the tax identification number for the payee or individual organization if a 1099-MISC is to be issued. This is accomplished by having the evangelist complete an IRS Form W-9 indicating the correct payee information and identification number.

EXAMPLE 1: If payment is made in the name of the evangelist or missionary and they are not turning over these payments for reporting to another organization, you should: (1) obtain a Form W-9 from the evangelist or missionary; (2) make payment according to the name provided on the Form W-9 (this is their legal name, official address and Social Security Number); and (3) issue a Form 1099-MISC at the end of the calendar year with the taxable amount paid listed in box 7 of the form (if you paid them \$600 or more for the year).

EXAMPLE 2: If payment is made to the evangelist's tax-exempt organization or if payment is made to the evangelist (but only as an agent for the evangelist's tax-exempt organization), a Form 1099-MISC doesn't need to be issued by the church. Because the evangelist's tax-exempt organization is taking responsibility for the proper reporting of any taxable income, the church is relieved of its responsibility to report on this payment as income to the evangelist. We would strongly recommend that the church request and receive a receipt from the evangelist's organization confirming that the payment has been received and accepted by the organization.

EXAMPLE 3: If payment is made to the General Council, or to the missionary as an agent for the General Council, a Form 1099-MISC doesn't need to be issued by the church if the church receives documentation that the payment has been reported by the missionary to the General Council and the General

Council has issued a receipt to the church. In this case, the General Council is accepting responsibility to report any taxable income for the missionary and relieves the church of this responsibility. However, if the church doesn't receive a receipt from the General Council, the church isn't relieved of this responsibility and should issue a Form 1099-MISC to the missionary. As a result, we recommend the church obtain a "deputational receipt" from the missionary at the time the payment is made. A copy of this deputation receipt is submitted by the missionary to the General Council and acts as a source document for the General Council to issue a receipt to the church. This deputational receipt is especially important if the payment was made in the name of the missionary as an agent for the General Council.

Can a part or all of a church's payment to an evangelist be designated as a housing allowance?

Yes. Even if the church only pays an evangelist on one occasion, this payment, or a portion thereof, may be designated as a housing allowance. This designation must be made prior to payment being made in order for the designation to be effective. The taxable amount listed in box 7 of the Form 1099-MISC would be the total amount paid less the amount designated as a housing allowance. The amount paid as the housing allowance is not required to be reported on the Form 1099-MISC; however, we would recommend providing a separate letter to the recipient that identifies the amount of the housing allowance not included on the 1099.

Can a church rent out its parsonage without paying tax or jeopardizing its tax-exempt status?

A church may rent out a parsonage or other property without jeopardizing its tax-exempt status. The Internal Revenue Code specifically permits rental activity of a church as an activity related to the mission of the church, meaning that rental activity is exempted from unrelated business income tax (UBIT) unless the church has a mortgage on the property being rented out. Church property should be rented out at a market rate to prevent the renter from improperly benefitting from the use and rental of church property.

What are appropriate budget percentages for salary, operations and maintenance?

Due to the great variety in church staffing, the age of a church's facilities, the debt that a church carries, and the activities of a church, it is difficult to make a blanket statement concerning how much of the church's budget ought to be devoted to the various operations of the church. An established, low-debt, fully-staffed church may incur personnel costs that exceed 50% of its budget. On the other hand, a newer church which relies upon bi-vocational pastors and volunteers to fill traditional staff positions may have a more modest portion of its budget devoted to salaries. However, more of their budget may be devoted to activities geared to introducing the new church to the community.

The best source of determining appropriate guidelines for your church (without incurring the cost of a consultant) is to utilize your network of pastors who are in a similar situation or have been through a similar situation. Even if you don't find your church fits precisely into the same model as another church, the comparison of where your church is on staffing levels, debt, facility expenses, number of individuals being served, etc., can be extremely valuable in helping you establish an appropriate budget for your church.

How long should we keep certain church records?

We recommend a church establish a records retention policy. The following list offers some retention guidelines. Boxes containing records should indicate a description of the documents enclosed, the time period that they relate to (i.e., "2010 Accounts Payable"), and how long the documents should be kept. If they are to be kept permanently, they should be marked "Do Not Destroy" or something similar.

Some documents, because of their vital nature to the church, should be stored in a protective environment, such as a safe, a safe deposit box or some other secure and protected location. These are marked in the following list with an asterisk.

Records to be kept permanently:

- Corporate records, including articles of incorporation and bylaws.*
- Minutes to board meetings, including all related reports.
- Audit reports.
- Annual financial statements.
- Tax returns submitted to the IRS or state.
- Annual corporate filings or returns.
- Tax-exemption documents and correspondence for income, sales, property or other taxes.*
- Property records.*

Records to be kept 10 years:

- Insurance policies.

Records to be kept 7 years:

- Bank statements, cancelled checks and bank reconciliations.
- Worksheets and supporting documents for tax returns.
- IRS Form W-2s and 1099s.
- Payroll tax records, including payroll registers, housing allowance forms, W-4 Forms, and payroll deductions.
- Employee expense reports.
- Employee personnel records (keep 7 years after separation from employment).
- Contracts and related correspondence (keep 7 years after expiration or termination).
- Investment records (keep for 7 years after sale of the investment).
- Annual audit records and worksheets (keep 7 years after the audit).
- Insurance letters and correspondence.
- Individual giving records.
- Accounts payable records, schedules and related paid invoices.
- Tax bills, receipts and statements.

Records to be kept 2 years:

- Timecards, timesheets.
- Individual offering envelopes.

How do we obtain an EIN (Employer Identification Number) for our church?

An EIN can be obtained by completing an IRS Form SS-4 and submitting the form either by mail or fax to the IRS. An EIN may also be obtained over the phone or online. For instructions on obtaining an EIN, see “How to Apply for an EIN” on the IRS website www.irs.gov.

We are a new church. Do we need an EIN (Employer Identification Number)?

If a church will have a bank account in its name, have employees, or conduct any business in its own name (including receipting contributions to donors), it should apply for and obtain its own EIN.

Some donors may wish to verify with the IRS that your church is registered as an approved 501(c)(3) organization and that contributions to your church will be tax deductible. In order for your church to be identified on the IRS system as a church that falls under the General Council of the Assemblies of God’s tax-exempt umbrella, you must have an EIN and report this to the General Council on your ACMR report. The General Council submits a listing of all of the Assemblies of God churches with their respective EINs so that each church can be properly identified on the IRS system as an Assemblies of God church and, therefore, properly covered by the General Council’s tax-exempt status. Without an EIN, an organization cannot be entered into the IRS system.

Does our church have tax-exempt status or do we need to apply for it?

Churches are granted federal tax-exempt status and the right to grant charitable contribution credit to donors without any action being taken by the church. It should be noted that, depending upon your state, you may have to register with your state (and perhaps the IRS) in order to obtain sales and/or property tax-exempt status for the church.

Need More Information?

For more information on issuing IRS Form 1099-MISC, see the chapter on “Ministers and Church Staff: Employees or Self-Employed?” in Rich Hammar’s *2011 Church and Clergy Tax Guide*.

For more information on administering housing allowances, see the chapter on “Parsonages & Housing Allowances” in Rich Hammar’s *2011 Church and Clergy Tax Guide*.

For more information on the taxation of rental income or the tax-exempt status of churches, see the chapter on “Taxation of Churches” in Rich Hammar’s *2011 Church and Clergy Tax Guide*.

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For a current copy of this document, please e-mail treasurer@ag.org.
This document was revised on September 28, 2011

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**FREQUENTLY ASKED
QUESTIONS:**

**PERSONNEL/ PAYROLL
MATTERS**

**GENERAL COUNCIL OF THE ASSEMBLIES OF GOD
DIVISION OF THE TREASURY**

FREQUENTLY ASKED QUESTIONS CONCERNING PERSONNEL AND PAYROLL MATTERS

QUESTIONS ADDRESSED IN THIS PAMPHLET

How do we determine whether staff are to be treated as employees or self-employed?

What are the rules for giving church staff a W-2 or 1099?

Are all ministers self-employed?

How do we adopt a housing allowance for our pastoral staff?

Does a pastoral staff member need to be credentialed to receive a housing allowance?

Are there housing allowance maximums that we are not permitted to exceed?

Can a minister's housing allowance be changed during the year?

Does the church pay Social Security on its employees?

Is an auto allowance a taxable benefit to our minister?

How do we create and administer an accountable reimbursement plan for our employees?

What are the advantages of an accountable reimbursement plan versus a non-accountable reimbursement plan for employee expenses?

How can we appropriately reimburse travel expenses to our employees?

Exhibit 1: Sample Housing Allowance Declaration

Exhibit 2: Sample Housing Allowance Notification Letter

Exhibit 3: Listing of Eligible Ministerial Housing Allowance Expenses

How do we determine whether staff are to be treated as employees or self-employed?

Although the IRS has not published clear guidelines to assist in determining whether a minister is an employee of the church versus being self-employed, there are at least four sets of standards that have been used to legally determine whether an individual should rightly be classified as an employee versus an independent contractor. Regardless of which of these tests is used, it is safe to say that the vast majority of ministers serving in local churches ought to be classified as employees of the church. There are exceptions to this and these will be discussed later in this article.

One helpful test to determine the employment status of an individual is the "7-Factor Test". It should be noted that this is not simply used as a "yes" versus "no" tabulation with the majority response determining the correct employment status of the individual. Rather, all of the factors are weighed and each may carry more or less importance based upon the circumstances of the work being performed.

FACTOR	EXPLANATION
1. How much control does the employer have over the details of the work of the potential employee?	The greater control that the church has with regard to the work and expectation with regard to how it is carried out (such as ministerial responsibilities of preaching, teaching, keeping of office hours, visitation, etc.), the more likely the worker is to be classified as an employee.
2. Which party pays for the tools and facility used in the work?	If the church supplies an office, computer, phones, etc., the worker is more likely to be classified as an employee.
3. Can the individual earn additional profit or incur loss in this work?	If the worker is provided a salary as compensation, he/she is more likely to be classified as an employee. Self-employed workers would be more likely to personally, financially benefit from the business prospering.
4. Does the employer have the right to discharge the worker?	If the congregation, church board or church management can remove or discharge a worker, that worker is more likely to be an employee.
5. Is the individual's work a part of the church's regular "business?"	If the worker performs work that furthers the church's regular or customary "business," they are more likely to be an employee.
6. How permanent is the work relationship?	A church worker hired for a temporary assignment is less likely to be considered an employee than one hired for an extended or undetermined amount of time.
7. Do both parties believe they are in an employer/employee relationship?	The church issuing a W-2 to a worker and the offering and receiving of fringe benefits are both indicators that parties believe they are entering into an employer/employee relationship.

As we stated, the vast majority of church-pastor relationships ought to be considered employer-employee relationships. Exceptions to this may occur when a pastor is not supervised by a board of the local church or perhaps is compensated by an organization other than the congregation to which he/she is assigned and serves.

What are the rules for giving church staff a W-2 or 1099?

Whether church staff receive a W-2 or 1099-MISC depends entirely upon whether the staff member is considered an employee of the church or a self-employed contractor. Employees of the church always receive a Form W-2 from the church to report their compensation and withholdings. Staff considered to be self-employed contractors of the church will receive a Form 1099-MISC if they have been paid \$600 or more by the church. If they have been paid less than \$600, it is not necessary for the church to issue a 1099-MISC to an individual, although the payments would still need to be reported as income by the contractor. (See FAQ “How do we determine whether staff are to be treated as employees or self-employed?”)

Are all ministers self-employed?

The notion that all ministers are self-employed is widely communicated but, unfortunately, poorly understood by many. First, to determine whether a minister is to be treated as an employee of the church or self-employed, the church should examine the criteria set out for making this determination. (See FAQ “How do we determine whether staff are to be treated as employees or self-employed?”) Whether a minister is to be treated as an employee or self-employed follows the same rules as other types of employees. In the vast majority of cases, a minister on staff at a church will be considered an employee of the church.

Where ministers are treated uniquely is with regard to self-employment tax (the equivalent of FICA and Medicare – Social Security). Ministers are always required to report and pay self-employment tax on Schedule SE of their tax return (unless they have an approved exemption from self-employment tax).

Ministers do not have the employee one-half of FICA and Medicare withheld, matched by the employer's half, and shown as FICA earnings and withholding and Medicare earnings and withholding on their W-2 Form. The amount that a minister will owe for self-employment tax will be calculated on his/her tax return on Schedule SE submitted as an attached schedule with his/her federal income tax return Form 1040.

So, with regard to the original question "are all ministers self-employed," the answer is both "yes" and "no." If a minister meets the criteria as an employee, then he/she will be treated as an employee for purposes of income taxes. Earnings after deduction of the housing allowance would be reported in Box 1 (wages) of the Form W-2 issued to the minister by the church. However, with regard to FICA and Medicare tax, the minister is treated as self-employed. The minister is responsible for reporting and paying his/her own self-employment tax similar to a person owning their own business.

How do we adopt a housing allowance for our pastoral staff?

Ideally, a minister's housing allowance will be adopted and documented in the minutes of a church board meeting held prior to the beginning of the calendar year for which the allowance is to be paid. A minister's housing allowance must be designated by the board in advance of the allowance being paid – retroactive designations are not permitted. So, if a board fails to adopt a housing allowance for a minister until February 1 of the year, the designation can only apply to the minister's pay after that date and not before. The housing allowance may be adopted as a yearly, monthly or weekly fixed dollar amount or could be adopted as a percentage of the minister's total pay.

As a safeguard, a church board may wish to adopt a "safety net" housing allowance for all its ministers on staff that would be effective unless and until a specific housing allowance is designated for the ministers for any particular year. This "safety net" designation would still allow for the housing allowance to be in effect in case the board failed to adopt housing allowances for the ministers. This default could be a stated percentage of the ministers' pay. (See Exhibit 1 for a sample housing allowance form.)

The maximum amount of the housing allowance is limited in amount by the tax code. (See the FAQ “Are there housing allowance maximums that we are not permitted to exceed?” for a discussion of these limits.)

Does a pastoral staff member need to be credentialed to receive a housing allowance?

Yes. Although the tax code indicates that the employee must be “ordained” in order to be considered a minister for employment purposes, this would translate to meaning that the employee must be credentialed at any level in the Assemblies of God Fellowship. This would include ordained, licensed, certified and the local church credential. Any of these levels of credential would qualify the employee to receive a portion of their salary as housing allowance if the other requirements to be treated as a minister for tax purposes are met.

Are there housing allowance maximums that we are not permitted to exceed?

While the tax code does not limit the amount of a minister’s salary that may be designated as the housing allowance, there are three stated maximum limits that govern what may be claimed by the minister as his/her housing allowance. The maximum amount that a minister may claim as his/her housing allowance is limited to the lesser of three amounts:

1. The amount of housing expenses that the minister has paid during the calendar year,
2. The amount of the housing allowance adopted or designated by the church board for the minister, or
3. The fair rental value of the minister’s home, furnished plus utilities.

Item 1, “housing expenses that the minister has paid during the calendar year,” represents actual payments or purchases made in cash, by check or by bank credit or debit cards during the calendar year for eligible housing expenses. Expenses purchased on store credit cards count as housing expenses in the year the payments are made to pay the balance on the card. For examples of what expenses may be counted when computing the housing allowance exclusion, see Exhibit 3.

Item 2, "housing allowance adopted or designated by the church board" is simply that amount recorded in the board minutes as the approved housing allowance for the minister. If amendments to the approved housing allowance have been made and approved in the minutes, these are also to be considered.

Item 3, "fair rental value of the minister's home, furnished plus utilities" is a bit more complicated. This is typically interpreted to mean the rental value of the furnished minister's home plus the cost of utilities. While the IRS has not provided guidance on the manner in which this amount should be established, there are some measurements that are generally accepted. First, the minister may have a realtor provide an informal opinion of what the house would rent for. Second, the minister may obtain a formal appraisal from a real estate appraiser to establish this amount. Third, some have used what is termed the "one percent rule" that assumes that a house's monthly rental value is approximately equal to one percent of its total value. This third method may or may not provide a realistic rental value. Once a rental value for the furnished home is established, you would then add the costs paid during the year for utilities (electricity, gas, water, sewer, trash pickup, local telephone charges, internet access fees, basic cable television charges).

Of these three amounts, the minister would be entitled to claim the lowest of the three as their minister's housing allowance. If the housing allowance deducted on the minister's W-2 Form (item 2) was greater than either items 1 or 3, the minister would be required to add back the portion of the designated housing allowance that could not be claimed as income on line 7 of his/her Form 1040.

Can a minister's housing allowance be changed during the year?

A minister's designated housing allowance may be changed or altered during the year by action of the church board. This change can only be effective prospectively and cannot change the designation of pay received earlier in the year by the minister.

Does the church pay Social Security on its employees?

Although a church does not pay Social Security Tax on its ministerial employees, most churches are required to pay Social Security Tax (FICA and Medicare) on their non-ministerial employees just as typical, secular companies are required to do. This means that the church is required to withhold the employee portion from the employees' paychecks and match this amount with the employer's portion and forward both amounts with withheld income tax for deposit with the IRS.

There is an exception to this general rule. Churches who filed Form 8274 with the IRS (usually by October 31, 1984 or before) thereby exempting them from the payment of Social Security and Medicare taxes are not required to pay these taxes on their employees. Their employees are treated as self-employed with regard to Social Security and Medicare and are required to pay these taxes personally.

Is an auto allowance a taxable benefit to our minister?

An amount paid to a member of the pastoral staff to offset the costs of operating their own vehicle for ministry use is commonly called an "auto allowance." Although at one time these payments to the minister did not represent taxable income to the minister, this is no longer the case. Amounts paid to staff (even if for church expenses) for which they are not required to report back to the church on how the funds were spent in accordance with the requirements of an accountable reimbursement plan are considered fully taxable to the staff member. With regard to the auto allowance, even though these amounts are provided to the staff member with the intention that they will help to offset auto expenses connected with legitimate ministry activities, they are 100% taxable to the staff member if not reported upon under an accountable reimbursement plan. (See FAQ "How do we create and administer an accountable reimbursement plan for our employees?")

If a staff member does receive an auto allowance without reporting required by the church as discussed above, the allowance would be taxable to the staff member; however, the staff member would also be entitled to deduct allowed vehicle expenses as employee business expenses on Form 2145 of his/her personal income tax return. They can offset some of the taxable impact of the auto allowance being received as taxable income.

How do we create and administer an accountable reimbursement plan for our employees?

An accountable reimbursement plan is a policy adopted by the church board that allows employees to be reimbursed for legitimate, approved church business expenses that they have personally paid (or paid from advances) by reporting to the church rather than to the IRS on their personal tax return. The accountable reimbursement plan, in order to meet IRS specifications, ought to have the following qualities:

- There must be a business connection of the expenses reimbursed.
- The employee must make an adequate accounting of the expenses (according to IRS standards) within a reasonable period of time.
- Any excess reimbursements or advances must be returned to the church employer and may not be retained by the employee.
- Reimbursements may not be made out of salary reductions – this means that reimbursements may not reduce the employee's taxable wages.

What are the advantages of an accountable reimbursement plan versus a non-accountable reimbursement plan for employee expenses?

Expenses that are reimbursed via an accountable reimbursement plan are treated favorably for tax purposes for two reasons. First, these reimbursements are not counted as taxable income to the employee. Expenses reimbursed under non-accountable plans, by contrast, are counted as income to the employee. Second, the employee gets 100 percent of the tax advantage of the expense versus claiming an expense as an employee business expense on his/her tax return. When employee expenses are claimed by a minister as employee business expenses on Form 2145 of their individual tax return, these expenses are reduced by both the application of the Deason Rule and the two percent of adjusted gross income that employee business expenses must exceed before becoming eligible as itemized deductions. Further, a minister could only deduct these expenses if he/she itemized deductions on Schedule A of their individual income tax return.

How can we appropriately reimburse travel expenses to our employees?

In order for travel reimbursements to be non-taxable to the employee who has incurred expenses related to travel, the employee must report expenses incurred in accordance with an accountable reimbursement plan (discussed previously). Specifically, this means the following:

- Purchases made on a church-owned credit card must be reported on by the employee including the submission of receipts and additional information if for business meals.
- Business meals (where the employee is paying for the meal of him or herself and additional individuals, must include the individuals included in the meal, the amount, the location, and an explanation of the business purpose of the meal (i.e., what was discussed that makes this related to the business of the church and not simply a personal meal).
- A log or listing of expenses incurred that are not supported by receipts, such as tips.
- If a personal auto is used by the employee in church-related travel for which they are to be reimbursed, the employee should report the number of miles driven for each trip, destinations, and a calculation of the reimbursement amount using miles driven times the church's reimbursement rate per mile (which should not exceed the IRS rate for business mileage) or expenses incurred if reimbursement is to be for actual expenses (gas).
- Expenses of less than \$75 are not required to be accompanied by receipts (according to the IRS); however, the church may wish to make its accountable reimbursement plan more stringent if it chooses to do so.

Exhibit 1:

SAMPLE HOUSING ALLOWANCE DECLARATION FOR A MINISTER

MINISTERS HOUSING ALLOWANCE

TO: _____

FROM: _____

SUBJECT: Housing Allowance for 2011

The amounts set forth below are an estimate of the actual expenses that will be paid by me to provide housing for the year 2011

Item	Annual Amount
-Down payment on House	\$ _____
-Installment payments on loans, principal and interest.	_____
-Furnishings	_____
-Repairs	_____
-Utilities connected with the dwelling	_____
-Home Insurance	_____
-Real Estate Taxes	_____
-Other expense of a home other than food or servants	_____
* TOTAL	\$ _____

DATE: _____

(MINISTER’S SIGNATURE)

The housing allowance designated by Faith Church is non-taxable, for income tax purposes, only to the extent that it is used to pay housing expenses and, in the case of ministers who own their home, does not exceed the fair rental value of the home (furnished, including utilities). You should keep an accurate record of your housing expenses so that you can substantiate the non-taxable portion of your housing allowance in the event of an audit.

Exhibit 2:

SAMPLE HOUSING ALLOWANCE NOTIFICATION LETTER

To: Rev. John Doe
From: Jane Smith – Church Treasurer
Date: January 2012

Subject: Notification of 2011 Housing Allowance

This is to advise you that the Board of First Assembly of God has officially designated your 2011 housing allowance in the amount of \$24,000.00. Accordingly, \$24,000.00 of your total compensation paid during the year 2011 will constitute housing allowance and the balance will constitute salary. The amount on your W-2 form is your 2011 salary earnings and should be reported on your Form 1040, line 7, "wages." Your housing allowance is NOT included in Box 1 of your W-2 form.

Housing allowance is not subject to income tax, however it is subject to self-employment tax and should be included on your Schedule SE, designated as "minister's housing allowance."

If your designated housing allowance is in excess of your actual expenses the excess should be reported on the 1040 Form, line 7, as "excess housing allowance."

For additional detailed information concerning your housing allowance, you can request publication 517 from the Internal Revenue Service.

Exhibit 3:

LISTING OF ELIGIBLE MINISTERIAL HOUSING ALLOWANCE EXPENSES

Generally, any expense incurred to provide or maintain the home can be used as a housing allowance expense. Expenses for groceries, paper products, personal toiletries, and maid service cannot be used.

Mortgage principle paid

Mortgage interest paid

Property taxes paid

Insurance on the home and contents, including renter's insurance

Utilities: including electric, gas, water, sewer, trash service

Furniture, appliances, dishes and cookware

Furnishings and decorating items, including rugs, pictures, curtains, bedspreads, sheets, towels, etc.

Phone service: the "basic" charge only

Cable television service: the "basic" plan only

Down payment on a home

Home repairs

Home remodeling costs paid (not out of a loan)

Yard maintenance and equipment, snow removal

Landscaping

Homeowners' association dues

Maintenance and cleaning items: including paper towels, cleaners, pest control, rags, light bulbs, etc.

Revision date August 10, 2011

For a current copy of this document, please e-mail treasurer@ag.org.

For more information on the topics contained in this document, see Rich Hammar's *2011 Church & Clergy Tax Guide*.

* * *

Disclaimer: The purpose of this FAQ is to provide basic information regarding church administration. Information contained within is generic in nature and is intended as a guide, not a substitute for seeking professional advice specific to your church or any state laws. If you have explicit concerns, please consult a professional.

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