



2025

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**FEDERAL REPORTING  
REQUIREMENTS**

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for Churches

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Edited by GuideStone.

## **ACKNOWLEDGMENTS**

The author would like to thank Matthew Branaugh, attorney and editor for Gloop's Church Law & Tax, who served as editor for this resource, as well as CPA Elaine Sommerville for her technical review and edits of the material.

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This publication is intended to provide a timely, accurate, and authoritative discussion of tax reporting compliance, and the impact of recent changes in the tax laws. It is not intended as a substitute for legal, accounting, or other professional advice. If legal, tax, or other expert assistance is required, the services of a competent professional should be sought. Although we believe this guide provides accurate information, there may be changes resulting from IRS or judicial interpretations of the tax code, new tax regulations, or technical corrections that occurred after the printing of this edition that are not reflected in the text.

Master Plan Tax Services of Flower Mound, Texas, reviewed the material in the *2025 Federal Reporting Requirements*. For additional information, visit [MasterPlanTaxes.com](http://MasterPlanTaxes.com).

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# INTRODUCTION

The most important federal reporting obligation for most churches is the withholding and reporting of employee income taxes and Social Security taxes. These payroll reporting requirements apply, in whole or in part, to almost every church. Yet many churches do not fully comply for various reasons, including the following:

- The church treasurer is elected by the congregation and does not remain in office long enough to understand the application of the payroll tax reporting rules to churches.
- Church leaders assume that churches are exempt from the payroll tax reporting requirements. This is a false assumption. The courts have rejected the argument that the application of the payroll tax reporting rules to churches violates the constitutional guaranty of religious freedom.
- There are several special payroll tax reporting rules that apply to churches, and these often are not clearly understood by church staff members. These special rules include:
  - While most ministers are employees for federal income tax reporting, they are self-employed for Social Security with respect to compensation they receive for ministerial services. This means that they pay the self-employment (SECA) taxes rather than the employee's share of Social Security and Medicare (FICA) taxes — even if they report their federal income taxes as a church employee. It is a common mistake for churches to treat ministers as employees for Social Security and to withhold FICA taxes from their wages.
  - Wages paid to a minister as compensation for ministerial services are exempt from mandatory federal income tax withholding whether the minister reports federal income taxes as an employee or as self-employed. Ministers use the estimated tax procedure to pay their federal taxes unless they have entered into a voluntary withholding agreement with their employing church (explained below).
  - Some churches are exempt from the employer's share of FICA taxes because they filed a timely exemption application. For most churches, this exemption had to be filed before October 31, 1984. The exemption does not excuse the church from income tax withholding, filing *Form 941*, or issuing *Forms W-2* to church employees. The non-minister employees of a church who filed this exemption application are treated as self-employed for Social Security and must pay SECA taxes if they are paid \$108.28 or more during the year.

▲ **WARNING:** Federal law specifies that any corporate officer, director, or employee who is responsible for withholding taxes and paying them over to the government may be liable for a penalty in the amount of 100% of such taxes if they are either not withheld or not paid over to the government. This penalty is of special relevance to church leaders, given the significant rate of non-compliance by churches with the payroll reporting procedures.

The companion resource — the *2025 Clergy Tax Return Preparation Guide for 2024 Returns* — gives ministers basic information needed to complete their 2024 federal income tax return, with special attention given to several forms and schedules and the sections of each form most relevant to ministers. The annual *Church & Clergy Tax Guide* provides churches and clergy with comprehensive, detailed information for year-round tax questions and compliance.

## MAXIMIZING TAX BENEFITS FOR YOUR MINISTER

### Housing and Parsonage Allowances

✪ **KEY POINT:** The housing allowance was challenged in federal court as an unconstitutional preference for religion. In 2019, a federal appeals court rejected this argument and affirmed the constitutionality of the allowance.

The most important tax benefit available to a minister who owns or rents his home is the housing allowance exclusion. Unfortunately, many churches fail to designate a portion of their minister's compensation as a housing allowance, and thereby deprive the minister of an important tax benefit. A church may provide a housing allowance to any properly credentialed minister performing qualifying ministerial duties for the church. Churches are not limited to providing this benefit to only a lead pastor but may provide the benefit to any qualifying minister on staff.

A housing allowance is simply a portion of a minister's compensation that is designated in advance by the minister's employing church. For example, in December 2024 a church agrees to pay its pastor total compensation of \$45,000 for 2025 and designates \$15,000 of this amount as a housing allowance. (The remaining \$30,000 is salary.) This costs the church nothing. It is simply a matter of designating part of a minister's salary as a housing allowance.

The tax code specifies that the housing allowance of a minister who owns or rents a home is nontaxable in computing federal income taxes to the extent that it is (1) declared in advance, (2) used for housing expenses, and

(3) does not exceed the fair rental value of the minister's home (including furnishings and utilities).

❖ **KEY POINT:** A church cannot designate a housing allowance retroactively. It can only be designated prospectively.

❖ **KEY POINT:** Although repayments of principal and interest on a home mortgage loan qualify as a housing expense to which a housing allowance can be applied, costs associated with refinancing a principal residence or a home equity loan qualify only if the proceeds are used for housing expenses.

Ministers who live in a church-owned parsonage that is provided rent-free as compensation for ministerial services do not include the annual fair rental value of the parsonage as income in computing their federal income taxes. The annual fair rental value is not deducted from the minister's income. Rather, it is not reported as additional income on *Form 1040* (as it generally would be by non-clergy workers).

Ministers who live in a church-provided parsonage do not pay federal income taxes on the amount of their compensation that their employing church designates in advance as a parsonage allowance, to the extent that the allowance represents compensation for ministerial services and is used to pay parsonage-related expenses such as utilities, repairs, and furnishings.

Note that the housing allowance and fair rental value of a parsonage are nontaxable only when computing federal income taxes. Ministers must include their housing allowance and rental value of a parsonage as taxable income when computing their SECA taxes (except for retired ministers). In addition, any housing provided to a minister that is excludable from taxable income pursuant to *Internal Revenue Code* (IRC) section 119 (relating to housing provided on an employer's premises "for the convenience of the employer") also must be included in a minister's taxable income when computing self-employment income.

❖ **KEY POINT:** Be sure that the designation of an allowance for the following year is on the agenda of the church or church board for its last meeting of the current year. The designation should be an official action, and should be duly recorded in the minutes of the meeting. The IRS also recognizes designations in employment contracts and budget line items — assuming that the church duly adopted the contract or the budget and it is reflected in a written document. If a designation is made after the start of a new calendar year, remember that it can only operate prospectively.

## Accountable Reimbursements

Through 2025, the deduction for unreimbursed business expenses has been eliminated. The elimination of this deduction hits some clergy hard. Many tax professionals encourage the use of accountable reimbursement plans (ARPs) by churches as a means of easing the negative tax impact. While the deduction as a miscellaneous itemized deduction for unreimbursed expenses has been eliminated, the tax code still excludes from tax the employer reimbursements of employee business expenses under an **accountable plan**. ARPs provide assurance that churches bear the costs of operating, rather than clergy and other employees bearing these costs to their financial detriment.

To be accountable, a church's reimbursement arrangement must comply with all four of the following rules:

1. Expenses must have a business connection — that is, the reimbursed expenses must represent ordinary and necessary expenses incurred by an employee while performing services for the employer.
2. Employees are only reimbursed for expenses for which they provide adequate accounting within a reasonable period of time (not more than 60 days after an expense is incurred).
3. Employees must return any excess reimbursement or allowance within a reasonable period of time (not more than 120 days after an excess reimbursement is paid).
4. The income tax regulations caution that in order for an employer's reimbursement arrangement to be accountable, it must meet a reimbursement requirement in addition to the three requirements summarized above. The reimbursement requirement means that an employer's reimbursements of an employee's business expenses come out of the employer's funds and not by reducing the employee's salary.

❖ **KEY POINT:** Reimbursements of business expenses under an accountable arrangement are not reported as taxable income on an employee's *Form W-2* or *Form 1040*, and there are no deductions to claim. In effect, the employee is reporting to the church rather than to the IRS. This often translates into significant tax savings for the employee.

An **accountable** reimbursement arrangement should be established by the church board or congregation in an appropriate resolution. Be sure to condition the reimbursement of any expense on adequate substantiation. This will include written evidence for all

expenses and receipts for most expenses of \$75 or more and for all lodging expenses, no matter the amount. For most expenses, the evidence must substantiate the amount, date, place, and business nature of each expense. The key point is this: A church must require the same degree of substantiation as would be required for a deduction on the minister's income tax return. The provision of this arrangement also provides a way for a church to define which expenses will be reimbursed in addition to how the above requirements must be met.

Churches occasionally reimburse ministers for **non-business** expenses. Such reimbursements, though they require an accounting, ordinarily must be included in the minister's wages for income tax reporting purposes, and they are not deductible by the minister. Instead, the entire amount of these reimbursements must be reported as taxable income on the minister's *Form W-2* and *Form 1040*. For example, reimbursing the travel costs associated with the minister's spouse to travel with the minister is a non-business expense, even if the church requires the spouse to accompany the minister for accountability purposes. The reimbursement of the travel expenses would be taxable to the minister.

## Provision for Health Care Expenses

Providing for ministers and other employees' health care needs is one of the top concerns for most churches. There are several options available, and churches, their ministers, and their employees should explore the various options to determine the option to provide the greatest benefit to ministers with the best utilization of the church's resources.

Below are options churches may consider.

**Group Health Insurance Plans.** Qualifying group health insurance premiums paid by the church may be provided tax-free for the portion paid by the employer. A qualifying group health insurance policy means that the policy meets all the requirements of the Affordable Care Act (ACA) that is made available to a group of employees. Amounts paid by employees must be paid through a section 125 cafeteria plan to be paid with pre-tax dollars. Premiums paid by employees outside of a section 125 cafeteria plan are paid with post-tax dollars by the employee.

**Individual Health Insurance Plans.** While a church may pay for an employee's individual health insurance premium tax-free, the payment of individual insurance plans creates a health reimbursement plan. A plan providing for the payment of individual health insurance premiums must meet one of the approved plans. Not using an approved plan violates ACA requirements and may subject the church to a \$100-per-day, per-participant penalty. This penalty must be voluntarily reported to the IRS with payment of the penalty amount.

⊕ **KEY POINT:** Excepted from the ACA requirements are plans involving fewer than two participants, and they can continue in much the same manner as prior to passage of the ACA. This includes the reimbursement of premiums for individual health insurance plans.

⊕ **KEY POINT:** Insurance for vision and dental is excepted from ACA requirements. Insurance premiums may be paid by the employer tax-free or paid through a qualifying section 125 plan.

**Section 125 Cafeteria Plan Flexible Spending Accounts (FSAs).** Churches offering section 125 cafeteria plans may include a provision for employees to establish FSAs to cover out-of-pocket medical expenses. The FSA may be funded through tax-free employer contributions and/or through the employees' pre-tax salary reduction contributions to the plan.

For 2024, employee pre-tax salary reduction contributions are limited to \$3,200. In 2025, the limit slightly increases to \$3,300.

The FSA may not be used to pay for any individual insurance premiums or medical benefits other than for excepted services such as vision or dental plans. Allowing an FSA to pay for individual medical insurance policies causes the plan to fail the ACA market reforms and subjects the church to the \$100-per-day, per-participant penalty.

Participants in an FSA may not also participate in a Health Savings Account (HSA) offered by the church.

Generally, distributions from a health FSA must be paid to reimburse the employee for qualified medical expenses. Qualified medical expenses are those incurred by an employee, or the employee's spouse and certain dependents (including a child under age 27 at the end of the year). Qualified expenses may include over-the-counter drugs.

FSAs are "use-it-or-lose-it" plans. This means that amounts in the account at the end of the plan year cannot be carried over to the next year. However, the plan can provide for either a grace period of up to 2½ months after the end of the plan year or a carryover of an amount not to exceed a certain dollar amount. If there is a grace period, any qualified medical expenses incurred in that period can be paid from any amounts left in the account at the end of the previous year.

If the plan allows for the option of rolling a set amount from one year to the following year, the limit for 2024 to 2025 plan years is \$640. In 2025, this amount increases to \$660. An employer is not permitted to refund any part of the balance to the employee. The carried-over amounts do not apply against the annual limitation discussed above.

**Health Reimbursement Arrangements (HRAs).** HRAs are employer-funded health plans that reimburse employees for qualified medical expenses up to a fixed dollar amount per year, tax-free. To comply with ACA requirements, the HRA must be integrated with a qualifying group health plan. Additionally, the HRA may only cover medical expenses of the persons participating in the integrated group health plan.

The traditional HRA may not reimburse for individual health insurance policy premiums. The HRA may reimburse for individual plan premiums for excepted benefits such as dental or vision benefits. To allow employers to provide for the reimbursement of individual health insurance policy premiums, two avenues have been created:

**1. Qualified Small Employer Health Reimbursement Arrangement (QSEHRA).** Small churches with less than 50 full-time employees may qualify for a QSEHRA. The following must be present for a QSEHRA:

- It must be offered to all eligible employees.
- Employees must have minimum essential health coverage.
- The employer may not offer group health insurance.
- It must be funded 100% by the employer.
- Written notice must be provided to employees.
- Maximum reimbursement for 2025 is \$6,350 for the employee only and \$12,800 for family coverage.

**2. Individual Coverage Health Reimbursement Arrangement (ICHRA).** A church of any size may establish an ICHRA. Greater flexibility may be available for these arrangements, but they do allow the reimbursement of premiums paid on individual health insurance plans. Employees offered the ICHRA may not be offered a traditional group health plan. There are no annual caps for the plan payments and the amounts may roll from year to year. The plan must be offered on the same terms to all employees of the same class.

**Health Savings Accounts (HSAs).** HSAs create an option to provide for payment of health expenses when the group health insurance plans carry higher deductible limits.

An HSA is an account set up with a qualified trustee to reimburse certain medical expenses. An HSA must be established by an individual covered by a qualified High Deductible Health Plan (HDHP), as defined by the IRS. For 2025, an HDHP is defined as:

	Self Only Coverage	Family Coverage
Minimum annual deductible	\$1,650	\$3,300
Maximum annual deductible and other out-of-pocket expenses within the network, if the plan uses network providers	\$8,300	\$16,600

Other health coverage may not be available except for coverages for accidents, disability, dental, vision, and long-term care. Contributions to the plan may be made:

- Directly by an individual and deducted on his or her individual tax return;
- Directly by an employer and not included in the employee's income; or
- By an employee via payroll deduction through a church's section 125 cafeteria plan as a pre-tax contribution.

Annual contributions are limited and may be indexed each year by the IRS. For 2025, contribution limits are \$4,300 for individual coverage and \$8,550 for family coverage. Those age 55 and older can contribute an additional \$1,000 as a catch-up contribution.

Employees participating in FSAs provided by the church are prohibited from contributing to an HSA, as are employees enrolled in any version of Medicare.

## Section 403(b) Retirement Plans

A 403(b) plan, also known as a tax-sheltered annuity or retirement income account, is a retirement plan for certain employees of churches and other tax-exempt organizations. These plans have the following tax benefits: (1) Employees do not pay income tax on allowable contributions until they begin making withdrawals from the plan, usually after they retire. Note, however, that lay employees must pay FICA taxes on their contributions to a 403(b) plan made under a salary reduction agreement. Due to a differing definition of taxable income for self-employment tax, clergy do not pay self-employment tax on a clergy's elective deferral into the 403(b) plan. (2) Earnings and gains on amounts in an employee's 403(b) account are not taxed until they are withdrawn. (3) Employees may be eligible to claim the retirement savings contributions credit (Saver's Credit) for elective deferrals contributed to a 403(b) account. (4) A portion of the retirement payments from the 403(b) plan may be designated as housing allowance for ministers participating in church plans who are still credentialed ministers during retirement years.

There are dollar limits on the contributions that can be made to a 403(b) account each year. If contributions made to a 403(b) account are more than these contribution limits, penalties may apply. Generally, annual contributions to a 403(b) plan cannot exceed either the limit on annual additions or the limit on elective deferrals. However, there are special catch-up elections that allow for greater contributions. See IRS *Publication 571* for details.

# COMPLYING WITH FEDERAL PAYROLL TAX REPORTING OBLIGATIONS

## Step 1. Obtain an employer identification number (EIN) from the federal government if this has not been done.

This number must be recorded on some of the forms listed below and is used to reconcile a church's deposits of withheld taxes with the *Forms W-2* it issues to employees. The employer identification number (EIN) is a nine-digit number that looks like this: 00-0246810. If your church does not have an EIN, you may apply for one online. Go to the IRS website at *IRS.gov* for information. You may also apply for an EIN by submitting the *Form SS-4* by fax or mail to the IRS. You should have only one EIN. A church should not use the EIN of another church or organization, even if the church is part of a denominational ruling.

✦ **KEY POINT:** An EIN is not a tax exemption number and has no relation to your nonprofit corporation status. It merely identifies you as an employer subject to tax withholding and reporting and ensures that your church receives proper credit for payments of withheld taxes.

✦ **KEY POINT:** Each EIN has a responsible party attached to it. This is the contact person the IRS associates with the organization. IRS regulations now require EIN holders to update responsible party information within 60 days of any change by filing *Form 8822-B, Change of Address or Responsible Party – Business*. Due to continual changing leadership, most churches need to file this form to update the information with the IRS. Churches may also need to file the form each time there is a change in the position reported.

## Step 2. Determine whether each church worker is an employee or independent contractor.

In some cases, it is difficult to determine whether a particular worker is an employee or independent contractor. If in doubt, churches should treat a worker as an employee since substantial penalties can be assessed against a church for treating a worker as an independent contractor whom the IRS later reclassifies as an employee. In general, an independent contractor is one who is not subject to the control of an employer with respect to how a job is to be done. Further, an independent contractor typically is engaged in a specific trade or business and offers his or her services to the general public.

The IRS and the courts have applied various tests to assist in classifying a worker as an employee or independent contractor. Factors that tend to indicate employee status include the following:

- The worker is required to follow an employer's instructions regarding when, where, and how to work.

- The work performed is a part of the employer's usual course of business.
- The worker receives on-the-job training from an experienced employee.
- The worker is expected to perform the services personally, and not use a substitute.
- The employer, rather than the worker, hires and pays any assistants.
- The worker has a continuing working relationship with the employer.
- The employer establishes set hours of work.
- The worker is guaranteed a regular wage amount for an hourly, weekly, or other period of time.
- The worker is expected to work full time.
- The work is done on the employer's premises.
- The worker must submit regular oral or written reports to the employer.
- The worker's business expenses are reimbursed by the employer.
- The employer furnishes the worker's tools, supplies, and equipment.
- The worker does not work for other employers.
- The worker does not advertise his or her services to the general public.

Not all these factors must be present for a worker to be an employee. But if most of them apply, the worker is an employee. The most important factors are the first two listed because they indicate an extensive amount of control over the worker and that the worker is needed for the general operations of the business to work. Once again: If in doubt, treat the worker as an employee.

✦ **KEY POINT:** Some fringe benefits are nontaxable only when received by employees.

## Step 3. Obtain the Social Security number (SSN) for each worker.

After determining whether a worker is an employee or an independent contractor, you must obtain the worker's SSN. Whether the worker is classified as an employee or as an independent contractor, it is necessary to obtain the worker's SSN. A worker who does not have a SSN can obtain one by filing *Form SS-5*. This is a Social Security Administration (SSA) form, not an IRS form. If an independent contractor performs services for your church (and earns at least \$600 for the year) but fails to provide you with his or her SSN, then the church is required by law to withhold a specified percentage of compensation as backup withholding. The backup withholding rate is 24% for 2025.



An independent contractor can stop backup withholding by providing the church with a correct SSN.

The church will need the correct number to complete the worker's *Form 1099-NEC* (discussed later).

Churches can be penalized if the SSN they report on a *Form 1099-NEC* is incorrect, unless they have exercised due diligence. A church will be deemed to have exercised due diligence if it has independent contractors provide their SSNs using *Form W-9*. It is a good idea for churches to present independent contractors (e.g., guest speakers, contract laborers) with a *Form W-9*, and to backup withhold unless the worker returns the form. The church should retain each *Form W-9* to demonstrate its due diligence.

All taxes withheld through backup withholding must be reported to the IRS on *Form 945*. *Form 945* for 2024 must be filed with the IRS by January 31, 2025. However, if you made deposits on time in full payment of the taxes for the year, you may file the return by February 10, 2025.

✦ **KEY POINT:** Many times churches will host guest speakers or other workers from other countries. Nonresident aliens are not taxed in the same manner as U.S. citizens. While they are not subject to the above rules, they are subject to other mandatory reporting and withholding rules. Prior to making payments, churches should seek professional assistance in determining the applicable reporting and withholding rules for payments made to workers from other countries.

#### **Step 4. Have each employee complete a *Form W-4*.**

Employees, except for ministers, need to provide their employer with a *Form W-4* to enable the employer to know how much income tax to withhold from their pay. Ministers may provide a *Form W-4*, if they elect to have federal income tax withheld from their pay. To provide maximum accuracy, employees are encouraged to use the Tax Withholding Estimator available at [IRS.gov/W4app](https://www.irs.gov/W4app).

#### **Step 5. Compute each employee's taxable wages.**

The amount of taxes that a church should withhold from an employee's wages depends on the amount of the employee's wages and the information contained on his or her *Form W-4*. A church must determine the wages of each employee that are subject to withholding. Wages subject to federal income tax withholding include pay given to an employee for services performed. The pay may be in cash or in other noncash forms. Measure pay that is not in money (such as property) by its fair market value and not the cost to the church. Wages often include several items in addition to salary. (There is a comprehensive list of examples in Step 10.) In addition to determining wages subject to withholding

for federal income tax, a church must determine wages subject to withholding of FICA taxes for non-minister employees. While the majority of the time the wages subject to all three taxes are the same, the definitions are not identical.

#### **Step 6. Determine the amount of income tax to withhold from each employee's wages.**

The way employers determine federal income tax withholding changed with the reformatting of *Form W-4, Employee's Withholding Certificate* in 2020. Employers use *IRS Publication 15-T* to determine the amount of federal income tax to withhold from their employees' wages.

Employees request adjustments to their withholding using *Form W-4* to provide employers with amounts to increase or reduce taxes and amounts to increase or decrease the amount of wage income subject to income tax withholding. The computations described in *IRS Publication 15-T* allow employers to figure withholding, regardless of whether the employee provided a *Form W-4* in an earlier year or provides the new version of *Form W-4* in 2025. *IRS Publication 15-T* also allows employers to figure withholding based on their payroll system (automated or manual) and withholding method of choice.

*IRS Publication 15-T* describes five methods for determining the amount of income taxes to be withheld from an employee's wages in 2025. The appropriate method depends on whether the employee's *Form W-4* was provided before 2020 when changes were initiated:

1. Percentage method tables for automated payroll systems
2. Wage bracket method tables for manual payroll systems with *Forms W-4* from 2020 or later
3. Wage bracket method tables for manual payroll systems with *Forms W-4* from 2019 or earlier
4. Percentage method tables for manual payroll systems with *Forms W-4* from 2020 or later
5. Percentage method tables for manual payroll systems with *Forms W-4* from 2019 or earlier

✦ **KEY POINT:** The IRS asserts that the current method for computing withheld taxes is allegedly simpler. But many employers believe the opposite is true. Fortunately, the IRS provides an online withholding estimator at [IRS.gov/W4App](https://www.irs.gov/W4App) to assist employees in determining the amount to include on *Form W-4*.

✦ **KEY POINT:** Churches should require all employees to provide an updated *Form W-4* to remove all the "pre-2020" *Forms W-4* from its system to simplify payroll calculations. This is especially true if a church is calculating payroll manually.

Wages paid to a minister as compensation for ministerial services are exempt from income tax withholding. However, ministers who report their income taxes as employees can enter into a voluntary withholding arrangement with their church. Under such an arrangement, the church withholds federal income taxes from the minister's wages as if the minister's wages are not exempt from withholding. Some ministers find voluntary withholding attractive since it avoids the often-difficult task of budgeting for four significant estimated tax payments.

A minister may initiate voluntary withholding by providing the church with a completed *Form W-4*. The filing of this form is deemed to be a request for voluntary withholding. A minister may also request an amount of withholding through any other written instruction.

Voluntary withholding arrangements may be terminated at any time by either the church or minister, or by mutual consent.

The tax code specifies that ministers are self-employed for Social Security with respect to services performed in the exercise of ministry. Therefore, a church whose minister elects voluntary withholding is only obligated, and may only agree, to withhold the minister's federal income taxes. The minister is still required to use the estimated tax procedure to report and prepay SECA taxes. However, ministers electing voluntary withholding can indicate on *Form W-4* Line 4c that they want an additional amount of income taxes to be withheld from each pay period that will be sufficient to pay the estimated SECA tax liability by the end of the year. This additional withholding of income taxes becomes a credit that can be applied against a minister's SECA taxes on *Form 1040*. It is reported by the church as additional income taxes withheld on its quarterly *Form 941*. Many churches incorrectly report these additional withholdings as FICA taxes.

Since any tax paid by voluntary withholding is deemed to be evenly paid throughout the tax year, a minister who pays self-employment taxes using this procedure may not be liable for any underpayment penalty, assuming that sufficient taxes are withheld.

### **Step 7. Withhold Social Security and Medicare (FICA) taxes from non-minister employees' wages.**

Employees and employers each pay FICA taxes equal to 7.65% of an employee's wages when wages paid are \$100 or more in a calendar year (for a total of 15.3%). The 7.65% tax rate is comprised of two components: (1) a Medicare hospital insurance (HI) tax of 1.45%, and (2) an old age, survivor and disability (Social Security) tax of 6.2%. There is no maximum amount of wages subject to the Medicare HI tax. For 2024, the maximum wages subject to the Social

Security tax (the 6.2% amount) was \$168,600. It increases to \$176,100 for 2025.

The employee portion of the Medicare HI tax is increased by an additional tax of 0.9% on wages received in excess of \$200,000. (This tax is not matched by the employer.) This additional tax is required to be withheld once wages paid to a non-minister employee reach \$200,000. However, unlike the general 1.45% Medicare HI tax on wages, this additional tax is on the combined wages of the employee and the employee's spouse, in the case of a joint return. The threshold amount is \$250,000 in the case of a joint return or surviving spouse, and \$200,000 for single persons. The \$250,000 and \$200,000 amounts are not adjusted for inflation and remain the same for 2025.

✦ **KEY POINT:** Even though the tax does not start until \$250,000 for married couples married filing jointly, the withholding mandate starts with any employee's wages exceeding \$200,000. Therefore, it is possible for an employee to have the additional tax withheld but not owe the additional tax. In these instances, the additional tax withheld is treated as an additional tax payment on the employee's individual tax return. Since the tax is on combined wages for married couples filing jointly, it is also possible that the combination of wages on a couple's *Form 1040* will initiate the tax even though there has not been any associated withholding of the tax.

✦ **KEY POINT:** Federal law allowed churches that had non-minister employees as of July 1984 to exempt themselves from the employer's share of FICA taxes by filing a *Form 8274* with the IRS by October 31, 1984. Many churches did so. The exemption was available only to those churches that were opposed for religious reasons to the payment of Social Security taxes. (Prior to 1984, nonprofit organizations, including churches, did not participate in the Social Security system.) The effect of such an exemption is to treat all non-minister church employees as self-employed for Social Security purposes. Such employees must pay SECA taxes if they are paid \$108.28 or more for the year. Churches hiring their first non-minister employee after 1984 have until the day before the due date for their first quarterly *Form 941* to file the exemption application. Churches can revoke their exemption by filing *Form 941* accompanied by full payment of FICA taxes for that quarter.

### **Step 8. The church must deposit the taxes it withholds.**

Churches accumulate three kinds of federal payroll taxes:

1. Income taxes withheld from employees' wages
2. The employees' share of FICA taxes (withheld from employees' wages)
3. The employer's share of FICA taxes

Most employers must deposit payroll taxes on a monthly or semiweekly basis. An employer's deposit status is determined by the total taxes reported in a four-quarter lookback period. For 2025, the lookback period will be July 1, 2023, through June 30, 2024.

**Monthly Depositor Rule.** Churches that reported payroll taxes of \$50,000 or less in the lookback period will deposit their withheld taxes for 2025 on a monthly basis. Payroll taxes withheld during each calendar month, along with the employer's share of FICA taxes, must be deposited by the fifteenth day of the following month.

**Semiweekly Depositor Rule.** Churches that reported payroll taxes of more than \$50,000 in the lookback period must deposit their withheld taxes on a semiweekly basis. This means that for paydays falling on Wednesday, Thursday, or Friday, the payroll taxes must be deposited on or by the following Wednesday. For all other paydays, the payroll taxes must be deposited on the Friday following the payday.

**\$100,000 Next-Day Deposit Rule.** Regardless of whether a church is a monthly schedule depositor or a semiweekly schedule depositor, if accumulated taxes withheld reach \$100,000 or more on any day during a deposit period, the church must deposit the taxes by the next business day. Additionally, any employer subject to this deposit rule becomes a semiweekly depositor for the remainder of the calendar year and the following calendar year.

**Payment with Return Rule.** If you accumulate less than a \$2,500 tax liability during the current or previous quarter, you may make a payment with *Form 941* instead of depositing monthly. See *IRS Publication 15* for more information.

As mentioned in Step 1, the failure to deposit payroll taxes withheld from employees is one of the few instances where the IRS may assess penalties to individual officers and other persons associated with the church. The penalty is based on the unpaid income taxes withheld, plus the employees' portion of the withheld FICA taxes. The courts have held that the decision to pay other expenses of the church instead of depositing payroll taxes is grounds for assessing the penalty to the decision-maker. Churches may file a *Form 2848*, *Power of Attorney and Declaration of Representative*, with the IRS naming a trusted attorney or CPA the authority to receive notices from the IRS related to payroll filings as a method of establishing a separate line of communication to make leadership aware of failures to deposit taxes or file returns.

❖ **KEY POINT:** All deposits must be made using the Electronic Federal Tax Payment System® (EFTPS). Payments must be scheduled by 8 p.m. EST before the date the deposit is due. There are penalties for depositing late, or for mailing payments directly to the IRS that are required to be electronically deposited,

unless you have reasonable cause for doing so. To enroll in EFTPS, call 800-555-4477, or to enroll online, visit [EFTPS.gov](https://www.irs.gov/eftps). If you do not want to use EFTPS, you can arrange for your tax professional, financial institution, payroll service, or other trusted third party to make deposits on your behalf.

❖ **KEY POINT:** New churches in their first year of existence are treated as monthly depositors unless the \$100,000 Next-Day Deposit Rule applies. Additionally, new churches indicating they will be making payroll tax deposits are pre-enrolled in EFTPS and should have received a letter with their four-digit EFTPS PIN.

## Step 9. All employers subject to income tax withholding, FICA taxes, or both, must file *Form 941* quarterly.

*Form 941* reports the number of employees and the amount of FICA taxes and withheld income taxes that are payable. *Form 941* is due on the last day of the month following the end of each calendar quarter.

Quarter	Ending	Due Date of <i>Form 941</i>
1st (January-March)	March 31	April 30
2nd (April-June)	June 30	July 31
3rd (July-September)	September 30	October 31
4th (October-December)	December 31	January 31

If any due date for filing shown above falls on a Saturday, Sunday, or legal holiday, you may file your return on the next business day.

*Form 941* may be filed electronically through a tax professional or payroll provider, or by utilizing an IRS-approved software. For more information, visit the IRS website at [IRS.gov/businesses/e-file-employment-tax-forms](https://www.irs.gov/businesses/e-file-employment-tax-forms).

❖ **KEY POINT:** *Form 944* replaces *Form 941* for eligible small employers. The purpose of *Form 944* is to reduce the burden on the smallest employers by allowing them to file their employment tax returns annually, and in most cases, pay the employment tax due with their return. Generally, you are eligible to file this form only if your payroll taxes for the year are \$1,000 or less. Do not file *Form 944* unless the IRS has sent your church a notice telling you to file it. If a church believes it is eligible for this filing, it may contact the IRS and request a change in its filing requirements.

## Step 10. Prepare a *Form W-2* for each employee, including ministers, employed by the church.

A church reports each employee's taxable income and withheld income taxes as well as FICA taxes on this form. A church should furnish *Copies B, C, and 2* of the 2024

Form W-2 to each employee by January 31, 2025. File Copy A with the SSA by January 31, 2025. If filing paper copies, send all Copies A with Form W-3, *Transmittal of Wage and Tax Statements*. If a church files 10 or more forms of any combination of Form W-2 or Form 1099, it must submit the forms electronically beginning with the 2023 filings that were due January 31, 2024. (This new requirement caught several churches unaware and many either did not comply or had to locate an electronic filing provider at the last minute.) Churches new to the electronic filing requirements may be able to utilize the SSA's Business Services Online option to electronically file the forms. There are also other independent providers available to provide electronic filing at a reasonable price.

❖ **KEY POINT:** Be sure to add cents to all amounts. Make all dollar entries without a dollar sign and comma, but with a decimal point and cents. For example, \$1,000 should read "1000.00". Government scanning equipment assumes that the last two figures of any amount are cents. If you report \$40,000 of income as "40000", the scanning equipment would interpret this as 400.00 (\$400)!

You may need some assistance with some of the boxes on the Form W-2. Consider the following:

**Box a.** Report the employee's SSN. If you do not provide the correct employee's name and SSN on Form W-2, you may owe a penalty unless you have reasonable cause.

Insert "applied for" if an employee does not have an SSN but has applied for one. If you are filing the forms electronically, you will need to leave the box blank as most systems will not accept "applied for". Additionally, most systems may not allow the box to be blank, so steps should be taken to avoid this situation.

**Box b.** Insert your church's federal EIN. This is a nine-digit number that is assigned by the IRS. (See previous section on obtaining an EIN, if you do not have one.) Some churches have more than one EIN. (For example, some churches that operate a private school have a number for both the church and the school.) Be sure that the EIN listed on an employee's Form W-2 is the one associated with the employee's actual employer.

❖ **KEY POINT:** A church should not have more than one EIN. If your church has more than one, then steps should be taken to bring all payroll reporting under one number and discontinue the use of the second number.

**Box c.** Enter your church's name, address, and ZIP code. This should be the same address reported on your Form 941.

**Box d.** You may use this box to identify individual Forms W-2. You are not required to use this box.

**Box e.** Enter the employee's name.

**Box f.** Enter the employee's address and ZIP code.

**Box 1.** Report all federal taxable wages paid to workers who are treated as employees for federal income tax reporting purposes. This includes:

- Salary, bonuses, prizes, and awards.
- Taxable fringe benefits (including the cost of employer-provided group term life insurance coverage that exceeds \$50,000).
- Costs associated with life insurance not offered through a group term life insurance benefit plan and that is not considered as key man life insurance.
- The value of the personal use of an employer-provided car.
- Most Christmas, birthday, anniversary, retirement, and other special occasion gifts (including "love" gifts) paid by the church. Tax-free gifts may not be provided to an employee by an employer other than of a token value.
- Business expense reimbursements paid under a non-accountable plan (one that does not require substantiation of business expenses within a reasonable time, or does not require excess reimbursements to be returned to the church, or reimburses expenses out of salary reductions). Also note that such reimbursements are subject to income tax and Social Security withholding if paid to non-minister employees.
- Excess reimbursements paid through an accountable plan are included in an employee's gross income and are reported on Form W-2. This may include a per diem or mileage allowance paid in excess of the approved amounts published by the IRS. Report the amount treated as substantiated (that is, the nontaxable portion) in Box 12 using code L.
- Moving expenses and expense reimbursements (except for reimbursements of the travel expenses of members of the U.S. armed forces on active duty).
- Any portion of a minister's SECA taxes paid by the church.
- Amounts includible in income under a nonqualified deferred compensation plan (NQDC) because of section 409A.
- Designated Roth contributions made under a section 403(b) salary reduction agreement.
- Church reimbursements of a spouse's travel expenses incurred while accompanying a minister on a business trip represent income to the minister unless the spouse's presence serves a legitimate and necessary business purpose and the spouse's expenses are reimbursed by the church under an accountable plan.
- Churches that make a below-market loan to a minister of at least \$10,000 create taxable income to the minister. (Some exceptions apply.) A below-market loan is a loan

on which no interest is charged, or on which interest is charged at a rate below the applicable federal rate.

- Churches that forgive a minister's debt to the church create taxable income for the minister.
- Severance pay.
- Payment of a minister's personal expenses by the church.
- Employee contributions to an HSA unless contributed through a section 125 cafeteria plan.
- Employer contributions to an HSA if includible in the income of the employee.
- Employee contributions toward group health insurance premiums unless they are contributed through a section 125 cafeteria plan.

For ministers who report their income taxes as employees, do not report in Box 1 the annual fair rental value of a parsonage or any portion of a minister's compensation that was designated (in advance) as a housing allowance by the church. Also, some contributions made to certain retirement plans out of an employee's wages are not reported. If the nontaxable portion of a housing allowance (the lesser of actual expenses or the fair rental value plus utilities) is less than the church-designated allowance, it is the minister's responsibility to report the excess housing allowance as additional income on Line 1h of his *Form 1040* (if an employee) or on *Schedule C* (if self-employed; however, such a status would be rare).

▲ **CAUTION:** Taxable fringe benefits not reported as income in Box 1 may constitute an automatic excess benefit transaction exposing certain recipients and members of a church's governing body to intermediate sanctions in the form of substantial excise taxes.

⊕ **KEY POINT:** Churches should not include in Box 1 the annual fair rental value of a parsonage or a housing allowance provided to a minister as compensation for ministerial services.

**Box 2.** List all federal income taxes withheld from the employee's wages. The amounts reported in this box (for all employees) should correspond to the amount of withheld income taxes reported on your four *Forms 941*.

**Box 3.** Report an employee's wages subject to the Social Security component (the 6.2% rate for 2024) of FICA taxes. Box 3 should not list more than the maximum wage base for the Social Security component of FICA taxes (\$168,600 for 2024, \$176,100 for 2025). This box usually will be the same as Box 1 subject to the wage limitations, but not always. For example, certain retirement contributions are included in Box 3 that are not included in Box 1. To illustrate, contributions to a 403(b) plan by salary reduction agreement may be excludable from income and not reportable in Box 1, but they are subject to FICA taxes and

accordingly they represent Social Security and Medicare wages for non-minister employees.

⊕ **KEY POINT:** Remember that ministers (including those who report their income taxes as employees) are self-employed for Social Security with respect to their ministerial services, and so they pay SECA taxes rather than the employee's share of FICA taxes. There should never be any amounts in Boxes 3, 4, 5, or 6 on a minister's *Form W-2*.

Churches that filed a timely *Form 8274* exempting themselves from the employer's share of FICA taxes do not report the wages of non-minister employees in this box since such employees are considered self-employed for Social Security purposes.

**Box 4.** Report the Social Security component (6.2%) of FICA taxes that you withheld from a non-minister employee's wages. This tax is imposed on all taxable wages up to a maximum of \$168,600 for 2024 and \$176,100 for 2025. Do not report the church's portion (the employer's share) of FICA taxes. Ministers who report their income taxes as employees are still treated as self-employed for Social Security with respect to compensation from the performance of ministerial services. For ministers, this box should be left blank.

**Box 5.** Report a non-minister employee's current and deferred (if any) wages subject to the Medicare component (1.45%) of FICA taxes. This will be an employee's entire wages regardless of the amount. There is no ceiling. For persons earning less than the annual maximum earnings subject to the 6.2% Social Security tax of \$168,600 for 2024 (\$176,100 for 2025), Boxes 3 and 5 both should show the same amount. If you pay more than \$168,600 to a non-minister employee in 2024, Box 3 should show \$168,600 and Box 5 should show the full amount of wages paid that are subject to the tax.

**Box 6.** Report the Medicare component of FICA taxes withheld from the non-minister employee's wages. This tax is imposed on all taxable wages, current and deferred (if any), regardless of amount. The box will also include the additional Medicare tax withheld on wages greater than \$200,000 and previously discussed. For ministers, this box should be left blank.

**Box 10.** Show the total dependent care benefits under a dependent care assistance program (section 129) paid or incurred by you for your employee. Include the fair market value of employer-provided day care facilities and amounts paid or incurred for dependent care assistance through a section 125 cafeteria plan. Report all amounts paid or incurred including those in excess of the \$5,000 exclusion. Include any amounts over \$5,000 in Boxes 1, 3, and 5. For more information, see IRS *Publication 15-B*.

❖ **KEY POINT:** Many churches do not realize that providing a discount at the church's day care program, or in some instances a preschool program, may be the operation of a dependent care plan and by not realizing this, churches then fail to value the discount for reporting in Box 10 or inclusion in taxable income if more than \$5,000. If this is a church's practice, it should obtain professional advice to confirm the plan complies with all the applicable rules for dependent care plans and not just the reporting rules.

**Box 11.** The purpose of Box 11 is for the SSA to determine if any part of the amount reported in Boxes 1, 3, or 5 was earned in a prior year. The SSA uses this information to verify that they have properly applied the Social Security earnings test and paid the correct amount of benefits. Report distributions to an employee from a non-qualified plan in Box 11. Also report these distributions in Box 1. Under non-qualified plans, deferred amounts that are no longer subject to a substantial risk of forfeiture are taxable even if not distributed. Report these amounts in Boxes 3 (up to the Social Security wage base) and 5. Do not report in Box 11 deferrals included in Boxes 3 or 5 and deferrals for current year services (such as those with no risk of forfeiture).

If you made distributions and also are reporting any deferrals in Boxes 3 or 5, do not complete Box 11. See IRS *Publication 957*.

Unlike qualified plans, non-qualified plans do not meet the qualification requirements for tax-favored status. Non-qualified plans include those arrangements traditionally viewed as deferring the receipt of current compensation, such as a rabbi trust. Welfare benefit plans and plans providing termination pay, or early retirement pay, are not generally non-qualified plans.

❖ **KEY POINT:** Non-qualified retirement plans are subject to many difficult technical rules and substantial penalties for compliance failures. These rules apply to any promises to pay a retired minister out of the general assets of the church. Additional information is available in IRS *Publication 15* and IRS *Publication 957*, but qualified professional guidance is also recommended.

**Box 12.** Insert the appropriate code and dollar amount in this box. Insert the code letter followed by a space and then insert the dollar amount on the same line within the box. Do not enter more than four codes in this box. If more are needed, use another *Form W-2*. Use capital letters for the codes and remember not to use dollar signs or commas. For example, to report a \$3,000 contribution to a section 403(b) tax-sheltered annuity, you would report "E 3000.00" in this box. The codes are as follows:

A – This will not apply to church employees.

B – This will not apply to church employees.

C – You (the church) provided your employee with more than \$50,000 of group term life insurance. Report the value of coverage in excess of \$50,000. (See IRS *Publication 15-B* for calculation of the value of the coverage in excess of \$50,000.) It should also be included in Box 1 (and in Boxes 3 and 5 for non-minister employees).

▲ **CAUTION:** This is the special consideration for benefits meeting the definition of group term life insurance plans and should not be confused with the taxable benefit created by providing life insurance only to select employees. See more information contained within this guide on this topic.

D – Generally not applicable to churches; however, some churches have adopted 401(k) plans and would use this box to report elective deferrals into those plans.

E – The church made contributions to a 403(b) plan pursuant to a salary reduction agreement on behalf of the employee. Report the amount of the contributions. While this amount ordinarily is not reported in Box 1, it is included in Boxes 3 and 5 for non-minister employees since it is subject to FICA taxes with respect to such workers.

F – Generally not applicable to churches.

G – Generally not applicable to churches.

H – Generally not applicable to churches.

J – You (the church) are reporting sick pay. Show the amount of any sick pay that is not includible in the employee's income because he or she contributed to the sick pay plan.

K – Generally not applicable to churches.

L – You (the church) reimbursed the employee for employee business expenses using the standard mileage rate or the per diem rates, and the amount you reimbursed exceeds the amounts allowed under these methods. Enter code L in Box 12, followed by the amount of the reimbursements that equal the allowable standard mileage or per diem rates. Any excess should be included in Box 1. For non-minister employees, report the excess in Boxes 3 (up to the Social Security wage base) and 5 as well. Do not include any per diem or mileage allowance reimbursements for employee business expenses in Box 12 if the total reimbursements are less than or equal to the amount deemed substantiated under the IRS-approved standard mileage rate or per diem rates.

M, N – Generally not applicable to churches.

P – Not applicable to churches.

Q – Generally not applicable to churches.

R — Report employer contributions to a medical savings account on behalf of the employee. Any portion that is not excluded from the employee's income also should be included in Box 1.

S — Report employee salary reduction contributions to a SIMPLE individual retirement account (IRA). However, if the SIMPLE account is part of a 401(k) plan, use code D.

T — Report amounts paid (or expenses incurred) by an employer for qualified adoption expenses furnished to an employee under an adoption assistance program that are not included in Box 1.

V — Generally not applicable to churches.

W — Report employer contributions to an HSA. Include amounts the employee elected to contribute using a cafeteria plan.

Y — It is no longer necessary to report deferrals under a section 409A NQDC plan in Box 12 using code Y.

Z — Report all amounts deferred (including earnings on deferrals) under an NQDC plan that are included in income under section 409A of the tax code because the NQDC fails to satisfy the requirements of section 409A. Do not include amounts properly reported on *Forms 1099-NEC* or *W-2* for a prior year. Also, do not include amounts considered to be subject to a substantial risk of forfeiture for purposes of section 409A. The amount reported in Box 12 using code Z is also reported in Box 1.

AA — Generally not applicable to churches unless a church operates a 401(k) plan.

BB — Report designated Roth contributions under a section 403(b) salary reduction agreement. Do not use this code to report regular elective deferrals to a section 403(b) plan as these are reported under code E.

DD — The ACA requires employers to report the cost of coverage under an employer-sponsored group health plan. *IRS Notice 2011-28* provided relief for smaller employers filing fewer than 250 *Forms W-2* by making the reporting requirement optional for them until further guidance is issued by the IRS. The reporting under this provision is for information only; the amounts reported are not included in taxable wages and are not subject to new taxes.

EE — Generally not applicable to churches.

FF — Use this code to report the total amount of permitted benefits under a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA). The maximum reimbursement for an eligible employee under a QSEHRA for 2024 is \$6,150 (\$12,450 if it also provides reimbursements for family members). Report the amounts of payments and reimbursements the employee is entitled to receive under the QSEHRA for the calendar year, not the amount

the employee actually receives. For example, a QSEHRA provides a permitted benefit of \$3,000. If the employee receives reimbursements of \$2,000, report a permitted benefit of \$3,000 in Box 12 with code FF.

**Box 13.** Check the appropriate box.

**Statutory Employee.** Churches rarely if ever have statutory employees. These include certain drivers, insurance agents, and salespersons.

**Retirement Plan.** Mark this checkbox if the employee was an active participant (for any part of the year) in any of the following: (1) a qualified pension, profit-sharing, or stock bonus plan described in section 401(a) (including a 401(k) plan); (2) an annuity contract or custodial account described in section 403(b); (3) a simplified employee pension (SEP) plan; or (4) a SIMPLE IRA.

**Third-Party Sick Pay.** Generally not applicable to churches.

**Box 14.** This box is optional. Use it to provide information to an employee. Some churches report a church-designated housing allowance in this box. The IRS uses Box 14 for this purpose in a comprehensive minister tax example in the current edition of its *IRS Publication 517*, but this is not a requirement.

**\$ TAX TIP:** The IRS has provided the following suggestions to reduce the discrepancies between amounts reported on *Forms W-2*, *W-3*, and *941*: First, be sure the amounts on *Form W-3* are the total amounts from *Forms W-2*. Second, reconcile *Form W-3* with your four quarterly *Forms 941* by comparing amounts reported for (1) Income tax withholding (Box 2); (2) Social Security and Medicare wages (Boxes 3, 5, and 7; and (3) FICA taxes (Boxes 4 and 6). Amounts reported on *Forms W-2*, *W-3*, and *941* may not match for valid reasons. If they do not match, you should determine that the reasons are valid. The SSA will issue an inquiry notice when these amounts do not match.

### **Step 11. Prepare a *Form 1099-NEC* for each independent contractor receiving non-employee compensation of \$600 or more.**

By January 31, 2025, churches must furnish *Copy B* of *Form 1099-NEC, Nonemployee Compensation* to any independent contractor to whom the church paid nonemployee compensation of \$600 or more in 2024. This form (rather than a *Form W-2*) should be provided to clergy who report their federal income taxes as self-employed, since the U.S. Tax Court and the IRS have both ruled that a worker who receives a *Form W-2* rather than a *Form 1099-NEC* is presumed to be an employee rather than self-employed. The reverse is also true. When a worker receives a *Form 1099-NEC*, rather than a *Form W-2*, the worker is presumed

not to be an employee and is ineligible for favorable tax treatment of employer-provided benefits. For example, a minister with wages reported on *Form 1099-NEC* may not exclude from income the value of church-provided health insurance. Other persons to whom churches may be required to issue a *Form 1099-NEC* include evangelists, guest speakers, and contractors.

§ **TAX TIP:** Churches should not only look at payments to individuals for *Form 1099-NEC* reporting. Payments to limited liability companies (LLC) and partnerships are also subject to reporting on *Form 1099-NEC*. Payments to attorneys of \$600 or more are reportable even if the law firm is incorporated. These payees are often overlooked when preparing *Form 1099-NEC*.

Whether filing paper forms or electronically, the forms are due to the IRS by January 31, 2025. Churches must send the actual red copies of *Copy A* of *Forms 1099-NEC*, along with *Form 1096* if submitting paper forms. The forms are required to be filed electronically if the church is filing 10 or more reporting forms of any type, including *Forms W-2, 1099-NEC*, and *1099-MISC* (new requirements initiated with the 2023 filings that were due in January of 2024 and going forward).

§ **TAX TIP:** Many churches were caught unaware of the new filing requirements effective for the 2023 reporting period in 2024 and failed to comply. There are independent vendors who can easily assist with the electronic filing for a reasonable fee if a church's accounting software does not provide for the electronic filing. Additionally, the IRS's Information Return Intake System (IRIS) is available for the 2024 tax year filings. It allows employers to file electronically without special software. Filing electronically is a more secure option than submitting paper returns to the IRS and is required for most employers for the 2024 tax year. IRIS is a free system, but employers must apply to be able to use it.

To illustrate, if a guest speaker visited a church in 2024 and received compensation from the church in an amount of \$600 or more (net of any housing allowance or travel expenses reimbursed under an accountable plan) then the church must issue the person *Copy B* of *Form 1099-NEC* by January 31, 2025.

Exceptions apply. For example, a church need not issue a *Form 1099-NEC* to a corporation (other than to attorneys that are incorporated), or to a person who will be receiving a *Form W-2* for services rendered to the church. (All income should be reported on the *Form W-2*.) Payments to persons made with a credit card or through an outside processor, such as Venmo® or PayPal®, are not required to be reported on *Form 1099-NEC* since the payment processing centers report these payments through the *Form 1099-K* reporting requirements. This does not apply to payments made through Zelle® or ACH banking transactions.

Travel expense reimbursements paid to a self-employed person under an accountable reimbursement plan do not count toward the \$600 figure. Additionally, if supplies are purchased from a self-employed person, the amount does not count toward the \$600 filing limit if the amount for the supplies has been separately stated on the invoice from the contractor.

To complete *Form 1099-NEC*, the church will need to obtain the recipient's name, address, and SSN/EIN. Churches should obtain this information at the time services are rendered since it often can be difficult to obtain the necessary information at a later date. IRS *Form W-9* can be used to obtain this information. If an independent contractor who is paid \$600 or more during the course of a year by a church refuses to provide an SSN or EIN, then the church is required to withhold a percentage of the person's total compensation as backup withholding. See Step 3, above. The backup withholding rate is 24% for 2025.

## OTHER IMPORTANT REQUIREMENTS FOR CHURCHES

### Reporting Group Term Life Insurance

You must include in the income of employees an imputed cost of employer-provided group term life insurance coverage (including death benefits under the Benefits Plan) that exceeds \$50,000. You must also include the imputed cost of all employer-provided group term life insurance on the life of a spouse or dependent if the coverage provided exceeds \$2,000. The imputed cost can be determined according to the following table.

**Cost Per \$1,000 of Protection for 1-Month Period**

Age Brackets	Cost
Under 25	5 cents
25–29	6 cents
30–34	8 cents
35–39	9 cents
40–44	10 cents
45–49	15 cents
50–54	23 cents
55–59	43 cents
60–64	66 cents
65–69	\$1.27
70 and above	\$2.06

◉ **EXAMPLE:** Church A pays the premiums on a \$70,000 group term insurance policy on the life of Pastor B with B's wife as beneficiary. Pastor B is 29 years old. Church A also pays the premium on a \$5,000 group term life insurance policy which covers Pastor B's wife who is 30



years old. The church would have to report \$19.20 as the imputed cost of the insurance provided to Pastor B and his wife. This amount is computed as follows: (1) For Pastor B, the table shows the cost per month for each \$1,000 of group term life insurance in excess of \$50,000. To compute the cost for Pastor B, take 6 cents x 12 months = 72 cents x 20 (corresponding to \$20,000 of group term life insurance in excess of \$50,000) = \$14.40. (2) In addition, the cost of the entire \$5,000 of insurance provided to Pastor B's wife would have to be computed. Take 8 cents x 12 months = 96 cents x 5 = \$4.80. Combine this amount with the cost of Pastor B's excess insurance to obtain the taxable amount of \$19.20. Church A should include this amount with wages in Box 1 of *Form W-2*. This amount should also be reported in Box 12 and labeled code C. Any includible amount is subject to income tax as well as FICA tax withholding for non-minister church employees.

- ❖ **KEY POINT:** All life insurance plans are not "group" life insurance plans. Before the above provisions are applied in computing taxable income for an employee, it should be confirmed that the church is operating a group life insurance plan.

## Form I-9

*Form I-9* must be used to verify the identity and employment authorization of individuals hired for employment in the United States. In 2023, U.S. Citizenship and Immigration Services (USCIS) updated the *Form I-9, Employment Eligibility Verification*. USCIS made significant changes to the form and its instructions, including a checkbox to indicate that an employee's *Form I-9* documentation was examined using an authorized alternative procedure from the Department of Homeland Security (DHS). Identity documentation is required to be physically examined by the employer and not collected virtually unless using a DHS-authorized alternative procedure. To utilize an alternate procedure, the church must participate in E-Verify® at [E-Verify.gov](https://www.e-verify.gov).

*Form I-9* with a version date of (Rev. 08/01/23) became available for use beginning August 1, 2023, and must be used. The prior version of *Form I-9* (Rev. 10/21/19) was effective through October 31, 2023.

The new *Form I-9* contains two sections and two supplements:

### Sections

- Section 1 of the form collects, at the time of hire, identifying information about the employee (and preparer or translator if used), and requires the employee to attest to whether the employee is a U.S. citizen, non-citizen national, lawful permanent resident, or non-citizen authorized to work in the United States.

- Section 2 of the form collects, within three days of the employee's hire, identifying information about the employer and information regarding the employee's identity and employment authorization. The employee must present original documentation evidencing the employee's identity and employment authorization, which the employer must review. This documentation must be physically examined by the employer unless using an approved DHS procedure. Special procedures instituted during the COVID-19 pandemic have ended. An employee must be provided with the list of acceptable documents and may choose from the list at their discretion. An employer may not decide which documents must be presented.

### Supplements

- *Supplement A, Preparer and/or Translator Certification* for Section 1, is completed when employees have preparers or translators assist them in completing Section 1 of *Form I-9*.
- *Supplement B, Reverification and Rehire* (formerly Section 3), is primarily used to verify the continued employment authorization of the employee. This supplement is completed prior to the date that the employee's employment authorization or employment authorization documentation recorded in either *Section 1* or *Section 2* of the form expires, if applicable. This supplement may also be used if the employee is rehired within three (3) years of the date of the initial completion of the form and to record a name change.

Employers must maintain *Forms I-9* for as long as an individual works for the employer and for the required retention period after the termination of an individual's employment (either three (3) years after the date of hire or one (1) year after the date employment ended, whichever is later). Also, employers must make their employees' *Forms I-9* available for inspection upon request by officers of the Department of Homeland Security (DHS), the Immigrant and Employee Rights Section (IER) in the U.S. Department of Justice's Civil Rights Division, and the U.S. Department of Labor. An employer's failure to ensure proper completion and retention of *Forms I-9* may subject the employer to civil money penalties, and, in some cases, criminal penalties.

Beginning November 1, 2023, employers who fail to use *Form I-9* (Rev. 08/01/23) may be subject to all applicable penalties under the Immigration and Nationality Act (INA) as enforced by U.S. Immigration and Customs Enforcement (ICE).

Employers do not need to complete the new *Form I-9* (Rev. 08/01/23) for current employees who already have a properly completed *Form I-9* on file, unless reverification applies after October 31, 2024. Unnecessary verification may violate the INA's anti-discrimination provision.

Employers may download the new *Form I-9* (Rev. 08/01/23) from the USCIS website at [USCIS.gov/sites/default/files/document/forms/i-9.pdf](https://uscis.gov/sites/default/files/document/forms/i-9.pdf). For more information, the public can contact the USCIS through one of the resources located at [USCIS.gov/about-us/contact-us](https://uscis.gov/about-us/contact-us) or visit the USCIS I-9 central web page at [USCIS.gov/i-9](https://uscis.gov/i-9).

## Annual Certification of Racial Nondiscrimination

Churches and other religious organizations that operate, supervise, or control a private school must file a certificate of racial nondiscrimination (*Form 5578*) each year with the IRS. The certificate is due by the fifteenth day of the fifth month following the end of the organization's fiscal year. This is May 15 of the following year for organizations that operate on a calendar-year basis. For example, *Form 5578* for 2024 is due May 15, 2025.

A private school is defined as an educational organization that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly conducted. The term includes primary, secondary, preparatory, or high schools; and it includes colleges and universities, whether operated as a separate legal entity or an activity of a church.

✦ **KEY POINT:** The term "school" also includes preschools, and this is what makes the reporting requirement relevant for many churches. As many as 25% of all churches operate a preschool program.

✦ **KEY POINT:** The instructions to *Form 5578* state: "Every organization that claims exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code and that operates, supervises, or controls a private school(s) must file a certification of racial nondiscrimination. If an organization is required to file *Form 990* .... either as a separate return or as part of a group return, the certification must be made on *Schedule E (Form 990 or 990-EZ)* ... rather than on this form."

While *Form 5578* is easy to complete, it is an attestation that the school is compliant with federal nondiscrimination requirements operationally and meets publication requirements. A church official identifies the church and the school and certifies that the school has "satisfied the applicable requirements of sections 4.01 through 4.05 of Revenue Procedure 75-50." This reference is to the following requirements:

1. The school has a statement in its charter, bylaws, or other governing instrument, or in a resolution of its governing body, that it has a racially nondiscriminatory policy toward students.
2. The school has a statement of its racially

nondiscriminatory policy toward students in all its brochures and catalogs dealing with student admissions, programs, and scholarships.

3. The school makes its racially nondiscriminatory policy known to all segments of the general community served by the school through the publication of a notice of its racially nondiscriminatory policy at least annually in: a newspaper of general circulation; through utilization of the broadcast media; or by displaying a notice of its racially nondiscriminatory policy on its primary publicly accessible internet homepage at all times during its taxable year (excluding temporary outages due to website maintenance or technical problems) in a manner reasonably expected to be noticed by visitors to the homepage.

However, such notice is not required if one or more exceptions apply. These include the following: (1) During the preceding three years, the enrollment consists of students at least 75% of whom are members of the sponsoring church or religious denomination, and the school publicizes its nondiscriminatory policy in religious periodicals distributed in the community. (2) The school draws its students from local communities and follows a racially nondiscriminatory policy toward students and demonstrates that it follows a racially nondiscriminatory policy by showing that it currently enrolls students of racial minority groups in meaningful numbers.

4. The school can demonstrate that all scholarships or other comparable benefits are offered on a racially nondiscriminatory basis.

Filing the certificate of racial nondiscrimination is one of the most commonly ignored federal reporting requirements. Churches that operate a private school (including a preschool), as well as independent schools, may obtain *Form 5578* from the IRS website ([IRS.gov](https://irs.gov)). Failure to file *Form 5578* when required may threaten a church's tax-exempt status.

## Charitable Contribution Substantiation Rules

For donors claiming a deduction for their charitable contributions, several important rules apply to the substantiation of charitable contributions, including the following:

**Cash Contributions.** All cash contributions, regardless of amount, must be substantiated by either a bank record (such as a cancelled check or clear notation on a bank statement) or a written communication from the church showing the name of the church, the date of the contribution, and the amount of the contribution. The recordkeeping requirements **may not be satisfied by maintaining other written records**. As noted below, additional substantiation requirements apply to

contributions (of cash or property) of \$250 or more, and these must be satisfied as well.

**Substantiation of Contributions of \$250 or More.** Donors will not be allowed a tax deduction for any individual cash (or property) contribution of \$250 or more unless they receive a written acknowledgment from the church containing the following information:

- Name of the church.
- Name of the donor. (An SSN is not required.)
- Date of the contribution.
- Amount of any cash contribution.
- For contributions of property (not including cash) valued by the donor at \$250 or more, the receipt must describe the property. No value should be stated.
- The receipt must contain one of the following: (1) a statement that no goods or services were provided by the church in return for the contribution; (2) a statement that goods or services that a church provided in return for the contribution consisted entirely of intangible religious benefits; or (3) a description and good faith estimate of the value of goods or services other than intangible religious benefits that the church provided in return for the contribution.
- The church may either provide separate acknowledgments for every single contribution of \$250 or more or one acknowledgment to substantiate several single contributions of \$250 or more. Separate contributions are not aggregated for purposes of measuring the \$250 threshold unless they are related to a single transaction.
- The written acknowledgment must be received by the donor on or before the earlier of the following two dates: (1) the date the donor files a tax return claiming a deduction for the contribution, or (2) the due date (including extensions) for filing the return. To assist donors with complying with this requirement, it is recommended that the acknowledgments be dated by the church when they are issued.

**Gifts of Property.** Several additional rules apply to the substantiation of contributions of non-cash property valued by the donor at \$500 or more. Donors who claim a deduction over \$500, but not over \$5,000, for a non-cash charitable contribution must retain certain records and complete Section A of IRS *Form 8283* and enclose the completed form with the *Form 1040* on which the charitable contribution is claimed.

Special rules apply to donations of cars, boats, and planes valued by the donor at more than \$500. The church must provide the donor with a written acknowledgment

containing certain information. These requirements may be fulfilled by filing *Form 1098-C* with the IRS containing required information about the donation and providing *Copy B* to the donor. See the instructions for *Form 1098-C* for more information. Failure to file *Form 1098-C* can result in penalties assessed to the church and a loss of the donation deduction by the donor.

Generally, you must furnish *Copies B* and *C* of this form to the donor no later than 30 days after the date of sale if Box 4a is checked or 30 days after the date of the contribution if Box 5a or 5b is checked. If Box 7 is checked, do not file *Copy A* with the IRS and do not furnish *Copy B* to the donor. You may furnish *Copy C* to the donor. The donor is required to obtain *Copy C* or a similar acknowledgment by the earlier of the due date (including extensions) of the donor's income tax return for the year of the contribution or the date that return is filed. *Form 1098-C* is not provided to the donor at the end of the tax year. All *Forms 1098-C* issued during a tax year are provided to the IRS with *Form 1096* by February 28 of the next tax year. Electronic filing is required for the form if 10 or more of the *Forms W-2/1099* series are filed by the church. However, if the electronic filing rules do not apply to the church, this form may be filed using a black-and-white *Copy A* with *Form 1096* that is printed from the IRS website.

★ **KEY POINT:** Most donors believe there is a law requiring churches and charities to issue contribution receipts by January 31 each year for the prior year. This is not true. Rather, the law requires donors to have the correct acknowledgments to claim the charitable contribution deduction but does not place any requirements on the church/charity to issue them. The issuance of acknowledgments meeting the above standards is a courtesy to the donor. However, the issuance of *Form 1098-C* is a legal requirement of the church/charity and does include penalties for non-compliance.

For contributions of non-cash property valued at more than \$5,000 (\$10,000 for privately held stock), a donor must obtain a qualified appraisal of the donated property from a qualified appraiser and complete Section B of *Form 8283*. The form includes sections to be signed by the appraiser and a church representative. The completed *Form 8283* is then included with the *Form 1040* on which the charitable contribution deduction is claimed. The appraisal must be attached to *Form 1040* for contributions of property (other than inventory and publicly traded securities) in excess of \$500,000.

★ **KEY POINT:** The IRS considers contributions of cryptocurrency to be contributions of property. Therefore, any documentation requirements applicable to non-cash contributions are applicable to the donation of cryptocurrency.

## Affordable Care Act (ACA) Reporting

For certain employers providing health care fringe benefit plans additional reporting is required under the ACA.

The reporting requirements consist of the following forms:

- **Forms 1094-B and 1095-B.** Providers of minimum essential coverage (MEC) are required to file *Forms 1094-B* and *1095-B* to report certain information to the IRS and to employees about individuals who are covered by MEC. For most insured plans, the health insurance issuers and carriers must file the form. For self-insured plans, the employer has the filing requirement. This can include an HRA operated by the employer. The legal filing requirement for furnishing forms to employees is January 31 following the year of coverage. However, the IRS has provided for a permanent and automatic extension of time for providing the statements to individuals overriding the legal filing date. For coverage in 2024, forms are due to employees by March 3, 2025.

The forms must be filed with the IRS by February 28, 2025 (March 31, 2025, if filed electronically).

- **Forms 1094-C and 1095-C.** Applicable Large Employers (ALEs), generally employers with 50 or more full-time employees (including full-time equivalent employees) in the previous year, must file one or more *Forms 1094-C* (including a *Form 1094-C* designated as the Authoritative Transmittal, whether or not filing multiple *Forms 1094-C*), and must file a *Form 1095-C* for each employee who was a full-time employee of the employer for any month of the calendar year. Generally, the employer is required to furnish a copy of *Form 1095-C* (or a substitute form) to the employee.

The legal filing requirement for furnishing forms to employees is January 31 following the year of coverage. However, the IRS has provided for a permanent and automatic extension of time for providing the statements to individuals overriding the legal filing date. For coverage in 2024, forms are due to employees by March 3, 2025.

The forms are required to be filed with the IRS by February 28, 2025 (March 31, 2025, if filed electronically). The information reported on *Forms 1094-C* and *1095-C* is used to determine whether an employer owes a payment under the employer-shared responsibility provisions of section 4980H and is also used in determining the eligibility of employees for the premium tax credit.

See the instructions for these forms on *IRS.gov* for more information.

- **KEY POINT:** Churches with fewer than 50 full-time employees, and an insured group health plan, generally

have no reporting obligation. They are not required to file *Forms 1094-C* and *1095-C* since they have fewer than 50 employees, and their group plan insurer files the *Forms 1094-B* and *1095-B*.

- **KEY POINT:** These forms are included in the mandatory e-filing requirement that is applicable if the church files 10 or more of a combination of any type of reporting form.

## Foreign Bank Account Reporting – FinCEN Form 114

Many churches have extensive foreign mission operations across the globe. It is common for churches to establish project accounts to handle the receipt of funds related to a foreign project. These bank accounts may be held in the name of the church or in the name of a foreign non-governmental organization.

These project accounts can trigger the U.S. filing requirement for the Financial Crimes Enforcement Network (FinCEN) *Form 114*.

This return is required of all U.S. persons (this includes churches) who have a financial interest in, or signature authority over, foreign financial accounts if the aggregate value of the foreign financial accounts exceeds \$10,000 at any time during the calendar year. This is a daily test and does not require funds to stay in an account for a certain period. Therefore, churches that hold accounts in their own name or in the name of a foreign national acting on behalf of the church may have a filing requirement.

Additionally, any U.S. person who has signature authority on the account has a separate filing requirement. Therefore, it is possible that both the church and any officer, director, or employee who may sign on the account may have a filing requirement.

FinCEN *Form 114* must be filed electronically through FinCEN's BSA E-filing system and is due by April 15 of the year following the calendar year being reported. There is an automatic extension to October 15 each year.

Non-willful failure-to-file penalties can be up to \$10,000 per form, and willful failure-to-file penalties are the higher of \$100,000 or 50% of the account's maximum value at the time of violation. Due to the punitive nature of the penalties for a failure to file, churches should always take care to understand the application of these rules when working with foreign mission projects.

## HELPFUL NUMBERS AND RESOURCES

**1-800-TAX-FORM (1-800-829-3676)**

Request IRS forms.

***IRS.gov***

Visit the IRS homepage.

***GuideStone.org/FederalReportingRequirements***

Access GuideStone's digital version of this guide.

***ChurchLawandTax.com***

A Church Law & Tax website featuring Richard Hammar and a host of other professionals who provide information on church law, tax, finance, and risk management.

***ChurchLawandTaxStore.com***

Church Law & Tax's online store with church management resources to keep your church safe, legal, and financially sound.

***2025 Church & Clergy Tax Guide***

Richard Hammar's comprehensive, year-round tax reference published annually by Church Law & Tax.

***Church Compensation, Second Edition (with 2023 Updates)***

CPA Elaine Sommerville guides you through every aspect of employment compensation in easy-to-understand language.