



ABC's of Church Management

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This newsletter has been developed to provide compliance guidelines for local congregations concerning state and federal regulations. It is shared as a basic reference newsletter with the understanding that the publisher is not giving legal, financial, or other professional service/advice. The publisher acknowledges that the laws and regulations of each state may vary. If professional assistance is required, the services of a competent professional should be secured.

Claiming State and Local General Sales Taxes

If you are able to use Schedule A when completing Form 1040 for 2006, you are able to claim either the actual state and local income taxes paid or the state and local general sales taxes. The IRS published the instructions for completing Form 1040 before they were able to complete the instructions for calculating the state and local general sales taxes. Therefore, IRS Publication 600 was created to help tax payers in this calculation. IRS Publication 600 can be accessed by going online to www.irs.gov and click on publications.

IRS Publication 600 explains the use of the publication as:

“The Tax Relief and Health Care Act of 2006 extended the election to deduct state and local general sales taxes for 2006...

You can elect to deduct state and local general sales taxes instead of state and local income taxes as a deduction on Schedule A. **You cannot deduct both.** To figure your deduction, you can use either:

- Your actual expenses, **or**
- The optional sales tax tables **plus** the general sales taxes paid on certain specified items.”

It is worth the time to work through the one page calculation sheet to see if the calculated amount of state and local general sales taxes are higher than what you may have actually paid as state and local income taxes.

Accountable Reimbursement Plans

At the beginning of the year, it is always good to remind pastors and church treasurers about the importance of making sure they are implementing an accountable reimbursement plan. The advantage of implementing the accountable reimbursement plan is a major tax savings for the pastor(s). If the pastor receives reimbursements without having to substantiate expenses, those reimbursements must be counted as taxable income to the pastor and must appear in Box 1 of the pastor's Form W-2.

The majority of pastors have an expense account set aside each year for books, continuing education, seminars, attending the North American Convention, etc. The account may be used in full or there may be funds left over at the end of the year.

<p>To make sure mileage reimbursements meet the accountable plan, pastors need to keep record of the following:</p> <p>Date</p> <p>Reason for trip</p> <p>Beginning odometer reading</p> <p>Ending odometer reading</p> <p>Whether trip is business or personal</p> <p>Office Depot, Office Max, and Staples all carry cheap Vehicle Mileage books that will help remind pastors of the information they need to record.</p>	<p>The catch is if the pastor's package states that he/she receives the amount in full whether substantiated or not, then the reimbursements are not considered under an accountable system and the full amount of the expense account is taxable income to the pastor.</p> <p>IRS Publication 1828 defines how to establish and maintain an accountable reimbursement system. The publication states:</p> <p>“An arrangement that an employer establishes to reimburse or advance employee business expenses will be an accountable plan if it meets three requirements: (1) involves a business connection; (2) requires the employee to substantiate expenses incurred; and (3) requires the employee to return any excess amounts.</p> <p>Employees must provide the organization with sufficient information to identify the specific business nature of each expense and to substantiate each element of an expenditure. It is not sufficient for an employee to aggregate expenses into broad categories such as travel or to report expenses through the use of non-descriptive terms such as <i>miscellaneous business expenses</i>. Both the substantiation and the return of excess amounts must occur within a reasonable period of time.</p> <p>Employee business expenses reimbursed under an accountable plan are: (a) excluded from an employee's gross income; (b) not required to be reported on the employee's IRS Form W-2, <i>Wage and Tax Statement</i>; and (c) exempt from the withholding and payment of wages subject to FICA taxes (in pastor's case, SECA taxes) and income tax withholdings.”</p> <p>The IRS defines “reasonable period of time” as 60 days. So reimbursements need to be substantiated within 60 days of the expense being made.</p> <p>The IRS publication goes on to state:</p> <p>“If the church or religious organization reimburses or advances the employee for business expenses, but the arrangement does not satisfy the three requirements of an accountable plan, the amounts paid to the employees are considered wages subject to FICA taxes and income tax withholding, if applicable, and are reportable on Form W-2. (Amounts paid to employee ministers are treated as wages reportable on Form W-2, but are not subject to FICA taxes or income tax withholding.)”</p> <p>To make sure that the church maintains an accountable reimbursement plan, no reimbursement should be made without a receipt to substantiate the expense. This is for everyone in the church, not just the pastor(s) and non-ministerial staff. It can be beneficial to establish a system where expenses can not occur without pre-approval. By starting the paper trail with the pre-approval, the transaction can not be completed until the final receipt is attached to the approval document.</p> <p>The more detailed the record keeping of expenses, the greater chance reimbursements will be considered accountable and will not be held as taxable income for the pastor(s) and non-ministerial staff. No one wants to be hit with an unexpected tax bill come April 15th.</p>
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Child Protection Tips

The Consumer Product Safety Commission has recalled several items this month that involve children.

The first recalled is from Fisher-Price:

“In cooperation with the U.S. Consumer Product Safety Commission (CPSC), Fisher-Price, of East Aurora, N.Y., is voluntarily recalling about 500,000 (an additional 700,000 were sold worldwide) “Laugh and Learn” Learning Bunny Toys. The pink pompom nose can detach, posing a choking hazard to young children.”



The second recall is from Vacation Clothing:

“In cooperation with the U.S. Consumer Product Safety Commission (CPSC), Vacation Clothing, doing business as Basix USA, of Lauderdale Lakes, FL, is voluntarily recalling about 20,000 Children’s Hooded Sweatshirts and Windbreakers with Drawstrings. The garments have a drawstring through the hood, posing a strangulation hazard to children. In February 1996, CPSC issued guidelines to help prevent children from strangling or getting entangled on the neck and waist by drawstrings in upper garments, such as jackets and sweatshirts.”



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If you have any church or clergy tax, governance, compliance, or risk management questions, send them to the above email address.