



ABC's of Church Management Newsletter

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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.

Pastors Looking for a Tax Preparer

It's that time of year again. Tax Time! Pastors will be trying to decide if they should prepare their own taxes or have them professionally prepared. Many pastors can prepare their own by using products such as TaxCut or TurboTax. It is advisable to also have a copy of IRS Publication 17 and IRS Publication 517 as references. IRS Pub. 17 addresses basic income tax filing questions while IRS Pub. 517 addresses questions specifically related to clergy. IRS Pub 17 and IRS Pub. 517 can be downloaded at www.irs.gov.

If you should decide that you would prefer to have a professional prepare your taxes, Richard Hammar (*2008 Church & Clergy Tax Guide, p. 55*) recommends the following tips for selecting a tax preparer:

- If possible, stick with a CPA or tax attorney.
- Try to use someone local.
- Find other ministers in your community who have their tax returns prepared by a professional, and ask questions. Who do they use? Are they pleased? What is the cost? How many ministers' tax returns does the person prepare?
- Call CPAs listed in your telephone directory: ask if they prepare ministers' tax returns and, if so, ask how many they prepare.
- When you find one or more possible candidates, consider asking a few simple questions that should be answered easily by anyone with any experience in handling ministers' tax returns. Here are a few examples: (1) Are ministers employees or self-employed for Social Security purposes? *Ministers always are self-employed for Social Security purposes with respect to their ministerial income.* (2) Can I claim my housing allowance exclusion in computing my self-employment taxes? *Absolutely not – ever.* (3) If I report my church wages as an employee, are my wages subject to FICA taxes? *The answer is never.* (4) If I report my church wages as an employee, are my wages subject to income tax withholding? *No, unless a minister elects voluntary withholding.* (5) What is the minister's housing allowance? *The portion of a minister's salary designated in advance by an employing church for housing expenses. This amount is not taxable in computing a minister's income taxes to the extent it is used to pay housing expenses and does not exceed the home's fair rental value.*

If the tax preparer is truly familiar with preparing ministerial tax returns, they

should be able to answer these questions very easily.

Recordkeeping for 2008

2007 is over and treasurers are preparing charitable contribution statements, Form W-2s, 1099-Miscs, and trying to figure out what records need to be kept and which can be discarded. If your church is like most churches, you have boxes and boxes of forms, reports, and minutes stored throughout the church building, at treasurer's homes, and who knows where else. To help start your spring cleaning early, below is a list of requirements for retaining various documents for tax audit purposes. This list was created by Richard Hammar.

Form 945 – 4 years after filing return (annual return of withheld federal income tax)

Form W-9 – 4 years from filing deadline of the contractor's tax return (request for taxpayer identification number)

Form 8283 – 4 years from the filing deadline of the donor's tax return (noncash charitable contribution)

Offering envelopes – 4 years from filing deadline of the donor's tax return (some churches issue donors a periodic summary of contributions that includes a statement advising donors to question any discrepancies quickly since all documentation (including offering envelopes) the church relied on in preparing the summary will be disposed of within a specified period of time (e.g., six months). Such a statement relieves the church of the responsibility of warehousing offering envelopes and other supporting documentation for long periods of time.)

Contribution statements – 4 years from the filing deadline of the donor's tax return.

Written acknowledgements of charitable contributions – 4 years from the filing deadline of the donor's tax return.

Written acknowledgements for short-term missions trips participants – 4 years from the filing deadline of the donor's tax return.

Accountable reimbursement policy – permanently

Accountable reimbursement policy receipts – 4 years from the filing deadline of the employee's tax return. Exception: (1) the regulations require employers to maintain receipts and other records used by employees to substantiate their reimbursed business expenses; (2) the IRS has indicated that it may relax this requirement, but it has not done so; (3) if an employer does not maintain these records, its employees will have to substantiate expenses if audited.

All records associated with nonaccountable expenses reimbursements – 4 years from filing deadline of the employee's tax return.

Housing allowance – 4 years from the filing deadline of the pastor's tax return.

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Estimated housing expense form – 4 years from the filing deadline of the pastor's tax return.

Safety net housing allowance – permanently

Job descriptions of staff pastors – 4 years from the filing deadline of the pastor's tax return

Form 8274 – permanently (certification by churches requesting exemption from FICA taxes)

Property tax exemption application and certificates – consult local law offices

Sales tax exemption application and certificates – consult local law offices

Tax-sheltered annuity salary reduction agreements – 4 years from filing deadline of the employee's tax return

Form 990-T – 4 years from the filing deadline of the tax return (exempt organization's unrelated business income tax return)

Retirement gifts – 4 years from the filing deadline of the employee's tax return

Special occasion gifts – 4 years from filing deadline of the employee's tax return

Health plans – permanently

Documents defining compensation – 4 years from the filing deadline of the employee's tax return

Correspondence received from the IRS or state and local tax agencies – permanently

Articles of Incorporation; Bylaws; Certificate of Incorporation; Certificate of Good Standing – permanently

Minutes of membership meetings and minutes of board meetings – permanently

Annual Corporate Reports – permanently

Form W-2 – 4 years after filing the return (wage and tax statement)

Form W-4 – 4 years after filing the return (withholding allowance certificate)

Form 941 – 4 years after filing the return (employer's quarterly tax return)

Form 1023 – permanently (application for recognition of exemption)

Form 1099-Misc – 4 years after filing the return (miscellaneous income)

Form 5578 – 4 years after filing return (annual certification of racial nondiscrimination)(used by private schools if church-affiliated to certify compliance with federal nondiscrimination requirements)