



## ABC's of Church Management Newsletter

JULY 2008

VOLUME 2, NUMBER 7

### Welcome to the June/July 2008 ABC's of Church Management Newsletter

This newsletter is a combination of months June & July. It will be covering the handling of gifts and love offerings; parents' credit for sending kids to day camp; claiming a home office; deductible moving expenses; and standard mileage rates.

#### Gifts & Love Offerings

Determining whether gifts or love offerings are taxable for the recipient can be confusing. Churches often give pastor(s) and church employees or volunteers, gifts on special occasions, i.e. – Christmas, birthdays, anniversaries, etc.

Gifts and love offerings are taxable income for the recipient if they are through the church's checking account. If the recipient is an employee or pastor, the amount of the gift or love offering must appear in Box 1 of the recipient's Form W-2. If the recipient is a volunteer and the amount of the gifts throughout the year total more than \$600, the recipient must receive a Form 1099-MISC.

If individuals give the pastor(s), employees, or volunteers, gifts in cards or as they are leaving church, these are considered non-taxable gifts.

If the church leaders collect a gift or love offering from members of the congregation for a pastor, church employee, or volunteer, and tell the members to give cash or make checks payable directly to the recipient and give this gift or love offering directly to the recipient without passing it through the church books, a fine line has been crossed because in most cases the church doesn't think this is taxable income. If the recipient is audited, the IRS can deem this taxable income and can assess substantial excise taxes on the individual and possibly the church leaders.

Therefore the rule of thumb should be that it is safer for the recipients and the church that gifts or love offerings given through the church be considered taxable income and be reported on either Form W-2 or Form 1099-MISC whichever is appropriate.

Church treasurers and givers need to be aware of what do not qualify as charitable contributions. IRS Publication 526 lists the following that can not be deducted as a charitable contribution:

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1. A contribution to a specific individual,
2. A contribution to a nonqualified organization,
3. The part of a contribution from which you receive or expect to receive a benefit,
4. The value of your time or services,
5. Your personal expenses,
6. A qualified charitable distribution from an individual retirement arrangement (IRA),
7. Appraisal fees,

For more information about charitable contributions and deductions see IRS Publication 526.

Handling loving offerings and gifts for guest speakers or music groups is very similar. When the individual or group arrives (or before they come), have them complete a Form W-9. This gives the church the person's or group's social security number or EIN and mailing address. If the person or group receives more than \$600, then the church must send them a Form 1099-MISC at the end of the year. The church should count the love offering and give the individual or group a church check.

### **Parent's Can Claim Tax Credit for Sending Kids to Day Camp**

The IRS is providing a tax credit that will help working parents care for their children during the summer. Children under the age of 13 often attend day camps during summer vacation. The IRS released in their "*Summertime Tax Tip 2008-04*" that the costs of these day camps can "count as an expense towards the child and dependent care credit." If the parents send their children to camps that have children staying overnight, those expenses do not qualify.

"The credit is generally 20% to 35% of non-reimbursed expenses; up to \$3000 in expenses for one child and up to \$6000 for two or more children. The actual credit is also based on your income. The 35% rate applies if your income is under \$15,000; the 20% rate, if your income is over \$43,000."

Churches, if you are offering day camps for the children in your community, make sure you make your parents aware of this tax credit and also provide them receipts for their tax records.

For more information about the child and dependant care credit see IRS Publication 503.

### **Home offices**

Many pastors have an office in their homes. It may be possible for them to claim part of the household expenses as a tax deduction.

First it is important to know if the office qualifies. The IRS requires that you must use part of your home:

- Exclusively and regularly as your principal place of business.
  - Exclusively and regularly as your principal place of business, as a place to meet or deal with patients, clients or customers in the normal course of your business, or in connection with your trade or business where there is a separate structure not attached to the home.
  - On a regular basis for certain storage use such as inventory or product samples, as rental property, or as a home daycare facility.
  - In the case of a separate structure which is not attached to your home, in connection with your trade or business.
  - For rental use.
  - As a daycare facility.
- (IRS Publication 587)

In the IRS “*Summertime Tax Tip 2008-03*”, the IRS provides the following definitions:

Exclusive use – a specific area of the home is used only for trade or business.

Regular use – the area is used regularly for trade or business. Incidental or occasional business use is not regular use.

If the pastor’s home meets the above requirements, he/she will need to calculate the percentage of the house that is used for business. The IRS recommends two methods of calculation:

1. Divide the area (length multiplied by the width) used for business by the total area of your home.
  2. If the rooms in your home are all about the same size, you can divide the number of rooms used for business by the total number of rooms in your home.
- (IRS Publication 587)

There are some deduction limitations. IRS Publication 587 states the following:

“If your gross income from the business use of your home equals or exceeds your total business expenses (including depreciation), you can deduct all your business expenses related to the use of your home.

If your gross income from the business use of your home is less than your total business expenses, your deduction for certain expenses for the business use of your home is limited.

Your deduction of otherwise nondeductible expenses, such as insurance, utilities, and depreciation (with depreciation taken last), that are allocable to the business, is limited to the gross income from the business use of your home minus the sum of the following.

1. The business part of expenses you could deduct even if you did not use your home for business (such as mortgage interest, real estate taxes, and casualty and theft losses that are allowable as itemized deductions on Schedule A (Form 1040)).
2. The business expenses that relate to the business activity in the home (for example, business phone, supplies, and depreciation on equipment), but not to the use of the home itself.

If you are self-employed, do not include (2) above your deduction for half of your self-employment tax.”

It is advisable to check with a tax consultant before claiming a business area in your home. For additional information see IRS Publication 587.

### **Moving Expenses**

Ministers move to new assignments. Sometimes the church pays all, part, or none of the expenses. Ministers can claim moving expenses if the church doesn't reimburse for all expenses.

To determine if you qualify to deduct moving expenses, the IRS requires the following:

- Your move is closely related to the start of work.
- You meet the distance test.
- You meet the time test.

(IRS Publication 521)

The first test is usually met because the pastor is moving to start a new ministry position.

To meet the distance test, the move has to be more than 50 miles between the old house and the new house. The way that the distance test is calculated is by calculating the distance from your old ministry location from your old home. Say this distance is 5 miles, to meet the distance test your new ministry position would need to be located at least 55 miles from your old home. Keep in mind that the IRS calculates the distance between home and business as the most commonly traveled path.

To meet the time test, “you can generally consider moving expenses incurred within 1 year from the date you first reported to work at the new location as closely related in time to the start of work. If you do not move within 1 year of the date you begin work, you ordinarily cannot deduct the expenses unless you can show that circumstances existed that prevented the move within that time.” (IRS Publication 521)

If all the above tests are met, then the following can be claimed as deductions:

Moving your household goods and personal effects (including in-

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- transit or foreign-move storage expenses), and
- Traveling (including lodging but not meals) to your new home. (IRS Publication 521)

Items that can not be deducted include:

- Any part of the purchase price of your new home.
- Car tags.
- Driver's license.
- Expenses of buying or selling a home (including closing costs, mortgage fees, and points).
- Expenses of entering into or breaking a lease.
- Home improvements to help sell your house.
- Loss on the sale of your home.
- Losses from disposing of memberships in clubs.
- Mortgage penalties.
- Pre-move househunting expenses.
- Real estate taxes.
- Refitting of carpet and draperies.
- Return trips to your former residence.
- Security deposits (including any given up due to the move).
- Storage charges except those incurred in transit and for foreign moves.

If the church completely reimburses the move, make sure that it is under an accountable reimbursement plan. This means that the pastor must provide receipts for all items that are reimbursed. If the moving expenses are reimbursed under an accountable reimbursement plan, then they will not be reported as income to the pastor.

If the church gives the pastor a flat amount to help towards moving expenses and the pastor does not have to supply the church with any receipts, then the money is considered income to the pastor and must be reported on the pastor's Form W-2.

To report moving expenses, use Form 3903. This will be filed with the Form 1040. For additional information regarding moving expenses see IRS Publication 521.

### **New Mileage Rates**

Beginning July 1, 2008 the standard mileage rate was raised to help meet the stress of the high gas prices. The new rates are as follows:

- Business mileage went from \$0.505 to \$0.585
- Medical/Moving mileage went from \$0.19 to \$0.27
- Charitable mileage stayed the same at \$0.14

