



Local Church
Finance & Treasurer's
Guide

Statement from the Treasurer's Office

The information provided in the local church finance and treasurer guide is meant to provide local churches with a starting point for the many questions and concerns that arise on a day-to-day basis when conducting normal church business. Many documents within this guide have been utilized from the General Church on Finance and Administration for the United Methodist Church (GCFA) website www.gcfa.org. Please check the website frequently for the latest information.

If you have any questions with any of the documents or issues discussed within this document, please contact the Great Plains Conference Treasurer's office directly. The Great Plains Conference is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice

Thank you



Gary Beach
Treasurer



Niki Buesing
Controller

Contact Information

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Quick Links

- Great Plains Conference of the United Methodist Church
 - Main: www.greatplainsumc.org
 - Monthly Church statements (receipts for amounts paid) and Remittance Forms to use when making payments to the conference:
<http://www.greatplainsumc.org/statementsremittanceforms>
 - Mission Share (Apportionment) Calculator (shows how a churches contributions are used): <http://greatplainsumc.org/calculator>
 - Statistical table information for completing year-end reports:
<http://www.greatplainsumc.org/statisticalreportresources>
- General Council on Finance and Administration
 - Main: <http://www.gcfa.org/>
 - Forms (local church audit guide, charge conference, clergy tax packet, group ruling request form, etc): <http://www.gcfa.org/forms>
- IRS website
 - Main: www.irs.gov
 - Pub 15 Circular E Guide (employment info): <http://www.irs.gov/pub/irs-pdf/p15.pdf>
- Kansas Department of Revenue
 - Main: <http://www.ksrevenue.org/>
 - KS Sales tax guide Pub KS-1510 (non profit info pg 10):
<http://www.ksrevenue.org/pdf/pub1510.pdf>
- Kansas Secretary of State (annual report filing)
 - Main: <http://www.kssos.org/>
- Nebraska Department of Revenue
 - Main: <http://www.revenue.nebraska.gov/>
 - NE Sales tax guide <http://www.revenue.nebraska.gov/salestax.html>

2012 Book of Discipline (§258, page 197) - Job Description of the Finance Committee

4. There shall be a **committee on finance**, elected annually by the charge conference upon recommendation by the committee on nominations and leadership development or from the floor, composed of the chairperson; the pastor(s); a lay member of the annual conference; the chairperson of the church council; the chairperson or representative of the committee on pastor-parish relations; a representative of the trustees to be selected by the trustees; the chairperson of the ministry group on stewardship; the lay leader; the financial secretary; the treasurer; the church business administrator; and other members to be added as the charge conference may determine. It is recommended that the chairperson of the committee on finance shall be a member of the church council. The financial secretary, treasurer, and church business administrator, if paid employees, shall be members without vote.

The positions of treasurer and financial secretary should not be combined and held by one person, and the persons holding these two positions should not be immediate family members.

The committee on finance shall give stewardship of financial resources as their priority throughout the year. It may delegate the responsibility to either a sub-group or task force that would plan, strategize, and implement ways to generate more resources for mission and ministries of local churches and beyond. It is strongly recommended that the committee on finance, in collaboration with the Church Council, find creative ways to turn their congregations into tithing congregations with an attitude of generosity. Where there is no stewardship ministry area, stewardship shall be the responsibility of a subgroup of the committee on finance or shall be assigned to a task group that shall report to the church council. All financial askings to be included in the annual budget of the local church shall be submitted to the committee on finance. The committee on finance shall compile annually a complete budget for the local church and submit it to the church council for review and adoption. The committee on finance shall be charged with responsibility for developing and implementing plans that will raise sufficient income to meet the budget adopted by the church council. It shall administer the funds received according to instructions from the church council.

The committee shall carry out the church council's directions in guiding the treasurer(s) and financial secretary.

a) The committee shall designate at least two persons not of the immediate family residing in the same household to count the offering. They shall work under the supervision of the financial secretary. A record of all funds received shall be given to the financial secretary and treasurer. Funds received shall be deposited promptly in accordance with the procedures established by the committee on finance. The financial secretary shall keep records of the contributions and payments.

b) The **church treasurer(s)** shall disburse all money contributed to causes represented in the local church budget, and such other funds and contributions as the church council may determine. The treasurer(s) shall remit each month to the conference treasurer all World Service and conference benevolence funds then on hand. Contributions to benevolence shall not be used for any cause other than that to which they have been given. The church treasurer shall make regular and detailed reports on funds received and expended to the committee on finance and the church council.¹⁰ The treasurer(s) shall be adequately bonded.

c) The **committee on finance** shall establish written financial policies to document the internal controls of the local church. The written financial policies should be reviewed for adequacy and

effectiveness annually by the committee on finance and submitted as a report to the charge conference annually.

d) The committee shall make provision for an annual audit of the financial statements of the local church and all its organizations and accounts. The committee shall make a full and complete report to the annual charge conference. A local church audit is defined as an independent evaluation of the financial reports and records and the internal controls of the local church by a qualified person or persons.

The audit shall be conducted for the purpose of reasonably verifying the reliability of financial reporting, determining whether assets are being safeguarded, and determining compliance with local law, local church policies and procedures, and the *Book of Discipline*.

The audit may include: 1) a review of the cash and investment reconciliations; 2) interviews with the treasurer, financial secretary, pastor(s), finance committee chair, business manager, those who count offerings, church secretary, etc., with inquiries regarding compliance with existing written financial policies and procedures; 3) a review of journal entries and authorized check signers for each checking and investment account; and 4) other procedures requested by the committee on finance.

The audit shall be performed by an audit committee composed of persons unrelated to the persons listed in (2) above or by an independent certified public accountant (CPA), accounting firm, or equivalent.

e) The committee shall recommend to the church council proper depositories for the church's funds. Funds received shall be deposited promptly in the name of the local church.

f) Contributions designated for specific causes and objects shall be promptly forwarded according to the intent of the donor and shall not be used for any other purpose.¹¹

g) After the budget of the local church has been approved, additional appropriations or changes in the budget must be approved by the church council.

h) The committee shall prepare annually a report to the church council of all designated funds that are separate from the current expense budget.

Local Church Finance Minimum Standards

Serving as a financial officer or in a financially related position within a local church requires that we serve with fiduciary responsibility over the financial matters of the church. This fiduciary responsibility means that we stand in service to perform our duties with the trust and confidence that we act for the benefit of the church and not for the benefit or convenience of ourselves. As we serve with these responsibilities in local churches, we are guided to provide the most effective and most efficient ways to safeguard the assets entrusted to our care. One of the ways we safeguard the assets is to put procedures in place that have been proven to minimize risks by preventing and detecting error, deterring fraud and protecting innocent staff and volunteers.

The following guidelines have been developed in order to assist those with financial responsibilities in local churches to identify and implement basic internal control procedures. These guidelines are intended to aid in the prevention or deterrence of fraudulent behavior and are not accusation that fraudulent activities are being performed. These guidelines provide protection for those in a position of controlling financial activity from being accused of fraud. Part of the fulfillment of our calling to be good stewards of the Lord's funds is having effective procedures in place to safeguard those funds.

These minimum standards should be increased for churches with higher volumes of transactions but should not be compromised for lower volumes of transactions. All local churches are expected to meet these minimum standards.

Receipts and Disbursements

- Treasurer and Financial Secretary should not be the same person and should not be in the same immediate family residing in the same household
- Counting team (at least two unrelated persons) should count offerings and document totals – not treasurer and not financial secretary
- Offerings should be deposited the same or next business day
- Offering count details should be given to financial secretary for recording
- Offering totals should be given to the treasurer or financial secretary to record deposit
- The Financial Secretary's deposit log should be compared to the bank statement to verify deposits (by bank reconciliation reviewer)
- At least two persons should be listed as authorized signatures on all accounts
- Financial policy and authority guidelines should be written and approved by the Finance Committee.
- Invoices should be required for all payments from all accounts
- Someone other than the treasurer (with authority by Finance Committee) should approve invoices for payment

- Typically, the Treasurer should make payments only after the invoice is approved. A policy may be implemented where routine, budgeted expenses (i.e., rent/mortgage, electric bill, etc.) may be paid without recurring approval; non-routine expenses must be approved prior to payment.

Reporting and Review

- All accounts should be reconciled monthly
- Someone other than treasurer should review bank reconciliation at least semiannually – including bank statements, invoices, checks written, and financial reports
- The Treasurer should make detailed report of budget and designated fund activities to the Finance Committee at least quarterly
- Per the policy of the Great Plains Conference local churches should be audited: Church members and others provide substantial financial resources to local churches, and expect church staff and lay leadership to provide proper oversight of such resources to ensure these resources are (1) used in a manner consistent with that expressed through the church’s annual operating budget and designated gifts, and (2) adequately safeguarded from improper use or loss. In light of expectations, every local United Methodist church, at a minimum, shall conduct an audit (review) as defined and described in the Local Church Audit Guide published by the General Church Council on Finance and Administration. The guide may be obtained at www.gcfa.org.

In addition to such minimum requirements for all churches, and consistent with the expectations for integrity, transparency and accountability described above, larger churches shall periodically subject their accounting records and controls to assessment by an independent certified public accountant. Specifically, larger churches (i.e., those with annual **total receipts** of more than \$500,000) shall adopt one of the following two options (**for purposes of this section, “total receipts” of each local church shall be annual total combined funds received through the operating budget; designated or restricted gifts given for a particular purpose, including special offerings collected throughout the year; monies received for capital buildings or improvements or for debt service; contributions received for endowed funds, preschool tuition and fees received; and any funds received from other sources**):

- 1) Have an audit performed by an independent certified public accountant (CPA) in accordance with generally accepted auditing standards; OR
- 2) Have independent CPA perform a set of agreed-upon procedures established by the Council on Finance and Administration.

For purposes of this requirement, the frequency of having either option 1 or option 2 performed shall depend on the annual total receipts of each local church from all sources as described above. For purposes of determining the applicability of this requirement, “total funds received” shall be the **average annual** total receipts (as defined above) for the prior three years. (For example, for purposes of applying this test in 2014, local churches would determine the average of total funds received for the years 2011-2013.) If average total funds received by a local church exceed \$2,000,000, the local church should have audit work performed by an independent CPA under either option 1 or option 2 **annually**. For those local churches who have average total funds received of less than \$2,000,000 but more than \$1,000,000, those churches should have audit work performed by an independent CPA under option 1 or option 2 once **every two years**.

For those who have average total funds received of less than \$1,000,000 but more than \$500,000, those churches should have audit work performed by an independent CPA under option 1 or option 2 once **every three years**. For any year in which a larger church (as defined above) is not required to have work done by an independent CPA under option 1 or 2, such churches shall conduct an audit (review) as described in the first paragraph of this section.

Tax Reporting Requirements

- W-2s must be issued for employees, including pastors, and 1099s issued for nonemployee compensation by January 31 for preceding year (federal law requirement)
- Payroll tax forms and deposits done as required for payroll amount (federal law requirement) – payroll reporting should be completed for the IRS and SSA by appropriate due date for filing method
- Housing allowance or exclusions approved annually at charge conference and kept on file (federal law requirement)

Other General Requirements

- Prepare list of all church property for insurance purposes – include item description, serial number and value
- Prepare list of safety deposit box contents – update authority as needed – access should be allowed by two unrelated people
- Computer records are backed up and password protected for security
- Ideally, four individuals are required for regular financial procedures: financial secretary, treasurer, person to review and approve invoices and person to review bank reconciliations. It is possible for this to be accomplished with 3 individuals if proper segregation is achieved.

Conference Standards for Clergy Support

All people appointed by the bishop to serve full-time in a church or charge shall have the right to receive no less than minimum base compensation as established each year by a vote of Annual Conference. This includes those licensed as a local pastor, commissioned as a provisional members, ordained deacons as probationary member of the conference, ordained a deacon (§§331.14b and 625) or elder as full members of the conference or other Methodist denomination (§§346.1), and those appointed while retaining membership in another denomination (§§346.2). (*The Book of Discipline of The United Methodist Church-2012*)

All people appointed by the bishop to less than full-time service under the provision of §338.2 of *The Book of Discipline of The United Methodist Church-2012* shall receive compensation in proportion to minimum according to the quarter increments of their service.

The church or charge to which a clergy person is appointed is required to provide minimum base compensation at a new level on Jan. 1, of the year following the clergy person's completion of course of study, seminary or conference membership. A church or charge is free to move to a new level of compensation at mid-year by a vote of its charge conference.

In addition to minimum base compensation, each charge is to pay for actual mileage incurred in pastoral duties according to the voucher system at the standard Internal Revenue Service rate. It will also pay the church's share of insurance and pension as well as provide a parsonage which meets minimum standards or an adequate housing allowance. All office expenses will be paid by the local church including Internet. Continuing education and professional expenses are to be reimbursed to clergy in addition to base salary.

All people shall receive a minimum of four weeks of vacation (28 days, including 4 Sundays).

Pastors shall be given a minimum of 1 week (7 days, including 1 Sunday) of continuing education each conference year. Longer periods may be negotiated between the pastor and pastor/staff-parish relations committee in consultation with the district superintendent.

Full-time local pastors shall be given time each year to attend Course of Study. The charge will pay for the pulpit supply while the pastor is attending classes. This shall not be the pastor's vacation.

Remittance

Church Statements:

At the end of the month the treasurer's office posts each church's statement online at the Great Plains website at <http://www.greatplainsumc.org/statementsremittanceforms>. The statement lists the mission share payments made as well as the Mission Agency Support, NE Retiree Health, District Mission Shares, and any other giving the church has sent in. Statements are posted by the 10th of each month for the previous month. Please review the statements on a monthly basis to confirm that payments are posted correctly. If you have questions regarding your statements please contact the Treasurer's office.

Remittance Advice:

A copy of the church remittance form is available at the Great Plains website at <http://www.greatplainsumc.org/statementsremittanceforms>. The remittance form should be sent in with all payments. All payments and remittance forms are to be mailed to our bank box:

Great Plains Conference
PO Box 4837
Topeka, KS 66604

If we receive a payment with no paperwork we will not know how to apply the payment. Please do not send cash in the mail. Deposit it into your church checking account and write us a check stating where you would like the payment applied on the remittance form.

Payment of **Pension and Health Benefits bills** should be mailed to the separate bank lock box as these funds are deposited into a separate bank account. The address for this lock box is:

Great Plains Conference
PO Box 4217
Topeka, KS 66604



Remittance Advice 2014

Church Name:	Bank Deposit Date:	<small>Office Use</small>
Church Address:		
City, State Zip:	Church Number:	
District:		
Treas. Name:	Receipt Number:	
Treas. Phone #:		

<u>Activity #</u>	<u>Project #</u>	<u>Description:</u>	<u>Amount Church Share</u>	<u>Amount Mission Support</u>
Conference Support:				
100	n/a	Mission Share	\$	\$
101	n/a	Mission Agency Support**	\$	\$
102	n/a	District Mission Share	\$	\$
103	n/a	Nebraska Retiree Health	\$	\$

**Gifts to Mission Agency Support are divided proportionately among the agencies listed on the back of the form.

General Church Special Offerings:

120	n/a	Human Relations Day - January	\$	\$
121	n/a	One Great Hour of Sharing - March	\$	\$
122	n/a	Native American Ministries - April	\$	\$
123	n/a	Peace with Justice - June	\$	\$
124	n/a	World Communion Sunday - October	\$	\$
125	n/a	United Methodist Student Day - November	\$	\$
126	n/a	Youth Service Fund	\$	\$

General Board Advance Projects:

*Please provide the General Advance Project Number & Name for which the money is to be designated these numbers can be found on the website at: www.umcmission.org/Give-to-Share/GlobalSearch-for-Projects

140		UMCOR General Advance Name:	\$	\$
140		UMCOR General Advance Name:	\$	\$
140		UMCOR General Advance Name:	\$	\$
140		UMCOR General Advance Name:	\$	\$

Great Plains Conference Advance Projects:

*Please provide activity # & project # (if one applies) along with the description of the conference advance from the back page

			\$	\$
			\$	\$
			\$	\$
			\$	\$
			\$	\$
			\$	\$
			\$	\$
			\$	\$
			\$	\$

Mail remittance to:

Great Plains Conference
P.O. Box 4837
Topeka, KS 66604-0837

TOTAL

\$

Questions? Call 785-272-9111 or 877-872-9111

Conference Advance List	Activity	Project
Great Plains Migration Pictorial book:		
Nigeria Hope for Children in Africa	300	
Nigeria Scholarship for Students	301	
Half Covenant	302	
Timeline Book Chabad Co. Covenant	303	
Great Plains Camps in Libraries:		
Emporia State - Emporia, KS	320	02.9
Eastwood State - Hays, KS	320	03.0
Kansas State - Manhattan, KS	320	03.1
Norfolk Wesleyan - Lincoln, NE	320	03.2
University of Kansas - Lawrence, KS	320	03.3
Pittsburg State - Pittsburg, KS	320	03.4
Washington University - Topeka, KS	320	03.5
Wichita State - Wichita, KS	320	03.6
University of Nebraska - Kearney, KS	320	03.7
Great Plains Camps in Schools:		
Camp Chippewa - Ottawa, KS	321	03.8
Camp Comstock - Olathe, NE	321	03.9
Camp Eastern Hills - Nicolson, NE	321	04.0
Camp Holston - Arkansas City, KS	321	04.1
Camp Holmerica - Chadron, NE	321	04.2
Camp Lakeland - Scott City, KS	321	04.3
Great Plains Ethnic Ministries:		
Hippocampal Ministry Ministries	343	
Blue River Hispanic/Latino Ministries	343	
Prairie River Hispanic/Latino Ministries	343	
Great West Hispanic/Latino Ministries		
Centro de Abasco y Adoracion	350	
Imperial Green Hope Hispanic	351	
El Monte UMC - Wichita, KS	352	
Evangelical UMC - Garden City, KS	353	
Center of Grace - Olathe, KS	354	
Native American Ministries	360	
Sacred Winds Native Mission Cong. - Lincoln, NE	361	
Korean UMC - Wichita, KS	370	
Danna Hill Am. Church African American	375	
Living Hope UMC - Olathe, NE	376	
Great Plains Cooperative in Libraries:		
Five Rivers Suburban Episcopal	380	01.8
First Hills Presbyterian Ministries Parish	380	01.7
First Hills Episcopal Episcopal Parish	380	01.8
First Hills Santa Fe Parish	380	01.9
Great Plains Local Ministries:		
Sam Inary School of Theology Endowment	900	
New Church Development	924	
Peace With Justice	960	
Hunger	967	
Soundings for Hunger	968	
Clobber Recipe Fund	975	
Sabbath Day GP Church as Fund	976	
Habitat for Humanity		
Habitat	978	02.0
Habitat	978	02.1
Hearney	978	02.2
Lincoln	978	02.3
Olathe	978	02.4
Grand Island	978	02.5
Geary County	978	02.6
Volunteer in Mission	981	
Common Ground	982	
Elkhorn Valley Church & Comm. Ministry	777	
David Upd. Missionary Support, KS	984	
Crosswalk Health Services - Blair, NE	990	
Crossroads Center - Herington, NE	991	
Fairfield Community Fund Assoc. (POB) KS	992	
Wheatley Towers - Herington, KS	993	
E. O. Tyson Health & Dental Clinic - Wichita, KS	994	
First UMC Teleministry - Wichita, KS	995	
New Windsor Community UMC - Lincoln, NE	996	

Ministry Agency Support:	Activity
<i>Grants can be designated for the following Mission Agencies however such gifts will not count toward the payment of a churches Mission Agency Support share.</i>	
Collegiate Union Seminary:	
KS Wesleyan Univ-Scholarship-Lincoln, NE	700
Salzer University - Salina City, KS	701
St Paul School of Theology	702
KS Wesleyan University - Salina, KS	703
Southwestern College, Winfield, KS	704
Health & Welfare Institutions:	
UM Home - Abingdon Village - Topeka, KS	710
Aubrey Park (Good Samaritan Fund)-Manhattan, KS	711
Gracefield Health Clinic - Wichita, KS	712
Relaxation & Recreation - NE	713
Sunshine (Youth) - KS	714
Sunset Village - York, KS	715
Ministries with the Poor:	
United Methodist Ministries - Omaha, NE	720
Justice for Our Neighbors - NE	721
Friendship House of Hope - Ogden, KS	722
Wheatley House - Pittsburg, KS	723
Faith & Fellowship - Topeka, KS	724
UM Open Door - Wichita, KS	725
UM Wichita KS Max-Amer Ministries-KS	726
Ecumenical Interchurch Organizations:	
In the Church Ministries of Nebraska	730
Rural Response Home, NE	731
KS Christian Alliance	732
Retreat Centers:	
Forest Park Conf & Retreat Center, Topeka, KS	733

Mission Share Funds:

The Great Plains CFA is recommending that we use an income based formula to determine the mission shares (apportionment) to our local churches to support the mission and ministry of the GPUMC.

Each of us, as members of a local church, supports our local church by giving our tithes (10%) and offerings. These gifts come from the income that we have received. If our income changes, we can alter the amount we give. As Christians, we believe that our income is a blessing from God. We also believe that tithing has a sound scriptural foundation as an act of worship and discipleship.

We have reasoned that the same motivation used to support the local church should be applied to the GPUMC's mission and ministry. Each local church is therefore called to support the GPUMC based on the income of the church. The formula we are recommending is a tithing formula, 10% of income received for budget support (see details below).

The calling of the Great Plains United Methodist Conference is to equip and connect congregations to make disciples of Jesus Christ. Our missional priorities are to enhance the ministry of local churches to produce Christ-centered excellence in: youth ministry, preaching and worship, engaging the community, and transforming service to the world. Utilization of an income based formula allows the conference to be responsive to the accomplishment of these goals.

Finally, we believe that, just as the hearts of individuals are warmed by the support they give to their local church, the hearts of each of these bodies of believers we call the church will be warmed by the support they are able to offer to the ministry of their conference.

Information regarding conference funds and the work they support will be able to be found on the conference website at www.greatplainsumc.org.

Mission Share (Apportionment) Formula

The mission share formula for the GPUMC will be based upon a percentage of each church's total operating income, with total operating income to be equal to the amount listed on Table 3, line 67, of each church's annual report to the conference. The GPUMC will use a 10% mission share formula for the base budget and 1% for Mission Agency Support for separately incorporated institutions. Amounts required for retired clergy medical benefits (Nebraska only) shall be above and beyond the base mission share formula. **Great Plains United Methodist Conference Plan of Organization Page 65 of 155 Final Draft – August 23, 2013**

As we move to a tithe (10% formula) for support of the basic budget of the GPUMC for the three year period beginning January 1, 2014, we will phase in the adjustments, up or down, from the level currently paid by any church. In 2014, each church's mission share will move one-third of the way from where it was in 2013 to what the tithe would call for in 2014. In 2015, each church's mission share will move another one-third of the way toward the tithe. And on Jan. 1, 2016, each church in the GPUMC will be at the tithe for support of the basic budget of the conference.

While this is described as a three-year phase in, the reality is that exactly two years from the start of the GPUMC, all churches will be on a tithe. This phase in protects churches that are below the tithe from having a very large increase in their mission share in one year. It also enables the natural increase in operating income that has been occurring in our conferences to help us, over the next 3 years, reach the goal of a tithe without dramatic downward shifts to the conference budget at the start of the GPUMC.

Mission Agency Support

Each local church in the Great Plains United Methodist Conference (GPUMC) will be asked to contribute 1% of its total operating income to the mission work of key partner agencies. This amount is over and above the mission share tithe. These agencies are separately incorporated and have a historic missional tie to the work of the annual conference. In each budget, the list may be adjusted by action of the Annual Conference. The GPUMC Council on Finance and Administration will recommend a list each year. Money given to Mission Agency Support will be divided proportionately among the agencies listed in the Budget section.

General Church Mandated Special Sunday Offerings

1. Human Relations Day – January 18, 2015
2. One Great Hour of Sharing - March 15, 2015
3. Native American Ministries Sunday – April 19, 2015
4. Peace with Justice Sunday – May 31, 2015
5. World Communion Sunday - October 4, 2015
6. United Methodist Student Day – November 29, 2015

Conference Advance (Specials)

The Great Plains Conference Advance list is approved each year at Annual Conference. It is submitted to conference by the Mercy and Justice Team which receives requests to be included on the list.

Tax Information

The General Council on Finance and Administration has provided many documents to address the issues of taxation and clergy. The documents within the “Tax Information” section can be found at the GCFA website under Forms, Tax Packet. If you would like to view this information online go to the website: www.gcfa.org . Once there search for “Tax Packet.”

Overview of the Tax Packet

The GCFA Tax Packet contains numerous documents addressing a variety of tax matters pertaining to United Methodist clergy and local churches. From time to time, new documents are added and existing documents are revised or updated. Please check this website frequently for the latest information.

If you have any questions about the material discussed in this tax packet, please contact your annual conference treasurers. They are the single best resource for such information. If you have any comments or suggestions regarding the tax packet itself, please contact the GCFA Legal Department at legal@gcfa.org.

LOCAL CHURCH TAX REPORTING REQUIREMENTS

1. PAYROLL TAXES FOR CHURCHES

- A. Withhold taxes on staff employees, file forms and comply with deposit requirements
 - 1. Federal Social Security (NO CLERGY WITHHOLDING)
 - 2. Federal Income Tax (NO **REQUIRED** CLERGY WITHHOLDING). At the request of the clergy, the employer may withhold income tax for that clergy, pursuant to a Form W-4 and state equivalent of federal Form W-4. (Keep W-4 forms on file).
 - 3. State income tax withholding (requirements vary from state to state)
 - 4. **There is no mandatory federal income tax withholding for clergy; income tax withholding can be done at clergy request, but Social Security is never to be withheld for clergy.**

- B. Quarterly Filing Requirements (April 30, July 31, October 31 and January 31 for the first, second, third and fourth quarters)
 - 1. Form 941 - Federal
 - 2. State equivalent form (may vary from state to state)
 - 3. **See separate memo on Form 941 Filing Requirements - clergy compensation is shown on 941 but no information on Social Security and Medicare wages and withholding.**

- C. Annual Filing Requirements
 - 1. January 31: Form W-2 must be given to employees.
 - 2. February 28: Form W-3 must be filed with the Social Security Administration. (Note: W-2 and W-3 filings can be made electronically in some cases. See the Social Security Administration website at www.ssa.gov for more details.)
 - 3. State filing requirements vary from state to state.

2. FILING REQUIREMENTS FOR PAYMENTS TO SELF-EMPLOYED INDIVIDUALS (Such as independent contractors supplying repair or other services to the church)

- A. January 31: Form 1099-MISC must be given to individuals (who receive compensation of \$600 or more).
- B. February 28: Form 1099-MISC must be filed with the IRS
- C. February 28: File Form 1096 with the IRS together with the 1099-MISC forms.

FORM 941 FILING REQUIREMENTS

Internal Revenue Service Form 941 is the Employer's Quarterly Federal Tax Return. The first report for the year must be filed by April 30 (for the pay period ending March 31). Subsequent filing dates are July 31, October 31 and January 31. Form 941 reports the number of employees, the amount of Social Security and Medicare wages and taxes, as well as the income taxes, which are withheld in each quarterly period. You have already been filing the Form 941 if you currently have an employee(s).

It is the position of the Internal Revenue Service that a church which has only a minister (and no other staff) need not file a Form 941 (see letter from the IRS to GCFA in this tax packet). However, if the minister should file a Form W-4, electing to have voluntary income tax withholding, Form 941 is required. Any amounts withheld are reported as income tax on Line 3.

General Instructions for Filing Form 941

(Note: complete instructions on filing Form 941 are available at the IRS website, www.irs.gov)

Make checks payable to "United States Treasury".

File only one form per quarter, even if your church has multiple locations or divisions

Make dollar entries without the dollar sign and comma — 1000.00; show negative amounts in parentheses (1000.00).

Line 1 is for the number of employees.

Line 2 is for the total amount of quarterly wages, tips and other compensation paid to all employees that are subject to federal income tax. The total compensation should not include salary reduction pension contributions, any housing or utility allowance, or accountable reimbursement policy payments. Health insurance premiums paid by the church are also excluded. Taxable fringe benefits and travel or other allowances are includable as income.

For Lines 6 and 7, there is no information reported for clergy, as the church must not do any Social Security or Medicare withholding on behalf of clergy. Because of specific code provisions, clergy are always considered self-employed for Social Security taxes. If there is no other staff withholding, these boxes should be left blank.

The box in Line 8 should not be checked (unless none of the payments are subject to Social Security taxes).

Reconcile your year-to-date wage and tax information with the Form 941 that you just filed. This should be done every quarter.

Show employee earnings only up to the Social Security taxable wage base.

Questions have arisen about whether the IRS will be concerned that Social Security and Medicare taxes withheld on Lines 6 and 7 (which **must not** include any withholding for clergy) are inconsistent with the compensation paid (which **does** include clergy salary). IRS officials have stated that IRS computers should not identify these disparities. However, should such an inquiry arise, you should inform the IRS that clergy are considered self employed for Social Security taxes for services performed in the exercise of ministry under Internal Revenue Code § 3121(b)(8)(A).

TIPS FOR RECONCILIATION

Here are some tips to make the year-end process run of 941s and W-2s as error-free and smooth as possible:

Review all wage and tax categories. Then, prior to processing your W-2s and 941s, verify that all general ledger liability accounts balance.

WHAT TO LOOK FOR

Remember any mid-year changes made in salary reduction pension contributions, housing allowances, accountable reimbursement plans or employer/employee tax withholding accounts. Be prepared to make correcting journal entries for out of balance situations caused by mid-year or year-end adjustments.

Complete your fourth-quarter 941 first, then prior to distributing the W-2s, balance the 941 totals against the W-2s.

WHAT TO BALANCE — SOCIAL SECURITY AND MEDICAL TIPS AND WAGES (FOR LAY EMPLOYEES) AND FEDERAL INCOME TAX WITHHELD

If there are any inconsistencies, you can correct them promptly.

Do a preliminary run of the W-2s on plain paper and verify the totals against your annual reconciliation worksheet.

The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.



OFFICE OF
CHIEF COUNSEL

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JUN 9 1997

David A. Ullrich, Esq.
Associate General Counsel
General Council on Finance
and Administration
The United Methodist Church
1200 Davis Street
Evanston, IL 60201-4193

Dear Mr. Ullrich:

This is in response to your letter of February 25, 1997. Specifically, you have asked for confirmation that a United Methodist church with one minister and no other staff is not required to file a Form 941.

If the minister is the church's only employee, the church is not required to file Form 941 because ministers are exempt from income tax withholding and are treated as self-employed for Federal Insurance Contributions Act (FICA) tax purposes. Therefore, unless the church has other employees or the minister has elected voluntary income tax withholding, no Form 941 is required.

We hope you find this information helpful.

Sincerely,

A handwritten signature in cursive script that reads "Jerry E. Holmes".

JERRY E. HOLMES
Chief, Branch 2
(Employee Benefits and
Exempt Organizations)

Example of Form W-2 for Clergy

Rev. Sue Service serves as pastor of a local United Methodist church. During the preceding year, Rev. Service lived in a church parsonage furnished by her church, and:

- 1) she received a cash salary of \$40,000 from her church;
- 2) her church properly designated \$5,000 of her \$40,000 cash salary as a housing (or parsonage furnishing and utilities) allowance;
- 3) she made a voluntary, pre-tax, salary reduction contribution of \$900 to the United Methodist Personal Investment Plan (UMPIP);
- 4) she made salary reduction contributions of \$3,500 through a cafeteria plan for her share of her medical insurance premiums and for a Flexible Spending Account (FSA);
- 5) she received a non-accountable travel allowance of \$3,000;
- 6) her church paid \$14,000 on her behalf for medical insurance premiums;
- 7) she received reimbursements from her church of \$2,500 for travel expenses pursuant to an accountable plan; and
- 8) her church made a \$5,000 contribution to the Clergy Retirement Security Program (CRSP) on her behalf.

The local church should complete Rev. Service's Form W-2 as follows:

Boxes a –f: Self explanatory.

Box 1: (1) – (2) – (3) – (4) + (5) = \$40,000 – \$5,000 – \$900 – \$3,500 + \$3,000 = \$33,600.

Note: Items (6) - (8) are not included in Box 1.

Box 2: Leave blank. (Here we assume Rev. Service did not request voluntary federal income tax withholding by the church.)

Boxes 3 – 6: Leave blank.

Box 12: Enter E for the Code and \$900 for the amount (reflecting the UMPIP contribution)

Box 13: Check the Box labeled "Retirement plan" (reflecting the UMPIP contribution)

Box 14: Enter "Parsonage Allowance \$5,000."

Boxes 15-20: Complete according to your own state's requirements.

The information provided above is intended to serve as general guidance and should not be construed as legal advice. You should consult a tax professional regarding your particular circumstances. In addition, GCFA is not recommending any particular salary or housing allowance. The example here is merely illustrative.

Form W-2 Reminders

- **Housing Resolution:** Do not include the pastor's housing resolution in Box 1. Total cash paid to pastor should be reduced by this amount and the resultant figure reported in Box 1. The housing resolution amount may be reported in Box 14 as "Housing Allowance."
- **Employee/Clergy Contributions to UMPIP:** Use Box 12a to report amounts withheld from pay and contributed on a tax-deferred basis. Indicate code E. Amounts contributed on a tax-paid basis should be included in Box 1.
- **CRSP and UMPIP Employer Contributions:** The box labeled "Retirement Plan" should be checked for all persons participating in a United Methodist Church pension plan (employer contribution plan).
- **Dependent Care Contributions:** Contributions to the conference Dependent Care Assistance Plan are to be reported in Box 10.
- **Medical Expense Contributions:** Contributions to the conference Medical Flexible Spending Account are **not reported** on the Form W-2.
- **Employee contribution to Conference Health Insurance:** If you have a lay employee that has salary withheld to pay the employee share of the conference group health insurance premium, do not report that amount in Box 1. In addition, the church should not withhold FICA tax on that amount nor should they pay the employer share of FICA.

Report all wages. Do **NOT** include the pastor's Housing Resolution in Box 1. Total cash paid to pastor should be reduced by the housing resolution, medical flex and dependent care accounts. Report resultant figure in Box 1.

Use Box 10 to report contributions to the Conference Dependent Care Plan. Contributions to the Conference Medical Flexible Spending Account are **NOT** reported on the Form W-2.

Use Box 12a to report amount withheld from pay and sent to the General Board of Pension for UMPIP investment on a tax-deferred basis. Indicate code E.

Box 3 and 5 are left blank for pastors.

Mark the box labeled "Retirement Plan" for all persons participating in a United Methodist Church Employer Contribution Pension Plan.

The Housing Resolution amount may be reported in Box 14 as "Housing Allowance."

2007

Form W-2 Wage and Tax Statement

Department of the Treasury - Internal Revenue Service

Form W-2 to the Social Security Administration - Send this entire copy with Form W-3 to the Social Security Administration; photocopies are not acceptable.

DO NOT LIST, FOLD, OR STAPLE FORMS OR THIS PAGE - DO NOT LIST, FOLD, OR STAPLE FORMS ON THIS PAGE

FORM W-3 REPORTING REQUIREMENTS

The Form W-3 - Transmittal of Wage and Tax Statements must be filed annually by employers together with Copy A of the Forms W-2. Basically, the information contained in the Forms W-2 and Forms 941 (filed quarterly) are the basis for the information to be supplied on Form W-3. The Form W-3 must be filed with the Social Security Administration by February 28.

The employer should make sure the Form W-3 wage and withholding information agrees with the total amounts from the Forms W-2 and that the Form W-3 is reconciled with the quarterly Form 941 returns.

Note: According to the IRS instructions for Form W-3, in Box b – Kind of Payer, a church or church organization should check the “941” box even if it is not required to file Form 941 or Form 944 (for example, because the church staff consists of only the pastor).

For more complete information, refer to the Form W-3 instructions available at the IRS website www.irs.gov.

Employee or Independent Contractor?

Introduction

An important question arises when a church hires, retains or selects a new person to perform a particular job for the church - is the person an employee or independent contractor? Serious tax and other financial consequences may result if a person is misclassified. Most persons retained to do the day-to-day work of any organization, including a church, are considered employees. The Internal Revenue Service and courts have determined that United Methodist clergy at the local church are to be classified as employees for income tax purposes and are not self-employed.¹

This analysis will not revisit the issue of clergy self-employment but is limited to looking at hiring or contracting with lay persons for work. The IRS may view independent contractor arrangements with suspicion and scrutiny, because of previous abuses and an underlying viewpoint that persons who are working for an organization should be considered employees for income tax purposes. Therefore it is crucial to carefully review the hiring and contracting classification process.

20 Factor IRS Test

The IRS uses a 20-factor test to determine whether a person is an employee. In connection with this test, the IRS has stated the following:

. . . 20 factors have been identified that indicate whether sufficient control is present to establish an employer-employee relationship. The degree of importance of each factor varies depending upon the occupation and the context in which the services are performed. It does not matter that the employer allows the employee freedom of action, so long as the employer has the right to control both the method and the result of the services . . . (Business Reporting, I.R.S. Publication 937).

¹ Weber v. Commissioner, 60 F.3d 1104 (4th Cir. 1995). However, Church polity is clear that clergy are not employees, *Book of Discipline* ¶ 141.

The 20 common law factors are:

- 1) **Instructions.** An employee must comply with instructions about when, where, and how to work. Even if no instructions are actually given, the control factor is present if the employer has the right to give instructions. Independent contractors direct themselves as to when, where and how to do their work.
- 2) **Training.** An employee is trained to perform services in a particular manner. Independent contractors ordinarily use their own methods and receive no training from the purchasers of their services.
- 3) **Integration.** An employee's services are integrated into the business operations because the services are important to the success or continuation of the business. This shows that the employee is subject to direction and control.
- 4) **Services rendered personally.** An employee renders services personally. This shows that the employer is interested in the methods as well as the results. Independent contractors are generally free to hire assistants or to sub-contract their work, since they are directing their own operations and making their own decisions about how to get the job done.
- 5) **Hiring, supervising and paying assistants.** An employee works for an employer who hires, supervises, and pays assistants under a contract that requires him or her to provide materials and labor and to be responsible only for the result.
- 6) **Continuing relationship.** An employee has a continuing relationship with an employer. A continuing relationship may exist where work is performed at frequently recurring although irregular intervals. An independent contractor ordinarily is hired to do a particular job and then moves on to do work elsewhere for another organization.
- 7) **Set hours of work.** An employee has set hours of work established by an employer. An independent contractor is the master of his or her own time.
- 8) **Full-time work.** An employee normally works full-time for an employer. An independent contractor can work when and for whom he or she chooses.
- 9) **Work done on employer's premises.** An employee works on the premises of an employer, or works on a route or at a location designated by an employer. An independent contractor ordinarily sets his/her own place of work.

- 10) **Order or sequence set.** An individual who must perform services in the order or sequence set by an employer looks like an employee, subject to direction and control.
- 11) **Oral or written reports.** A person who regularly submits reports to a supervisor looks like an employee, who must account to the employer for his or her actions.
- 12) **Payments.** An employee is paid by the hour, week, or month. An independent contractor is paid by the job or on a straight commission.
- 13) **Expenses.** An employee's business expenses are customarily paid by an employer. This shows that the employee is subject to regulation and control. An independent contractor ordinarily pays for his/her own business expenses.
- 14) **Tools and materials.** An employee is furnished significant tools, materials, and other equipment by an employer (examples in a church: computer, books, music, uniforms).
- 15) **Investment.** An independent contractor has a significant investment in the facilities he or she uses in performing services for someone else.
- 16) **Profit or loss.** An independent contractor can make a financial profit or suffer a financial loss, whereas an employee ordinarily does not suffer any financial losses associated with his/her work.
- 17) **Works for more than one person or firm.** An independent contractor offers and ordinarily gives his or her services to two or more unrelated persons or firms at the same time (example: an outside snow removal or lawn service used by a church would do the same work for a number of clients and would be considered an independent contractor; a facilities maintenance person who does full time work for the church that includes snow removal and lawn service and does not have a snow removal/lawn service business for other clients probably would be considered an employee, absent other unique circumstances).
- 18) **Offers services to general public.** An independent contractor makes his or her services available to the general public.
- 19) **Right to Fire.** An employer can fire an employee. An independent contractor typically cannot be terminated so long as he or she produces a result that meets the specifications of the contract for the services.

20) **Right to quit.** An employee can quit his or her job at any time without incurring liability. An independent contractor usually agrees to complete a specific job and is responsible for its satisfactory completion, or is legally obligated to make good for failure to complete it.

The IRS has attempted to streamline these questions and considerations. For example, see IRS Publication 15-A, "Employer Supplemental Tax Guide." In this Publication the IRS sets forth the employee versus independent contractor analysis by grouping concerns and questions into three categories, Behavioral Control, Financial Control, and Type of Relationship. The Publication also notes that an individual may request a specific determination from the IRS by filing Form SS-8.

Examples in a Church Setting

- A church organist/music director who holds the position of Minister of Music, who works 35 hours a week and who works under the direction of the church, **probably is an employee.**
- An organist who works for six area churches when their regular organist is sick or on vacation (and offers his/her services to other churches) **probably is an independent contractor.**
- A maintenance person who works 20 hours a week for the church on evenings, weekends (and after weddings and funerals) and who has a regular day job elsewhere but does not have a facilities maintenance business **probably would be viewed by the IRS as an employee of the church,** absent other facts.
- A maintenance person who works for ABC Maintenance Company and is sent to different job locations, including the church, depending on the work schedule set by ABC, would be an employee of ABC Maintenance Company. ABC Maintenance Company **would be an independent contractor** in its relationship with the church.
- A painter who walks in off the street and offers to spend the next four weeks painting the church for a flat fee **is probably an independent contractor.** S/he will do the assigned painting tasks and then go on to paint other churches, businesses or homes.

Problems With Improper Classification

Typically churches will attempt to classify a worker as an independent contractor to avoid the paperwork and expense of a new employee. Churches are well aware of the many reporting, withholding and payment obligations that exist if an individual is classified as a lay employee. To name a few, the church must complete an I-9 form for immigration purposes; begin social security and income tax withholding; report the hiring of the employee on state or federal informational forms; issue a W-2; possibly enroll the person in state unemployment compensation programs (many states exempt churches); enroll the employee in worker's

compensation; possibly enroll the person in insurance, medical or pension plans; and create an employee personnel folder. If a church considers a person as a self-employed independent contractor, generally none of the above need be done. However, if the church is held to have *improperly* classified that person as an independent contractor, then the church will be responsible for back taxes, withholding, interest, possibly tax penalties, back insurance premiums, etc.² That is why it is so crucial that a church make the right decision when deciding how to classify a new person.

What A Church Can Do To Protect Itself

There are different steps that a church can take to protect itself.

Complete Review and Written Opinion. Each church organization needs to do its own analysis, in close consultation with legal and/or tax counsel, for any “job” that is in a gray area if the church wants to classify the person as an independent contractor. The church needs to explain the complete fact scenario, provide a job description, and review the above 20 factors with its outside consultant. Where there might be disagreement with classification as an independent contractor, it is advisable to have the outside attorney or qualified tax professional put their opinion in writing to demonstrate the church’s good faith effort to comply with the law.

Uniform Application. Make sure you treat people the same way, by consistently apply the rules. Make sure independent contractors receive 1099s (for payments exceeding \$600).

Written Contracts. It is also very useful to have a written agreement with the hired individual stating that he or she understands and agrees that the work being performed is done as an independent contractor. While such an agreement will not in and of itself convince the IRS of independent contractor status, it can help clarify what work is being done, how and where it is to be done, the time frame for completion and the person’s understanding and agreement that s/he is self employed. This will also confirm that the church is not doing any tax withholding for the person, not paying any insurance or pension benefits, not responsible for unemployment compensation or worker’s compensation, etc. Any contract should be reviewed by legal counsel to comply with your specific needs.

Remember the Job is Being Performed by an “Independent” Contractor. Try not to manage or control how the contractor performs the job. The more day-to-day oversight that is exerted, the more it will look like supervising an “employee.”

The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.

² In a well-publicized recent case, Microsoft was sued by “permanent temporary” workers that Microsoft treated

as independent contractors. Some of these individuals worked at Microsoft for over a year. The court found in that case the differences between employees and these “independent contractors” were not clear and that the temporary workers were entitled to benefits. (Vizcaino v. Microsoft, 97 F. 3d 1187, 1996)

Housing Allowance Q&As (For United Methodist Clergy)

1. **What is the housing allowance?** When reporting gross income for federal income tax purposes, clergy can exclude a portion of their income designated by their church or salary paying unit as a "housing allowance" under Section 107 of the Internal Revenue Code (IRC). To be excludible, amounts designated as a housing allowance must be used to provide housing. In addition, there are limits on the amount that can be excluded. Note that a portion of the income of virtually all wage earners is used to pay for housing. What makes the housing allowance unique is that some of the income used to provide housing can be excluded from gross income for federal income tax purposes.

Also, clergy who live in a parsonage provided by the church do not have to report the fair rental value of the parsonage as income. (Note this "free" housing provided to clergy generally would be taxable compensation for lay employees.)

The housing allowance is sometimes called a “parsonage allowance” for clergy who are provided with a parsonage and a “rental allowance” for clergy who rent their home.

Example: A church pays its pastor an annual salary of \$35,000. In addition, she is provided the rent-free use of a furnished home owned by the church. The parsonage’s annual fair rental value is \$10,000. The church and pastor do not have to report the \$10,000 fair rental value as income for federal income tax purposes.

2. **Is the housing allowance a deduction or exclusion from income?** The housing allowance is an exclusion from income, not a deduction. This means it is not reported as part of gross income for federal income tax purposes. (It is never deducted because it is not reported as income in the first place.)

Example: In the example above, the pastor reports \$35,000 as income (on IRS Form W-2, box 1). She takes no deduction for the \$10,000 fair rental value of the home that is provided to her because that \$10,000 is never reported as income for federal income tax purposes.

3. **What is the impact of the “Clergy Housing Allowance Clarification Act of 2002”?**
The Clergy Housing Allowance Clarification Act of 2002 ("Act") prospectively codifies the fair rental value limitation on the amount of a designated housing allowance that can be excluded from gross income for federal income tax purposes. That law amended Section 107 of the IRC to now read:

Sec. 107. Rental value of parsonages

In the case of a minister of the gospel, gross income does not include –

- (1) the rental value of a home furnished to him as part of his compensation; or
- (2) the rental allowance paid to him as part of his compensation, to the extent used by him to rent or provide a home *and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities.*

(The new language added by the Act is shown in italics.)

This change is a statutory codification of the IRS's previous position on this issue and therefore, for most clergy, this is nothing new or different from the way the housing allowance has worked in the past. (The full text of the Clergy Housing Allowance Clarification Act of 2002 is included in the tax packet.)

The following question explains in more detail the three limitations on the housing allowance exclusion.

4. **Can clergy exclude from gross income for federal income tax purposes the entire cost of owning, renting, and/or furnishing a home?** It depends. The amount that can be excluded is the *lesser* of:
 - (a) the amount designated as the housing allowance
 - (b) the amount of actual housing expenses, or
 - (c) the fair rental value of the property (furnished, plus utilities).

Example: A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$10,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and pastor do not have to report the \$10,000 housing allowance as income for federal income tax purposes. (The church reports \$35,000 as salary on the pastor's Form W-2, box 1.)

Example: A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns her own home and the fair rental value of her home is \$10,000 per year. The actual expenses of operating her home are \$8,000 per year. The church and pastor do not have to report \$8,000 (out of the \$10,000 housing allowance) as income for federal income tax purposes. However, the "unused" \$2,000 of the housing allowance must be included in the pastor's gross income. This is because the pastor cannot exclude more than her actual housing expenses, regardless of the amount her church designates as a housing allowance or the fair rental value of the home.

Example: A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$12,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and pastor do not have to report the \$10,000 housing allowance for federal income tax purposes. The pastor cannot claim a housing allowance exclusion for the entire fair rental value of the home because his designated housing allowance and actual housing expenses are less than the fair rental value. He can only exclude from income the lesser of the fair rental value, designated housing allowance, or actual housing expenses, in this case, \$10,000.

Example: A church pays its pastor annual compensation of \$45,000, of which \$11,000 is designated as a housing allowance. The pastor purchased her own home and the fair rental value of her home is \$10,000 per year. The actual expenses of operating her home in this first year of purchase are \$30,000 which includes a \$20,000 down payment. The pastor can exclude a total of \$10,000 from income for federal income tax purposes. She cannot claim a housing allowance exclusion for all her actual housing expenses because the exclusion cannot exceed the fair rental value of the home, in this case, \$10,000.

Example: A church pays its pastor annual compensation of \$45,000, of which \$8,000 is designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$10,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and pastor do not have to report the \$8,000 housing allowance as income for federal income tax purposes. The pastor cannot claim a housing allowance exclusion for the entire amount of his expenses or for the entire fair rental value of the home, because the exclusion cannot exceed the designated housing allowance, in this case, \$8,000.

5. **How do you determine the fair rental value of the parsonage or pastor's home?**

In general, the fair rental value of the property is a question of facts and circumstances based on the local real estate market. If the pastor rents his home, the amount of the rent would be presumptive evidence of the fair rental value (assuming the rental agreement was an "arm's-length" transaction). Other methods of substantiating the fair rental value might include calculations and written documentation drawn from listings with local realtors of similar properties, verification of rent paid for comparable housing in the neighborhood, or a review of newspaper advertisements for rents of similar housing in the community. Perhaps the best substantiation would be a letter estimating the fair rental value of the property written by a realtor who is familiar with your property and other rental property in your community.

6. **What is the status of the litigation, *Warren v. Commissioner of Internal Revenue*, which challenged the fair rental value test and raised issues regarding the constitutionality of Section 107?** After passage of the Clergy Housing Allowance Clarification Act of 2002, the IRS agreed to dismiss its appeal of the case and the federal appeals court subsequently dismissed the case without ruling on any of the substantive issues raised.

7. **How should a pastor and church determine the amount of the housing allowance?** Past experience is the best test. If this is a “first time” situation, the Housing Allowance Estimate Worksheet, Attachment C to this document, could be helpful. In addition, this worksheet can assist clergy in planning for out- of-the-ordinary housing expenditures in the upcoming year.
8. **Does the housing allowance cost the church more money?** To the extent the church designates as a housing allowance a portion of the annual compensation it would otherwise pay to its pastor, designating the housing allowance results in no additional cost to the church. Regardless, it is important to remember it is the *Disciplinary* obligation of every United Methodist church to provide housing for its pastor(s). This obligation can be fulfilled either by providing a parsonage or a housing allowance for the pastor(s).
9. **How is the housing allowance set up?** A pastor may not claim a housing allowance exclusion for federal income tax purposes unless his local church (or other salary paying unit) has first established or designated a housing allowance for him. The preferred way to do this is for the church council or charge conference to adopt a housing allowance resolution prior to each calendar year (or prior to the arrival of a new pastor) and record the resolution in the minutes of the meeting. However, to ensure that a housing allowance will always be in place for each calendar year, it is a good idea to have language in each resolution providing that the housing allowance will remain in effect in future years unless otherwise modified.

In determining the amount of the designated housing allowance, it can be very helpful if the pastor completes a form estimating his anticipated housing expenses for the coming year. (See Attachment C for a sample form.) This is important because, as seen in some of the examples above, any "mismatch" between actual housing expenses and the designated housing allowance could have tax consequences (specifically, either the pastor may not be able to exclude from his income as much as he otherwise could or he has to report additional income on his personal tax return).

In general, churches should avoid designating a set percentage of compensation as a housing allowance. The better approach is to estimate the anticipated expenses for the coming year and set the housing allowance accordingly. This approach minimizes the unfavorable tax consequences discussed above.

If the church provides the pastor with a parsonage, the church should annually (or prior to the arrival of a new pastor) adopt a resolution stating that it provides its pastor rent-free use of a church-owned parsonage and also designate the amount of the parsonage allowance (if any).

*See Attachments A and B
For a Sample Housing Allowance Resolution and Notification*

10. **What types of housing related expenses can be included in the housing allowance?** Most reasonable household expenses can be included in the housing allowance, for example: down payment on a home, mortgage payments (including both interest and principal), home equity loan payments (assuming the loan proceeds are used for housing-related expenses), real estate taxes, property insurance, utilities, furnishings and appliances (including repairs), structural repairs, remodeling, yard maintenance and improvements, pest control, snow removal, maintenance items, and trash pickup. (Also see Attachment C.) Note that the cost of food and servants may not be included in the housing allowance. Also, housing-related expenses can only be included in the housing allowance for the year in which they are incurred. (See the following example.)

Example: In anticipation of needing to put a new roof on his house, a pastor requests, and the charge conference approves, an additional \$3,500 as part of the pastor's designated housing allowance for the upcoming year. The pastor, however, waits until it is too late for the work to begin during that year. In that case, it is possible the pastor will not be able to exclude this additional \$3,500 from his income even though it was included as part of his housing allowance for the year. In short, the pastor can only exclude expenses in the same year they are incurred. The best the pastor can do in this situation is to ask the church to again designate an additional \$3,500 as part of his housing allowance for the following year and try to get the work done in that year.

11. **What type of housing expense records should clergy be keeping?** Clergy need to keep careful housing expense records to determine whether any part of the designated housing allowance is unexcludible and hence, must be reported as gross income. Records are also important for estimating a reasonable housing allowance for the next year. Original receipts, invoices, canceled checks, charge card records, etc. are all essential. Clergy may find it helpful to have one charge card dedicated solely to household expenses, to use the "shoe box" method of collecting all receipts in one handy place, and/or to have a dedicated bank account for this purpose. Clergy may also wish to create a contemporaneous log of expenses in the event some of the receipts or back up data are misplaced or difficult to interpret later.
12. **What happens if the pastor doesn't spend all of the designated housing allowance on housing expenses?** As noted above, the exclusion from gross income cannot exceed the lesser of the designated housing allowance, the actual housing expenses, or the fair rental value of the property. In particular, the exclusion from gross income can never exceed the actual housing expenses. Therefore, any "unused" portion of the designated housing allowance must be included in the pastor's gross income.

In general, any portion of the designated housing allowance that is not excludible because it is in excess of either the actual housing expenses or the fair rental value of the property, must be included in the pastor's gross income.

Example: A church pays its pastor annual compensation of \$40,000, of which \$12,000 is

designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$12,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and the pastor do not have to report \$10,000 (out of the \$12,000 housing allowance) as income for federal income tax purposes. However, the \$2,000 "unused" portion of the housing allowance must be included in the pastor's gross income.

13. **If the designated housing allowance is greater than the amount that can be excluded under Section 107 of the IRC, how does the church (and pastor) report the difference as gross income for federal income tax purposes?**

There are two methods for reporting this income:

(A) The Church Determination Method: Under this method, it is customary for the pastor, in mid-January, to provide the local church treasurer with documentation of all housing related expenses and the fair rental value of the property for the prior year. The treasurer uses this information to calculate the portion of the housing allowance that can be excluded by applying the three-part test discussed above. The church treasurer then reports the unexcludible portion of the housing allowance on the pastor's Form W-2 (box 1) together with the pastor's other salary or compensation.

Example: A church pays its pastor annual compensation of \$45,000, of which \$12,000 is designated as a housing allowance. She owns her own home and the fair rental value of the home is \$12,000 per year. Under the church determination method, the pastor informs the church treasurer in mid-January that she had only \$11,500 in housing expenses in the prior year. The treasurer will then include the "excess" \$500 in the pastor's gross income for the prior year by reporting \$33,500 on the pastor's Form W-2 (box 1). The pastor does not separately report this \$500 on her Form 1040.

(B) Estimated Exclusion Method: Under this method, the local church treasurer reports on the pastor's Form W-2 (box 1) the total amount of compensation paid to the pastor during the year less the entire amount designated as a housing allowance. If the amount designated as a housing allowance is greater than the actual housing expenses or the fair rental value of the home, then it is the pastor's responsibility to report the difference as "other income" on the pastor's IRS Form 1040, line 21.

Example: A church pays its pastor annual compensation of \$45,000, of which \$12,000 is designated as a housing allowance. He owns his own home and the fair rental value of the home is \$12,000 per year. The pastor had only \$11,500 of housing-related expenses in the prior year. Under the estimated exclusion method, the church treasurer reports \$33,000 on the pastor's Form W-2, box 1 and the pastor reports the "excess" \$500 as income on his Form 1040.

Although both methods are appropriate, it is interesting to note that the second method

is the one illustrated in IRS Publication 517. The second method has the advantage that it imposes less of an administrative burden on the local church treasurer, who is often a volunteer. However, if the second method is used by the church, it should probably incorporate in its housing allowance notification to the pastor a statement to the effect that the pastor (not the church) is responsible for properly computing and reporting any unexcludible portion of the housing allowance. (See Attachment B). Conversely, the advantage of the first method is that it helps insure that the pastor doesn't unknowingly forget to report taxable income. If the first method is chosen by the church, it should probably incorporate in its annual housing allowance resolution a statement that it is adopting this method.

Also note that the church may, but is not required to, report in box 14 of Form W-2 the amount of the designated housing allowance it did not include in the pastor's gross income. If the church does not fill in box 14 of Form W-2, it should independently inform the pastor of this amount. As discussed above, it is essential for the pastor to know this amount when computing his federal income taxes under the estimated exclusion method and also when computing his self-employment taxes (see below).

14. **What type of records should the church be keeping regarding the pastor's housing allowance?** The church (or other salary-paying unit) should maintain copies of the documents pertaining to the designation of the housing allowance, for example, the minutes of the meeting during which the housing allowance resolution was adopted. It is advisable for the church to maintain a separate housing allowance file with copies of these minutes, the annual housing expense estimate that some pastors provide to their churches, and any other related documentation. If the church determination method (see above) is used, the church should keep copies of the pastor's housing expense information. If the estimated exclusion method (see above) is used, the church does not need to request or maintain the actual housing expense records because it is not responsible for determining or verifying whether the pastor is correctly reporting the housing allowance exclusion on his or her own individual tax return.

15. **Can the housing allowance resolution be adopted or amended mid-year?**

Yes. The housing allowance resolution can be adopted or amended at any time. However, it can only be applied prospectively. That is why it is important for the housing allowance resolution to be adopted by the church council or annual charge conference prior to each new calendar year (or prior to the arrival of a new pastor) and for pastors to accurately estimate their housing expenses in advance.

Example: A local church waits until June 30 to establish its calendar year housing allowance of \$10,000. In that case, at most \$5,000 of the \$10,000 housing allowance can be excluded from the pastor's gross income in that calendar year.

Example: A pastor realizes in March that she has significantly underestimated her housing expenses for the year. There is still "room" under the fair rental value test to exclude her

anticipated housing expenses but she is limited by the amount of her designated housing allowance. Therefore, at her request, the church council adopts a resolution, effective April 1, increasing the pastor's housing allowance from \$10,000 to \$12,400. However, the pastor may only exclude from gross income 3/4, or \$1,800, of the extra \$2,400 added to her housing allowance (that is, her maximum excludible housing allowance for the year is \$11,800). She cannot exclude 1/4, or \$600, of the extra amount because 1/4 of the year (January, February and March) has already passed before the amended housing allowance resolution was adopted by the church council.

16. Is the housing allowance also excluded from earnings subject to social security taxes?

No. The housing allowance exclusion only applies for federal income tax purposes. Like most everyone else, clergy must pay both federal income taxes and social security taxes. Employees pay social security taxes through the Federal Insurance Contributions Act ("FICA") system and self-employed individuals pay social security taxes through the Self-Employment Contributions Act ("SECA") system. By law, clergy are considered self-employed for the purposes of paying social security taxes (more commonly referred to as self-employment taxes) and the housing allowance is subject to self-employment taxes. Also, the fair rental value of a parsonage provided to a pastor (including the cost of any utilities and furnishings provided) must be included as self-employment earnings subject to the self-employment tax. (See IRS Publication 517).

Example: A church pays its pastor an annual salary of \$35,000 and provides her with the use of a church-owned parsonage. The church pays for all expenses of maintaining the home. The fair rental value of the parsonage (furnished, plus utilities) is \$10,000 per year. The pastor's gross income for federal income tax purposes is \$35,000, but for self-employment tax purposes her gross earnings are \$45,000 (\$35,000 salary + \$10,000 fair rental value of the parsonage).

Example: A church pays its pastor an annual salary of \$35,000 and provides him with the use of a church-owned parsonage. The church pays for all expenses of maintaining the home. The church serves an affluent community where the average price of a home is \$500,000. Hence, the fair rental value of the parsonage (furnished, plus utilities) is quite high, in this case, \$30,000 per year. While the pastor will not have to report the fair rental value of the parsonage as income for federal income tax purposes, he will have to include the \$30,000 fair rental value of the parsonage as gross earnings for self-employment (social security) tax purposes, inflating his reportable earnings to \$65,000.

This often seems unfair to pastors, who in this type of situation are required to come up with a sizeable amount of money to pay the self-employment tax. However, it is important to keep in mind that the pastor is still receiving a significant income tax "break," because he received a \$30,000 benefit (i.e., free housing) that is not reported as income for federal income tax purposes. But some churches do establish a (taxable) "social security allowance," increasing the cash compensation of the pastor to help defray the extra cost of the self-employment tax in this type of situation.

Example: A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns her own home and the fair rental value of her home is \$10,000 per year. The actual expenses of operating her home are \$10,000 per year. The church and the pastor report \$35,000 as income for federal income tax purposes (the \$10,000 housing allowance is not reported). However, the pastor must report the entire amount of her compensation, \$45,000, as gross earnings for self-employment (social security) tax purposes.

17. **How is the housing allowance reported for social security purposes?** It is reported by the pastor on Schedule SE of Form 1040, line 2, together with salary. It is important to note that when the local church completes the annual W-2 Form for clergy, Box 3 should be left blank (for clergy only). Box 3 on the W-2 Form is used only to report FICA wages, not SECA wages (clergy wages are considered SECA wages for purposes of social security). See above and the example W-2 for further information. IRS Publications 517 and 525 are also useful on these points.
18. **What is the Deason rule?** It is an interpretation of the Internal Revenue Code followed by the IRS based on a tax case going back to 1964 and reaffirmed by the U.S. Tax Court in a subsequent decision in 1988, and in a tax court decision in 1992 (see Deason v. Commissioner, 41 T.C. 465 (1964); Dalan v. Commissioner, T.C. Memo. 1988-106; and McFarland v. Commissioner, T.C. Memo. 1992-440). The rule applies only to clergy who are able to take a business expense deduction for unreimbursed business expenses, which is becoming more and more uncommon for United Methodist clergy. The rule provides that a clergy person who claims an exclusion from gross income for the housing allowance must reduce their business expense deduction by the percentage of income that is excluded from income tax reporting for the housing allowance.

Example: A clergy person receives a salary of \$36,000, plus a housing allowance of \$18,000. He has unreimbursed business expenses of \$6,000, which, for purposes of this example, are assumed to be deductible. His total “ministry” income is \$54,000 (\$36,000 plus \$18,000 housing allowance). The exempt portion of his income (the \$18,000 housing allowance) is 33.33% of the total. Thus, he is only able to deduct 66.66% of the \$6,000 in deductible business expenses (\$4,000).

19. **Our church provides our pastor with a parsonage, fully furnished, all utilities paid. He requests a \$12,000 housing allowance each year. We do not think this is right. What can/should we do?** The church PPR/SPRC chair and/or the treasurer should sit down with the pastor to discuss what items and expenses are part of the \$12,000 housing allowance request. Attachment C, the Housing Cost Estimate Worksheet, may be helpful. The church should also be familiar with the fair rental value of a fully furnished (with all utilities paid) comparable house in the area. With this factual information as background, the church can then evaluate whether the \$12,000 request is truly a problem. If it is, then the church treasurer and chair of the staff pastor/parish relations committee should discuss with the pastor the church’s concerns, reviewing the estimated expenses the

pastor will be making and the IRS rules regarding the fair rental value and other limitations on what can be excluded from gross income as a housing allowance. The pastor may have misunderstood the IRS rules or may have a logical explanation and reporting position for the housing allowance. If, after this meeting, the church is still concerned and the matter has not been resolved, then the chair of the SPRC and treasurer may want to involve the district superintendent in a follow-up meeting. Ultimately, it is up to the charge conference to approve the housing allowance resolution each year, and the church is certainly not required to approve a resolution in the amount requested by the pastor, if it believes in good conscience based on accurate factual information that the amount requested by the pastor is significantly too high.

20. **How does the housing allowance work for clergy couples?** Each clergy person can claim a housing allowance exclusion (assuming the appropriate steps have been taken with a housing allowance resolution), but the combined total amount of the exclusion may not exceed the fair rental value of their home or the actual expenses, whichever is less. In some circumstances, because of the nature of the United Methodist polity on itinerancy, each of the two clergypersons may live in separate homes and be provided with separate housing allowances (for example: appointments in two different locations, each with a parsonage, and with each salary paying unit requesting that the clergy person live in the parsonage). In these situations, the clergy couple should have a solid reporting position that the two housing allowances may be excluded from gross income for federal income tax purposes. The reporting position will be more tenable if the clergy couple has good documentation of the reasons for and professional necessity of maintaining two separate homes, and if the amounts claimed on their face for each home are reasonable.

21. **Can clergy take housing expenses on two homes at the same time?**

No. The housing allowance exclusion is limited to one home at a time. (Except possibly for the clergy couple exception discussed above)

Example: If the clergy person is building or has acquired a retirement home or vacation home, and still lives in the parsonage as his or her main home, then none of the expenses of the second home are includable for housing allowance purposes.

22. **Can retired clergy receive their retirement benefits as a tax-free housing allowance?**

Yes, subject to the three limitations set forth above. Each year the annual conference (or general agency or other United Methodist entity) needs to adopt a housing allowance resolution stating that all of the pension payments received by the clergy person from the General Board of Pension and Health Benefits qualify as a housing allowance for retired clergy. Retired clergy can receive up to 100% of their official United Methodist retirement benefits from the General Board of Pension & Health Benefits as a tax-free housing allowance (subject to the limitations set forth above).

23. **Can all church employees have a tax-free housing allowance?** No. Section 107 of the IRC allows only a “minister of the gospel” to have a housing allowance. Thus, only taxpayers

who are serving as clergy under IRS rules for tax purposes are eligible for a housing allowance. For example, a church custodian or secretary cannot have a housing allowance. (Of course such staff as lay employees do get the benefit of having the church pay one half their social security) United Methodist elders in full connection appointed to serve at the local church are “ministers of the gospel” and are eligible for a housing allowance, as are appointed local pastors. Many deacons appointed to the local church also will be eligible for a housing allowance (see the separate Q&As on the clergy status of United Methodist deacons elsewhere in this tax packet).

24. **Does my housing allowance impact on the amount of contributions made to my 403(b) pension plan?** Yes, there could be an impact since the income designated as a housing allowance is **not** part of the “includible compensation” for certain contribution limitations established by IRS rules. Therefore, while the new tax law changes generally increase previous limitations, clergy still need to be mindful of 403(b) contribution rules when part of their salary is designated as housing allowance.

The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.

Accountable Reimbursement Policies Q&As

The following questions and answers are intended to assist local churches and organizations in establishing and maintaining accountable reimbursement policies for their clergy and staff. Also, at the end of this document, there are some examples of proper and improper expense reimbursements.

1. What is an accountable reimbursement policy and why should we have one?

For business and tax reasons, in most instances, it is in the best interests of the church and its staff to have in place an accountable reimbursement policy to pay for the business expenses that are necessary to do the ministry of the church. These policies are simply a method for claiming and reimbursing professional or business expenses rather than providing an expense allowance. It's as simple as this: A church sets up a budget for the pastor's professional and business expenses, such as travel, continuing education, subscriptions, etc. When the pastor incurs a professional or business expense, s/he submits a claim with backup substantiation. The church either pays the expense directly or reimburses the pastor.

2. Are accountable reimbursement policies only for clergy?

No. The church can set up the policy to cover the business expenses for all staff. When answers or examples refer to pastors, it is for illustration purposes and not meant to exclude other staff.

3. What are the advantages of an accountable reimbursement policy?

There are several advantages to using an accountable reimbursement policy. (a) Convenience: Staff reports the business expenses to the church and not to the IRS - this means that none of the expenses are reported on Forms W-2 and there is no need to worry about IRS forms or calculating deductions. (b) Data: It gives the church an accurate account of the "cost" of ministry and allows members to understand the financial support necessary for staff to do their work well. (c) No complex rules: the Deason rule does not apply (it otherwise requires clergy to reduce the deduction for business expenses proportionately if they have a tax exempt housing allowance). (d) Fewer limits: Certain limits on business meals are avoided. (e) Tax savings: It takes the place of Schedule C and may save on taxes.

4. What are the disadvantages of an accountable reimbursement policy?

There are two minor disadvantages: The clergyperson's work expenditures are subject to more review by church members and some privacy may be lost. Also, the funds in the accountable reimbursement budget belong to the church and may not be given outright to the pastor at year-end if there is money left unspent.

5. What needs to go in an accountable reimbursement policy?

It's as easy as this. All you need is a written policy, which can be as simple as a short paragraph in the form of a resolution or a detailed plan, depending on the church's own needs and structure. This tax packet includes easy to implement sample policies (short and long). Most churches will want to have a budget amount which will "cap" the allowed amount for each staff person. It can be helpful (but it is not required) for the pastor, SPR committee, and finance committee to develop the budget together, with an idea of the types of expenses that can be expected.

6. When should the policy be set up?

The policy should be set up and funded when the church is doing the budget for the upcoming year. Once a written policy is in place, the church only needs to examine the budget funding for the accountable reimbursement policy each year.

7. How should the policy be funded?

Out of the church's budget, just like other expenses of running the church. The church needs to look at its budget and determine what amounts are necessary to pay for reasonable business expenses that fulfill the mission of the church, together with what it can reasonably afford. It is important for the church to realize that business expenses are properly church expenses and not something that the staff must cover from their own personal funds. It is important to review past expenditures (and future needs) carefully to arrive at an amount adequate to pay for the business expenses and at the same time within budget constraints.

8. Can the church "reduce" or "restructure" the pastor's salary to fund the accountable reimbursement policy?

The IRS has stated that it is currently reviewing some aspects of this issue. But until further notice from the IRS, churches should avoid these types of arrangements.

9. Can monies budgeted in the past for a travel allowance be used instead to fund an accountable policy?

Yes. For example, when the church is setting up its budget, it may reallocate the pastor's travel allowance (or other allowances other than a housing allowance) into an accountable reimbursement policy. By doing so, the church does not have to report the new travel reimbursement as part of W-2 income.

10. Can the church and the pastor negotiate compensation at the beginning of a new appointment that includes funding of an accountable reimbursement policy?

A pastor coming into a new appointment has the ability to create a salary/compensation/benefit package that includes an adequately funded accountable reimbursement policy. The best approach is to budget for the policy out of church funds because these expenditures are for professional expenses which staff need to do their job.

11. What expenses/categories/items should be part of the policy?

Attached to the sample “long-form” policy included in this tax packet is a worksheet designed to help churches determine an acceptable budget for an accountable policy. The worksheet lists examples of appropriate business expenses that may be included (e.g., business automobile expenses, parking, tolls, office supplies, business postage, office equipment, business-use computers, software, professional books/subscriptions, professional dues, religious materials, vestments, business gifts, continuing education, business entertainment, travel, etc.) There may be other business expenses that are appropriate to include, depending on the unique mission of your church. It is important to note that the categories on the worksheet are suggestions for budgeting, not rigid expense categories; the staff person, in consultation with the SPR chair and/or treasurer, or finance committee chair, may shift expenses during the year from one category to another. *Also see the examples at the end of these Q&As for suggestions about proper and improper reimbursements.*

12. Should the church reimburse the staff member or pay for their business expenses directly?

Either approach is acceptable. The staff person may submit a bill and ask that the church pay it. Alternately, s/he can substantiate the expense and ask that the church reimburse him/her. This tax packet includes a sample voucher form that can be used to submit requests for payment or reimbursement. Some churches provide certain members of their staff with business credit cards or long distance phone cards (restricted to business use) to make substantiation and bill payment easier. However, a credit card statement alone is not sufficient substantiation.

13. How should expenses be substantiated?

The IRS requires an adequate accounting by the employee and maintenance of good records by the employer. The IRS requires actual receipts for any expense over \$75.00. The church may use this figure or set a lower limit. (e.g., GCFA requires receipts for all expenses over \$25.00.) The documentation should show (or be listed on the receipt itself): the purchase, amount, date, place, and the business nature of the expense. For example, if the pastor purchased a \$10.25 notebook, the substantiation would not require a receipt, but at the very least should state, “Purchased Notebook for \$10.25 on 1/5/01 for keeping accountable reimbursement records for church.” A meal expense might state, “\$5.90 lunch on 1/5/01, in Centerville while meeting with district superintendent.” Another example is \$150 expenditure for a continuing education seminar where the staff can submit the invoice for payment by the church to the vendor. Or, if the staff person paid personally, an acknowledgment of payment by way of a receipt for the seminar or the invoice with a front and back copy of a canceled check would be adequate to substantiate the reimbursement to the staff person.

14. When must substantiation/receipts be provided to the church?

The IRS requires that all substantiation of expenses occur within a reasonable time (within 60 days will be deemed reasonable) of the expense being paid or incurred. Using the above example of a notebook purchased on 1/5/01, the expense

substantiation should be submitted no later than 3/4/01, to qualify as an accountable reimbursement. It is a good practice to turn in receipts at least every two weeks, to prevent forgetting about expenses or losing back-up receipts.

15. Can the church make advance payments? When must the staff substantiate the expenses?

Yes, it is appropriate to allow advances, if the church wishes to do so and has an adequate accounting system to track the substantiation for or reimbursement of advances. If an advance is given and exceeds the amount of business expense substantiated, the staff person must return the excess within a reasonable time (within 120 days will be deemed reasonable) of the date incurred or paid.

16 Who gets original receipts and documentation?

The church should be given the originals of receipts and written documentation and the staff person should keep a copy. It is unlikely that the staff person would ever need the copies unless s/he needed to substantiate expenses in excess of the amounts reimbursed.

17. Can the church give to the pastor at the end of the year any monies in the accountable policy not spent during the year?

No. The funds budgeted should not be shifted to a bonus or any other type of payment. This could jeopardize the entire accountable reimbursement policy. The monies can be used by the church for other types of expenses (*e.g.*, for mission, to reserves, or as a carry over to the accountable reimbursement budget line for next year).

18. Can the church increase the funding of the accountable reimbursement policy during the year?

Yes. If the church has additional funds or wants to shift budgeted funds from one account to another, it may do so. (No shifting is allowed from salary to an accountable policy).

19. Which church officer should be responsible for reviewing the propriety of the items submitted and which officer should be responsible for paying the expenses?

There is no single correct way to handle this responsibility. One method is to have the chair of the SPRC (in consultation with the committee) review and approve the submitted expenses and for the treasurer to handle payment. This avoids conflicts that may arise concerning the appropriateness of a given expense if all of the responsibility is on the treasurer. Under any arrangement, it is important for someone, with credibility and respect to carefully review all of the submitted requests for reimbursement to ensure their appropriateness. Also, someone needs to be in charge of monitoring all expenses to ensure budget compliance, timely reporting, return of any advances and the like.

20. How should confidential items be handled in terms of substantiation and reporting?

When the pastor makes confidential visits to parishioners, s/he may want to write “private” or “confidential visit with church member” on a travel log. The pastor should at least be able to answer any questions or share information about these entries in confidence with the chair of the SPRC.

21. What does the IRS consider to be a properly reimbursable business expense and is it different for a church than a for-profit oriented business?

A business expense is one that is directly related to the purposes and goals of the organization and is reasonably necessary to fulfill those goals. The basic idea applies to all organizations, from the smallest widget manufacturer to the largest business corporations in the U.S., from the smallest rural church to the mega churches, even though the goals of a church are different from the goals of a business. It is necessary that expenses relate to the church’s unique mission and that they not be personal expenses of the pastor.

For example, it would not be proper for a minister to claim a travel reimbursement for the expense of visiting a sick relative who is not a member of the church and who lives 100 miles away, even if part of the purpose of the trip was to give spiritual comfort. The primary reason for the trip is to visit a relative. If a pastor went on a two-week vacation with his/her family and also preached at two churches during the trip, reimbursement for the travel vacation expenses would not be proper. Some of the expenses related to the preaching would be appropriate if the pastor’s church encouraged such preaching arrangements during vacations, the pastor obtained approval for this, and the pastor incurred additional expenses on the trip for going to those church locations. If the personal nature of the expense is the primary consideration, it is not a business expense. Also see the sample list of proper and improper reimbursement items at the end of these Q & As.

22. May a church tell a pastor not to spend funds even if the expense may be a proper business expense?

Yes. The question suggests a conflict between the pastor and the treasurer’s or the SPR committee’s view of necessary or authorized expenses as they relate to the mission of the church. The best way to resolve most conflicts is to try to understand them, discuss them, and come to some agreement.

For example, it is hoped that most churches would agree that annual conference related committee work and travel are part of each church and pastor’s commitment to the connectional system (these would be legitimate business expenses). If a conflict over such conference expenses exists, the DS may be able to facilitate some meeting of minds (or pocketbooks). A difficult problem may arise when the church and the pastor view their mission differently. If the church does not approve of the clergy’s involvement in an international mission project and finds it to be outside of the

church's mission, the pastor should not submit travel or related expenses for such an activity. These issues should be explored ahead of time with the SPRC to avoid misunderstandings.

23. What happens if a new pastor is appointed in June and the previous pastor has already spent all of the funds in the accountable reimbursement policy account for that calendar year?

The best answer is that this type of situation should not arise in the first place, because the departing pastor, SPRC chair, and treasurer should make sure that it does not occur. These individuals all need to monitor the expenses and make sure that the accounts, absent unusual circumstances, are spent proportionally throughout the year. However, if this scenario should occur, it is possible to add to the accountable reimbursement policy for the new pastor, if funds are available elsewhere in the budget.

24. Who owns the equipment and other items purchased under the accountable reimbursement policies?

The church. If a church has paid for items through an accountable reimbursement policy, the equipment or other property belongs to the church, unless there is some other agreement. This issue of ownership usually does not come up until a pastor receives a new appointment and wishes to take equipment with him/her. It is not an issue in relation to travel, continuing education, professional dues, or entertainment expenses, which are not "tangible" things. Likewise, it would not often be a problem for office supplies, postage, periodicals or personal religious supplies, such as robes. These items are used up or are so personal that they have limited or no value to the church.

A computer is the most common item that raises this question. In this day and age it is important for the church to supply staff with a computer. However, if the pastor needs a computer, and the church has not budgeted for this purchase, the pastor may want to use accountable funds to make this purchase. While the pastor is at the church, the pastor uses the computer for business purposes.

What happens when the pastor, Rev. Dos, who purchased a computer with accountable reimbursement funds, leaves?

Rev. Dos decides she likes her computer and wants to take it to her new appointment. She approaches the chair of the SPRC and offers to personally purchase the computer for current fair market value (a purchase, at fair market value, would not be a taxable event). The SPRC decides to give the computer to Rev. Dos. The gift is a taxable event and the value of the gift for income tax purposes is the current fair market value.

25. Do accountable reimbursement policies include the housing allowance?

No. These are totally separate and need to be established and maintained separately. Accountable reimbursement policies are for business expenses, are available to all church staff, and can be used by any business or organization. Housing allowances relate only to clergy, as ministers of the gospel, and are authorized specifically by Internal Revenue Code § 107.

26. Do accountable policies include a cafeteria plan (flexible spending plan) for medical reimbursements?

No. However it is possible to set up cafeteria or flexible spending plans that may allow church staff to have medical reimbursements, dependent care reimbursements, and life insurance coverage, without income tax consequences. *All of the above arrangements need to be set up properly in a separate resolution or plan, with the assistance of a tax and benefits advisor, and must conform to the applicable Internal Revenue Code provisions.*

27. Are there any pension concerns when using an accountable reimbursement policy?

No. Amounts that are paid as accountable reimbursements are not part of “includible compensation” for certain pension contribution limitations established by IRS rules.

28. What are the implications of an accountable reimbursement policy for local church/conference reporting information?

GCFA’s Local Church Report to the Annual Conference and Local Church and Pastor Compensation and Expense Worksheet forms have been changed to show the distinction between **reimbursements** established for the pastor and **allowances** paid to the pastor. In the Report, line 66 is for reimbursements and line 67 is for allowances (other than the housing allowance that is put on line 65).

29. How should “ticketless” airline expenses be substantiated?

It is necessary that the documentation show the date, place, amount and business reason for the trip. The IRS has suggested that the itinerary from a travel agency and/or the airline receipt, along with an explanation of the reason for the travel, should be sufficient.

These Q & As are provided to give suggestions for establishing an accountable reimbursement policy. It is important to examine each situation closely to determine the correct result, because each church setting, ministry, budget and pastor are unique.

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Examples of Proper Reimbursement Items*

- Reasonable travel and related expenses for attending meetings (e.g., annual conferences, United Methodist meetings, etc.)**
- Church-approved trips to preach at another church
- Trips to meet with the district superintendent, bishop or director of connectional ministries
- Trips to visit members at hospitals, nursing homes, or parishioner's homes Lunch meetings with officers of the church to discuss church business Supplies for the church office (e.g., paper, pens, forms, notebooks, etc.) Church-related continuing education
- A computer required for church work
- Vestments worn for worship
- Church-related books and periodicals
- Office furnishings and equipment (e.g., desk, chairs, telephone, etc.)
- Spouse's travel expenses where the spouse accompanies the pastor **but only if the spouse was required by the church to be present for a business purpose** (e.g., the spouse is an elected delegate to the church meeting or group in charge of registration at the meeting and making a speech to the business meeting, etc.)
- Business-related automobile operating expenses (if standard mileage rate was not used)
- Long distance telephone calls to church when on vacation
- Church-related telephone calls from the parsonage (most telephone expenses are covered under the housing allowance)
- Many business related (non-personal) expenses allowable on Schedule C of the IRS tax return

**The items listed are, in most cases, proper. There may be some circumstances in which the church has specifically prohibited purchases. Each individual church must, in consultation with staff, make its own decision about what expenses are "professional and business" expenses and whether it will cover those items.*

***If the conference pays a pastor 15 cents per mile for attending a conference meeting, it is proper for the church to reimburse the difference between the church's rate and the 15 cents. For example, if the church reimburses staff travel at 31 cents per mile, in this case, the conference would pay 15 cents per mile and the church would pay 16 cents per mile for mileage.*

Examples of Improper Reimbursement Items***

- Mileage to church from home for daily work (considered personal) - Mileage to home and back to church for lunch break
- Meals with friends at which church matters are discussed
- Spouse's travel under most circumstances (see example of proper reimbursement in limited circumstances above)
- Vacations (including trip to Holy Land) Books to plan vacation to Holy Land Trips to visit sick relative
- Trips to funeral home where that pastor is personally paid an honorarium for service (may be deducted on a Schedule C)
- Tickets to attend the play "Joseph and His Amazing Technicolor Dream Coat" Expenditures (e.g., travel, books, phone calls) to research a book or article Continuing education primarily for personal improvement
- A computer used primarily by family
- Everyday clothing, including business suits
- Alcohol, even as an item on a receipt for a business meal
- Medical expenses (may be part of a cafeteria or flexible spending accountable reimbursement policy)
- Child care/dependent expenses (may be part of a cafeteria or flexible spending reimbursement plan)
- Life or disability insurance premiums
- Medical insurance premiums (may be part of a cafeteria or flexible spending plan)
- Charitable contributions, tickets to charity functions
- Expenditures related to a private business or generating income from a non-church source
- Housing related expenses (e.g., utilities, furniture, upkeep (these are part of the housing allowance)) except to the extent they relate to an office
- Subscriptions to a national news magazine for the pastor's personal use

****The items listed, in most cases, are improper. There may be some circumstances, particularly where the church has directed the staff person to make the expenditure for church mission, when these items may be proper. Each individual church must, in consultation with staff, make its own decision about what expenses are "professional and business" expenses and whether it will cover those items.*

SHORT FORM (Sample)
Accountable Reimbursement Policy

The following resolution is hereby adopted by the church council of _____ . It will be effective for the calendar year _____ and all future years unless specifically revoked or superseded.

The church pastor (or other employee(s)) will be reimbursed for ordinary and necessary business expenses incurred in the performance of his or her responsibilities when he/she substantiates the amount, business purpose, date, and place of the expense.

This substantiation must be provided to the chair of the pastor parish relations committee (or church treasurer) within sixty (60) days of incurring the expense. The individual must return to the church any amounts received in excess of the substantiated expenses within one hundred twenty (120) days of receipt.

The church will not report any properly substantiated reimbursement payments as income on any Form W-2.

Chair, Church Council

Committee on SPR/PPR Chairperson

Treasurer

Pastor/Staff Person

Secretary

(The church may wish to designate certain items which it elects to have covered by this policy, such as travel, continuing education, attendance at annual conference, books, subscriptions, work supplies, vestments, etc. There may be a cap or dollar amount on the total reimbursable business expenses that will be paid, for example: "The reimbursement amount shall be no more than _____." The church may also want to require pre-approvals by the treasurer or SPR/PPR chair of business expenses in excess of \$ 500 (or any other amount deemed appropriate). These additional requirements should be included in the policy.)

This is a sample of an accountable reimbursement policy. The specifics of each policy should be reviewed by each church and minister considering their specific concerns. If legal or tax advice is required, the services of a competent professional advisor should be sought.

LONG FORM (Sample)

Accountable Reimbursement Policy

The _____ United Methodist Church ("Church") recognizes that certain expenses of ministry paid by the pastor/staff person are part of the ordinary and necessary costs of ministry in this Church/charge. Accordingly, we hereby establish an accountable reimbursement policy to defray them directly. The reimbursement account shall be an annual line item in the Church budget. It shall be in addition to the pastor's annual salary and housing. The reimbursement account for 20__ shall be \$_____. (*Amount may be determined by using the attached suggested worksheet.*)

The following requirements for the policy are binding upon the Church and upon _____, its pastor/staff person.

Accordingly, the Church hereby establishes an accountable reimbursement policy, pursuant to IRS regulations and upon the following terms and conditions:

1. The pastor/staff person shall be reimbursed from the reimbursement account for his/her ordinary, necessary, and reasonable business expenses incurred in the conduct of the ministry for, and on behalf of, the Church. The following expenses are budgeted in this accountable reimbursement policy, as suggested for the work needs of the pastor/staff person.
2. The committee on SPR/PPR chairperson, Church payroll person, or treasurer, (as designated by the Church) must be given an adequate accounting within 60 days after the expense is paid or incurred. The adequate accounting shall include, but not be limited to, a statement of expense, account-book diary or other similar record showing the amount, date, place, business purpose, and business relationship involved. Such documentation shall include receipts for all items of \$75 or more (*a church may set a lower amount*). Appropriate documents, cash receipts, canceled checks, credit card sales slips, and contemporaneous records (for those non-receipt expenses less than \$75), must be attached to each expense report. A log of total miles per day and numeration of their general purpose shall suffice to substantiate automobile mileage, but under no circumstances will commuting mileage between the pastor's home and Church office be reimbursed. Copies of the documentary evidence and expense report shall be retained by both the pastor/staff person and the Church.

The committee on SPR chairperson (or treasurer) shall be responsible for approving the expense. The committee on SPR chairperson (or treasurer) shall exercise his/her discretion regarding the adequacy of the substantiation and the appropriateness of any reimbursement. Questions arising in these areas will be resolved by the SPR chairperson (or treasurer), subject to the review and approval of the committee on SPR/committee on finance.

3. It is the intention of this policy that reimbursements will be paid after the expense has been incurred by the pastor/staff person. However, should circumstances require payment of an advance for any particular anticipated expense, the pastor/staff person must account for the expense as described above and return any excess reimbursement within 120 days after the expense is paid or incurred. Any excess advance must be returned to the Church before any additional advances are provided to the pastor/staff person.
4. Budgeted amounts not spent must not be paid as a salary bonus or other personal compensation. If such payments are made, the entire amount of the accountable reimbursement policy account will be taxable income to the pastor/staff person. The Church will be required by law to report that amount as part of the pastor's/staff person's compensation. Disposition of any unspent balances remains at the discretion of the committee on finance/the council/charge conference in building the budget for the next Church year.
5. It is understood by the various parties that all elements of this resolution must be carefully followed to prevent the Church from being required by regulation to include all reimbursements as income on the pastor's/staff person's Form W-2. The primary responsibility in this regard is on the pastor/staff person to report and adequately account for his or her expenses to the committee on SPR chairperson, church payroll person, and/or treasurer.

Adopted on _____, 20__ , by the Church Council [Charge Conference] of the United Methodist Church.

Chair, Church Council

SPR/PPR Chairperson/Church Treasurer

Pastor/Staff Person

Secretary

This is a sample of an accountable reimbursement policy. The specifics of each policy should be reviewed by each church and minister considering their specific concerns. If legal or tax advice is required, the services of a competent professional advisor should be sought.

Worksheet for Setting a Budget for an Accountable Reimbursement Policy

The following are suggested items for inclusion in this accountable reimbursement policy. It is only the total listed in Item K which is to be put in the policy itself. This worksheet is for budgeting purposes only and it is permissible for the reimbursed individual to shift items from one area to another.

A.	Automobile (standard federal mileage rate), parking and tolls	\$ _____
B.	Office supplies and postage	\$ _____
C.	Office equipment, computer and software	\$ _____
D.	Books, subscriptions and periodicals such as professional journals	\$ _____
E.	Professional dues	\$ _____
F.	Religious materials, vestments and business gifts	\$ _____
G.	Continuing education and seminars (as approved by the committee on SPR and/or the committee on finance)	\$ _____
H.	Entertainment required for Church business	\$ _____
I.	Travel fares, lodging and meals while on business for the Church	\$ _____
J.	Other	\$ _____
K.	Total*	\$ _____

**The total listed in Item K must be the same as the total reimbursement amount set forth in the first paragraph of the policy. Church council action is required for an increase to Item "K" (Total). To allow for the pastor/staff person's spending discretion, only Item "K" is necessary to be reported as a line item in the charge conference approved budget and in the policy document. Circumstances dictate that the above expenses will vary from church to church and from time to time.*

The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.

(Sample)
Expense Voucher Form

Set forth below is a sample voucher form that can be used to record information relating to business purchases for the church. The form can be used to request payment or reimbursement for church-related items bought by a member of the church, such as paper plates for the church kitchen, cleaning supplies, or a new electrical switch for the parsonage. The form can also be used by a staff person to request payment or reimbursement of expenses pursuant to an accountable reimbursement plan.

Direct Payment Example: The choir director may be requesting direct payment of some continuing education expense that is part of his/her accountable reimbursement plan. The director would complete the form, attach the invoice or bill, preferably the original, obtain the necessary authorization (i.e., signature of person authorized to approve the expense), and submit the completed form to the treasurer for payment. The choir director should keep a copy.

Reimbursement Example: The pastor purchases and pays for a new robe. He/she would complete the form, asking that reimbursement be made to him/her for purchase of vestments and would attach the original or a copy of the receipt. The necessary authorization signature is obtained and the completed form is submitted to the treasurer for payment. The treasurer would remit the amount to the pastor. The pastor should keep a copy.

In each case, it will simplify the treasurer's job if the person submitting the voucher notes the account number or budget line item number.

“CHURCH NAME” Expense Voucher	
Date: _____	Amount: \$ _____
Pay To: Name _____	
Address _____	
Description of Expense: _____	
Business Purpose of Expense: _____	
Receipt/Bill: <input type="checkbox"/> Attached <input type="checkbox"/> No	
Account Number or Budget Line Item Number: _____	
Person Requesting Payment: _____	
Approved By: _____	
Special Instructions: _____	

Charitable Contributions

Publication 1771, Charitable Contributions-Substantiation and Disclosure Requirements issued by the IRS explains the federal tax law for organizations such as charities and churches that receive tax-deductible contributions and for taxpayers who make contributions. There are recordkeeping and substantiation rules imposed on donors of charitable contributions and disclosure rules imposed on charities that receive certain quid pro quo contributions. Please refer to Publication 1771 at the IRS website for further information: <http://www.irs.gov/pub/irs-pdf/p1771.pdf>

Good Samaritan/Benevolence Fund Policy

***Take care of him, and when I come back, I will repay you whatever more you spend. . .
.Jesus said, "Go and do likewise." Luke 10:35-37***

Many churches seek to provide funds to help needy persons. If funds are raised on a case-by-case basis, it is likely that any donations made will not be tax deductible. The better way to handle the desire to help those in need is for the church to adopt a Good Samaritan/Benevolence Fund policy, such as the sample policy below. A Good Samaritan/Benevolence committee should be set up or, in the alternative; the function of selecting needy donees can be assigned to another existing committee of the church. It is important that all of the decisions be made totally independently of donor's suggestions and on the basis of need and other objective criteria. (See also IRS Publication 526 - Charitable Contributions)

(Sample) Benevolence Fund Policy

_____ United Methodist Church, in keeping with its Biblical and charitable goals, has established a Good Samaritan/Benevolence Fund ("Fund") to assist persons in our community in financial need. Donors may suggest beneficiaries of the Fund. However, such suggestions shall be deemed advisory rather than mandatory in nature. The administration of the Fund, including all disbursements, is subject to the exclusive control and discretion of the Church. All gifts to the fund are gifts to the Church and while the committee may consider suggested designations, in no event is it bound to follow them.

Checks should be made payable to the Church, with a notation that the funds are to be placed in the Church's Good Samaritan/Benevolence Fund.

Group Rulings and Charitable Contributions

IRS Publication 4573 (Group Exemptions) (<http://www.irs.gov/pub/irs-tege/p4573.pdf>) provides information on group tax exemption rulings such as the one covering United Methodist local churches, annual conferences, general agencies, and certain other United Methodist affiliated organizations.

In 1974, GCFA, acting on behalf of The United Methodist Church, applied for and received a group tax exemption ruling from the IRS. In the language of the IRS, GCFA is referred to as the “central organization” of the group ruling and the other covered entities are referred to as “subordinate organizations”. (For information purposes, the IRS Group Exemption Number for The United Methodist Church Group Tax Exemption Ruling is: 2573.)

The 1974 group ruling from the IRS is still valid today and by its terms, it provides that all subordinate organizations covered by the group ruling are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

However, from time to time, potential donors have raised questions about verifying the tax-exempt status of our organizations covered under our group ruling. Their interest, of course, is to insure that their contributions to our organizations will be tax deductible. Publication 4573 provides helpful guidance to donors in this regard.

Specifically, Publication 4573 states that to establish the deductibility of their contributions to a subordinate organization, donors may rely on:

(1) the central organization’s (in this case, GCFA’s) listing in IRS Publication 78 (which is online at www.irs.gov); together with

(2) the central organization’s (in this case, GCFA’s) verification that the subordinate organization is included in the group ruling.

If you have potential donors who have expressed concerns about the deductibility of their contributions, please feel free to direct them to Publication 4573 or to GCFA’s Legal Department.

- Please utilize the GCFA group ruling form to receive documentation from GCFA on inclusion in the United Methodist Church group ruling. The form can be obtained at the GCFA website under forms or the direct link is: <http://www.gcfa.org/forms> (under Local Church, group ruling request form)

Corporate Annual Reports

The 2014 session of the Great Plains Conference passed the following resolution

Incorporation of Local Churches

Purpose: To strongly recommend that each local church become an incorporated legal entity and take the steps necessary to continue the incorporation in good standing.

Rationale:

Whereas, Paragraph 2529.1 of The Book of Discipline permits the Charge Conference of a local church to direct the Board of Trustees to incorporate the local church, and

Whereas, the Kansas East Annual Conference adopted a policy, which was set forth in the Standing Rules of that Conference, providing that “[a]ll local United Methodist Churches must be incorporated and maintain their good standing”, and

Whereas, the incorporation of a local church creates a distinct legal entity separate from its officers, trustees, and members, with the capacity to own property and enter into contracts and agreements in its own name, and

Whereas, incorporation of a local church limits the liability of church members and individuals who act on behalf of the church, and

Whereas, incorporation of a local church helps to make clear the identities of those persons who have the authority to act on behalf of the church in transactions with third parties, and

Whereas, incorporation of a local church provides continuity in operation, ownership and management of property, and continuity of the institution of the local church beyond the individuals involved in its operation at any one time, and

Whereas, incorporation of a local church may provide a foundation for businesslike functioning and favorable insurability of the church, and

Whereas, the cost of incorporating and maintaining a corporation in good standing is relatively inexpensive for the protection offered, and

Whereas, incorporation of local churches assists the Annual Conference in ensuring that the governing documents of each local church act to further the mission of the Annual Conference, the United Methodist denomination, and are consistent with and properly include The Book of Discipline, and

Whereas, the three co-Chancellors of the Annual Conference have unanimously recommended that all local churches be incorporated, and

Whereas, the Conference Board of Trustees urges the Annual Conference to adopt a resolution strongly recommending that all local churches be incorporated,

THEREFORE BE IT RESOLVED, that it is strongly recommended that all local churches become incorporated as separate legal entities and take all necessary acts to maintain such legal status in good standing.

The state of Kansas requires churches to file an annual report to maintain this status. This is a simple form that takes only a few minutes to complete. Annual reports are due by June 15th. The report can be filed online at the Secretary of State website: www.kssos.org.

The state of Nebraska requires all nonprofit organizations to file reports on a biennial basis.

The reporting period is uniform for all nonprofits and runs from January 1 – April 1 of each odd-numbered year. Since 2015 is an odd-numbered year, we are in a reporting period. The period for all nonprofits began on January 1, 2015 and they must file the report prior to April 1, 2015. For the first time in 2015, the SOS is sending out a postcard to the registered agent of each nonprofit with the reporting deadlines. The postcard directs the organization to the SOS's website where they can log in and either file the report online OR request a paper form. The postcard includes the organization's account number, which they will need to access the online report, along with instructions for how to log-in.

Regardless of which state you are in failure to comply with the requirement can jeopardize a churches corporate status; and this can expose church members and board members to personal liability. Churches should maintain a full set of all corporate annual reports files with their Secretary of State's office.

IRS Publications, Materials & Contact Info

The following IRS Publications may be helpful:

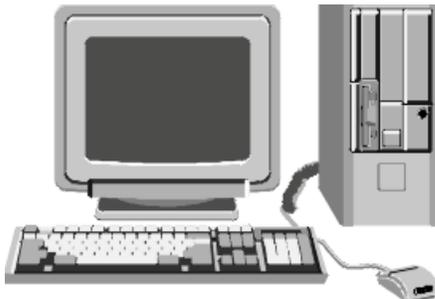
- **Publication 15** – Circular E, Employer’s Tax Guide
- **Publication 15-A** – Employer’s Supplemental Tax Guide
- **Publication 463** – Travel, Entertainment, Gift, and Car Expenses
- **Publication 517** – Social Security and Other Information for Members of the Clergy and Religious Workers
- **Publication 521** – Moving Expenses
- **Publication 525** – Taxable and Nontaxable Income
- **Publication 526** – Charitable Contributions
- **Publication 533** – Self-Employment Tax
- **Publication 535** – Business Expenses
- **Publication 557** – Tax-Exempt Status for Your Organization
- **Publication 1771** – Charitable Contributions (Substantiation and Disclosure Requirements)
- **Publication 1828** – Tax Guide for Churches and Religious Organizations
- **Publication 3833** – Disaster Relief (Providing assistance through charitable organizations)

Pick-up or Order by Telephone



IRS forms and publications can be obtained from your local IRS office or by contacting the IRS at **1-800-829-3676 (1-800-TAX-FORM)** and asking that your order be mailed to you. (Many public libraries and post offices also have some forms available.)

Internet



IRS forms and publications are available for downloading on the IRS website: www.irs.gov. (On the IRS website, use either the search function or click on “Forms and Publications”).

Fax



The most frequently requested tax forms are available from the IRS by fax. Dial the IRS fax number (**703-368-9694**) from your fax machine and follow the voice prompts.

Local Church Statistics and Why They Matter

(As prepared by GCFA)

What happens to the statistical reports we fill out each year?"

☒ *"Does anybody actually use them?"*

☒ *"Does it make a difference if I simply 'plug in' some figures that look good?"*

These and other questions are directed to annual conference statisticians, district superintendents and the Department of Records and Statistics at the General Council on Finance and Administration (GCFA) when the **Local Church Reports to The Annual Conference, Tables 1, 2, and 3** are distributed to the local churches. These are good questions and the efforts of clergy and laity who take the time to fill out these forms are greatly appreciated!

Data gathered on these forms provides important information we all need to enable ministry on a local church, annual conference and general church level.

Required by *The Book of Discipline*

Paragraph 340.2c(2)(b) of the **2008 Book of Discipline** states one of the administrative responsibilities of the pastor is "to give an account of their pastoral ministries to the charge and annual conference according to the prescribed forms." This helps to assure accountability of the pastor to the local church and the annual conference. It is important for pastors to accurately and diligently monitor membership and financial information in the church. Answering the questions posed on the Tables 1, 2, and 3 allows for that. It is also the responsibility of the pastor to share these statistics with the local church leadership so together they can review the data and interpret the underlying meanings. Sometimes raw data can help a congregation assess the story they tell about themselves.

Once the statistics are reported to the annual conference, they are compiled, edited and checked for accuracy by the annual conference statistician. At the level of the annual conference, the statistics are an important tool. In many conferences the bishop and cabinet use the statistics to assist in the clergy appointment process. Another important use for the annual conference is to help identify local churches which are having extraordinary success in a certain area of ministry. For example, I called a conference statistician one year due to a disproportionately large figure in the UMYF membership of a local church. The statistician informed me the figure was accurate, the church having made a very deliberate commitment to its youth ministry. The reporting of that statistic shared an important story, one which could enable other churches to strengthen youth ministry.

How It Really Helps

New England conference statistician, Joy Mueller, summed it up well in her report to the conference in 2000 when she stated:

“Of course, the statistics do not tell the whole story – leadership, spiritual growth, economic situation, population increases and many other pieces make up the story of each local church. The statistics do, however, offer a perspective that can help local congregations see themselves as part of a bigger picture.....I hope that when you return home, you will see the statistical report as a tool to be used by leaders in the local church. Have you taken in new members and how are they connecting to the life of the church? Who isn’t attending worship this year that was last year and do you know the reasons? Is your average pledge where you as a church feel it should be, given the economic situation in your congregation?.....Perhaps you want to connect with a church in your district or in your size category and find out what is happening differently for them.....I encourage you to use the numbers with the church’s story to continue to learn *about* each other, to learn *from* each other, and to learn *with* each other.”

Beyond the Local Church and the Annual Conference: How the Data Is Used

When the work of the annual conference statistician is done, the statistics are forwarded to the General Council on Finance and Administration. Once compiled, verified and finalized, they are used for a variety of purposes.

- ❑ The General Board of Global Ministries (GBGM) uses the data to help annual conferences, districts, and local churches plan more effective ministry within their own communities. Church statistics are combined with demographic data by the office of research to help local churches analyze where there are new opportunities for outreach. (For more information go to <http://research.gbgm-umc.org>)
- ❑ The United Methodist Publishing House (UMPH) uses the data to assist in planning resources and marketing. The statistics help to determine where resources are already being used and where there may be opportunities to provide new resources to local churches. (For more information on the United Methodist Publishing House, go to <http://www.umph.com/resources/who/default.html>)
- ❑ The General Commission on the Status and Role of Women (GCSROW) and the General Commission on Religion and Race (GCROR) uses this data to assist in monitoring and raising consciousness of gender and racial/ethnic inclusiveness in The United Methodist Church. Gender and Racial/Ethnic membership information provides a measure of progress toward the United Methodist Church's commitment toward becoming a fully inclusive denomination. (For more information go to <http://www.gcror.org/Original%20Web/ministry.htm>)
- The Connectional Table (CT) uses the statistics as baseline and supplemental information in surveys of local churches. One recent and interesting study is *Faith Communities Today*, an interdenominational study. (For more information go to: [http://www.umc.org/site/c.lwL4KnN1LtH/b.3887669/k.BD13/Connectional Table.htm](http://www.umc.org/site/c.lwL4KnN1LtH/b.3887669/k.BD13/Connectional%20Table.htm))
- ❑ GCFA provides statistical information to annual conferences, other general agencies of The United Methodist Church, ecumenical organizations and other interested persons and/or institutions.
- ❑ And, of course, the statistics from the Tables 1, 2, and 3 are used, in consideration of other factors, in determining the apportionments to the annual conferences, enabling United Methodists to be in dynamic ministry together throughout the world. (For more information, go to <http://www.gcfa.org/data-services>)

While it is recognized that churches are about more than the number of persons attending worship or how many persons are baptized in a year, those numbers can help bring attention to matters warranting concern or celebration. Sharing with each other the objective data numbers provide helps us to keep our connection vital. The careful preparation and dissemination of the local church statistics allow us as The United Methodist Church to monitor our membership and financial health, and have a measurable basis to establish future directions.

Submitted by, Beanie Rankin
Assistant Director of Records and Statistics
General Council on Finance and Administration (GCFA)
Revised August, 2011

Statistical Reporting Resources

Take time to read all the directions. Also note that there are video tutorials on our website to walk you through the process and offer suggestions to avoid the most common errors.

- Change have been made to the Data Entry Website. Instructions for navigating the website can be found in the Church Users Guide under "Reports" on the main menu of the GCFA Stats Data Entry website.
- Some lines of Tables I, II and III have changed for the 2013-2016 Quadrennium. Find more information in Church Table Directions under "Reports."
- Read the [FAQ Document](#). It will answer many of your questions. You also can access it online at the GCFA Stats Data Entry website under "Reports." Select "Frequently Asked Questions" under the Conference Worksheet section.
- You will need your GCFA number to use as your username when logging into the statistics entry program. [This document lists the GCFA numbers](#) for all churches in our conference.

Complete the worksheet before you enter the data online. Print a Blank Church Input Form under "Reports" for use in compiling information. Do not send the paper form to the conference office.

For multi-point charges: Enter data for each church of the charge separately. Do not combine information.

For federated churches, yoked parishes, and community churches: Report only that part of the membership and money belonging to The United Methodist Church. Many churches do not keep a separate record of spending for each denomination represented. In this case, a percentage allocation should be applied based on the percentage of membership that is United Methodist. For example, if 85% of the membership is United Methodist, then only report 85% of income and expenses.

The pastor is responsible for seeing that the report is timely and accurate. Compare current and prior year figures for any glaring discrepancies. For reports not received by the due date, only prior year membership and benevolences sent to the conference treasurer will be recorded. When calculating Mission Share and Mission Agency Support, 10% will be added to the prior year Total Operating Income (line 62) per Conference rule.

2013 data entered in the Vital Signs Dashboard will be prefilled into appropriate boxes of the tables. Examine this information carefully as it may need to be corrected if your church did not consistently report Vital Signs data throughout the year.

To SAVE data so that you may work on it again later, click on the "SAVE" button at the top or bottom of the page. Clicking "Save" will not submit the data.

To SUBMIT data once you have completed entering all of your congregation's information (and the pastor has reviewed the information for accuracy), click on "SUBMIT," select "SUBMIT CHURCH STATS" and click on the "SUBMIT STATISTICS" button to send your completed report to the conference. Clicking this button certifies that the pastor has reviewed the information for accuracy. Once submitted, you must contact your district office for any data editing. Do not send a paper copy of the reports to the conference office.

Resources

Must Haves:

- **Guidelines – Finance: Handling God’s Money in the Church**, <http://www.cokesbury.com/forms/ProductDetail.aspx?pid=1125066&rank=3&txtSearchQuery=guidelines>
- **Guidelines – Stewardship: Nurturing Generous Living** <http://www.cokesbury.com/forms/ProductDetail.aspx?pid=1124639&rank=8&txtSearchQuery=guidelines>
- **Tax Guide for Churches and Religious Organizations (Publication 1828)**, <http://www.irs.gov/pub/irs-pdf/p1828.pdf>
- **The Local Church Audit Guide for UM Congregations**, The General Council on Finance and Administration of the UMC, www.gcfa.org/forms
- **Fund Balance Report**, <http://www.greatplainsumc.org/yearendreports>
- **2013-2016 United Methodist Church Financial Records Handbook**, <http://www.cokesbury.com/forms/ProductDetail.aspx?pid=1130581&rank=0&txtSearchQuery=united%20methodist%20church%20financial%20records%20handbook>

Other available resources:

- Go to <http://www.cokesbury.com/forms/DynamicContent.aspx?id=268&pageid=1007> for a variety of resources available to your church. Especially note these resources:
 - **New Consecration Sunday**, Herb Miller
 - **Enough: Discovering Joy Through Simplicity and Generosity**, Adam Hamilton
 - **Treasure: A Stewardship Program on Faith and Money**, Jacob Armstrong
 - **First: Putting God First in Living and Giving**, Mike Slaughter
 - **Committed to Christ: Six Steps to a Generous Life**, Bob Crossman
 - **Extravagant Generosity: the Heart of Giving**, Michael Reeves and Jennifer Tyler
 - **Transformed Giving: Realizing Your Church’s Full Stewardship Potential**
- **Church & Clergy Tax Guide**, Richard R Hammar, (published annually by Christian Ministry Resources) <http://store.churchlawtodaystore.com/20chcltaxgu2.html>
- **Worth’s Income Tax Guide for Ministers**, B.J. Worth (published annually by Evangel Publishing House) <https://www.worthfinancial.com/cgi-bin/publications.pl>
- Available thru Amazon.com and other sources
 - **Creative Stewardship**, Richard B. Cunningham
 - **44 Ways to Expand the Financial Base of Your Congregation**, Lyle E. Schaller
 - **Effective Church Finances – Fund-raising and Budgeting for Church Leaders**, Kennon L. Callahan
 - **Giving and Stewardship in an Effective Church: A Guide for Every Member**, Kennon L. Callahan
 - **Becoming a Giving Church**, Herbert Mather
 - **What the Bible Says About Stewardship – You Are in Charge of God’s Gifts to You**, A.Q. VanBenschoten, Jr.