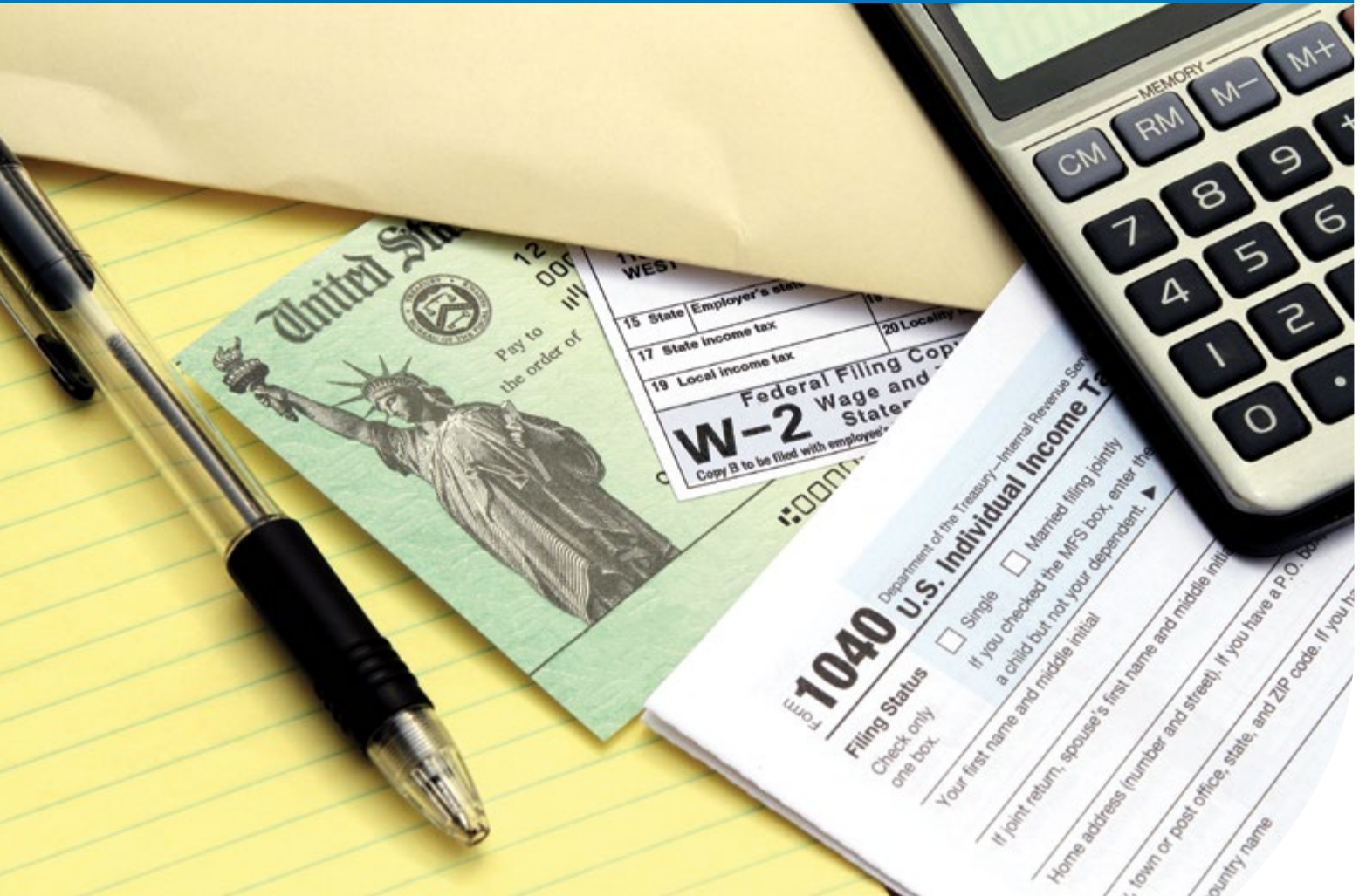


# 2025 Federal Reporting Requirements for Episcopal Institutions



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Dear Friend:

In keeping with The Church Pension Fund's ongoing commitment to conserving our natural and financial resources, the *2025 Federal Reporting Requirements for Episcopal Institutions* is being offered exclusively as an online booklet.

The *2025 Clergy Tax Return Preparation Guide for 2024 Returns* also is being disseminated online. To access these documents, please go to [Tax Publications](#) on [cpg.org](#).

Faithfully,



Mary Kate Wold  
CEO and President

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## Introduction

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The most important federal reporting obligation for most churches is the withholding and reporting of employee income taxes and Social Security and Medicare taxes. These payroll reporting requirements apply, in whole or in part, to almost every church.

**Note:** The term “church” is used broadly throughout this publication. It refers to the vestry and/or the governing body, depending on the nature of the action taken, not just of churches but also of additional entities, such as schools and other institutions, that are controlled by or associated with The Episcopal Church.

Many of the reporting obligations covered in the *2025 Federal Reporting Requirements* can be met by using a payroll services provider.

### **W** Warning

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

## Definition of “Minister” for IRS Tax Purposes

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In The Episcopal Church, only bishops, priests, and deacons (ordained ministers as opposed to lay ministers), regardless of the responsibilities of the work done for the Church, meet the criteria for the IRS designation of “minister.”

Whether or not one qualifies as a minister for tax purposes is a very important question, since special tax and reporting rules apply to ministers under federal income tax law, including the following:

- Eligibility for the housing allowance exclusion from federal income tax
- Self-employed status for Social Security and Medicare tax purposes (SECA tax)
- Exemption of federal and state wages from income tax withholding

These special rules apply only with respect to compensation for services performed in the exercise of ministry. The approval of an Extension of Ministry under The Church Pension Fund Clergy Pension Plan (Clergy Pension Plan) does not necessarily qualify a clergyperson for clergy tax treatment because the Clergy Pension Plan uses a different standard than the IRS criteria (described below).

### **Eligibility for the Housing Allowance Exclusion from Federal Income Tax**

To qualify for the housing allowance exclusion, a clergyperson must be considered a minister based on the IRS criteria. If the clergyperson does not qualify for clergy tax treatment, they will be treated as a lay employee for payroll tax purposes and will not be eligible for the housing allowance exclusion. Work performed directly for the Church is considered “exercise of ministry,” no matter the nature of the work. Generally, work for non-Church organizations must be primarily sacerdotal to qualify for the housing allowance, and the clergyperson must be assigned to the position by the bishop.

Check with your state to determine if a housing allowance is excluded from state income tax.

### **E** Example

John is a minister at his church. In addition, he works a second job as a counselor for a private, nondenominational school. Assume that John qualifies as a minister for federal income tax purposes. Since his church duties constitute services performed in the exercise of ministry, the church can designate a housing allowance for him. However, the secular employer cannot designate any portion of John’s compensation as a housing allowance since this work would not be service in the exercise of ministry.

### **Self-Employed Status for Social Security and Medicare Tax Purposes (SECA Tax)**

While most clergy are employees for federal income tax reporting purposes, they are always self-employed for Social Security and Medicare tax (Self-Employed Contributions Act, or SECA tax) with respect to their church compensation. As such, the church should not withhold the employee’s share of Social Security and Medicare taxes from their wages, nor should the church pay the employer portion of these taxes. If a church chooses to pay the minister a portion of the SECA tax, this payment is considered taxable compensation to the minister and is assessable for pension calculation. Payment of a portion of SECA to a clergyperson is not an IRS requirement, and the practice varies throughout the Church. Check with your diocese for its policies.

## Exemption of Federal and State Wages from Income Tax Withholding

Ministers must use the quarterly estimated tax procedure to pay their taxes unless they elect voluntary income tax withholding. If ministers elect voluntary income tax withholding, they should withhold sufficient income taxes to cover both federal income taxes and self-employment taxes. Be sure to have the clergyperson complete *IRS Form W-4, Employee's Withholding Certificate*.

Most Episcopal ministers with continuing relationships with their employers are considered employees for federal income tax purposes under the tests currently used by the IRS and the courts. They should receive a *Form W-2, Wage and Tax Statement* from their churches reporting their taxable compensation. This statement applies to part-time as well as full-time employees. *See Sample Form W-2 at the end of the guide.*

### 📌 Key Points

- Because the liabilities for failing to report compensation paid to employees and failure to properly deposit payroll taxes attach to vestries and rectors, consider using a professional payroll service. A payroll service deposits taxes with the Internal Revenue Service and state governments, files tax reports, and produces all year-end required tax reporting. Using a payroll service places responsibility on a third party to pay your employees on time and relieves the treasurer of producing Forms W-2 and end-of-year tax reconciliations.
- Care should be taken to ensure that the payroll service understands how clergy are taxed and that each clergyperson has been properly classified in its system. There should be no withholding for Federal Insurance Contributions Act (FICA) for employees classified as clergy.

## Health Insurance

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### Employer Reimbursement / Payment of Group Health Insurance Premiums

Employer payments and reimbursements of health insurance premiums for group healthcare coverage provided by the employer to the employee continue to be treated on a tax-favored basis pursuant to Internal Revenue Code (“Code”) Section 106. Additionally, in *Chief Counsel Memorandum 201547006*, the Internal Revenue Service clarified that an employer may exclude from an employee’s gross income payments for the cost of health insurance coverage provided through the spouse’s group health plan only if the spouse paid for the coverage on an after-tax basis and not through salary reduction under a Code Section 125 cafeteria plan.

This rule applies whether the employer’s payment for such coverage is paid directly to the employee or through a Health Reimbursement Arrangement (HRA). Therefore, before excluding a payment made to your employee for health insurance coverage provided through the spouse’s group health plan, the employee must substantiate that the spouse paid for such group health coverage on an after-tax basis. This is an important limitation because most spouses will pay their health premiums on a pretax basis (through a Section 125 cafeteria plan), and, in fact, some employers require that any premiums be paid this way.

### Employer Reimbursement / Payment of Individual Health Insurance Policies— Premium Reimbursement Account (PRA)

If certain conditions are met, some employers may have the option of establishing a qualified small employer health reimbursement arrangement (QSEHRA) or an individual coverage health reimbursement arrangement (ICHRA). Given the restrictions that apply to these types of arrangements, employers should speak to their personal tax and benefits advisors before establishing a QSEHRA or ICHRA.

### Employee Shared Cost of Group Health Insurance Plan

Churches may wish to have their employees contribute to the cost of their group health insurance plan. For this to be considered a pretax deduction, a Section 125 cafeteria plan must be established. Key legal requirements include the following:

- Having a written plan document
- Allowing only common law employees to participate on a pretax basis
- Making elections generally irrevocable for an entire plan year
- Passing certain nondiscrimination tests

### 📌 Key Points

Use an experienced professional to establish a Section 125 cafeteria plan.

## Reporting the Value of Healthcare Coverage Provided to Nontax Dependents and Adult Children Who Have Attained Age 27 by Calendar Year End

The fair market value of health coverage provided for an employee's child age 27 or older, or individuals who do not qualify as the employee's tax dependents, is a taxable benefit. This taxable benefit is imputed income. It must be included in the employee's compensation and reported on the employee's Form W-2. Applicable income tax and employment tax must be withheld from this imputed income each pay period.

The Internal Revenue Service has not issued guidance on how to calculate the fair market value of this health coverage, but the employer should identify a reasonable method to calculate and report the fair market value of health coverage even if there is no incremental cost to cover the Nontax Dependent. One way of obtaining this imputed value may be to go to the federal health insurance marketplace ([HealthCare.gov](https://www.healthcare.gov)) and determine costs for comparable health coverage of the Nontax Dependent. Please consult your personal tax advisor for further information.

### **E** Example

Larry Jones, Jr., an adult child, turned 26 on July 1, 2024. His health coverage was provided tax-free through the employer of Larry Jones, Sr., until December 31, 2024. Beginning January 1, 2025, the value of his health coverage is considered a taxable benefit for federal income tax and employment tax purposes, and it should be reported on the Form W-2 issued to Larry Jones, Sr., as imputed compensation.

## Reporting Requirements for the 2024 Calendar Year for Employer-Provided Health Insurance Offer and Coverage

The reporting requirements consist of the following forms:

- Applicable large employers—generally employers with 50 or more full-time employees (including full-time-equivalent employees) in the previous year—must file one or more Forms *1094-C, Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns* (including a Form 1094-C designated as the Authoritative Transmittal, whether or not filing multiple Forms 1094-C), and must file a *Form 1095-C, Employer-Provided Health Insurance Offer and Coverage*, for each employee who was a full-time employee of the employer for any month of the calendar year. Generally, the employer is required to furnish a copy of the Form 1095-C (or a substitute form) to the employee. The information reported on Forms 1094-C and 1095-C is used to determine whether an employer owes a payment under the employer shared responsibility provisions of the Affordable Care Act (the “employer mandate” or “play or pay” provisions).
- Churches with fewer than 50 full-time employees and an insured group health plan generally have no reporting obligation. They are not required to file Forms 1094-C and 1095-C, since they have fewer than 50 employees, and their group plan insurer is required to file *Form 1095-B, Health Coverage*.
- Providers of minimum essential coverage are required to file Forms 1094-B and 1095-B. These forms are used to report certain information to the IRS and to taxpayers about individuals who are covered by minimum essential coverage. The Episcopal Church Medical Trust files these forms for members who participate in the Medical Trust Plan.

### **I** Key Points

- The due date for furnishing Forms 1095-B to individuals and Forms 1095-C to employees is March 3, 2025. (Note: The deadline is extended by one day because March 2, 2025, falls on Sunday).
- Forms 1095-B and Forms 1095-C must be filed with the IRS by February 28, 2025, if paper, or April 1, 2025, if filing electronically.
  - Forms 1095-B and Forms 1095-C may be filed with the IRS in paper or electronic format, but if more than 10 forms are filed with the IRS, they must be submitted electronically.
- See the instructions for these forms on [irs.gov](https://www.irs.gov) for more information.
- If required to prepare the relevant tax forms, the employer must maintain monthly records of its full-time employees (as defined in Code Section 4980H) and certain other information related to the health coverage provided to each full-time employee. Therefore, employers should consult with their tax advisors as soon as possible to comply with these tax reporting requirements and to avoid potential penalties under the Employer Shared Responsibility provisions.

## Maximizing Tax Benefits for Your Minister

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### Special Notes for New Clergy

When negotiating the contract for a new clergyperson, make certain that a proper housing allowance resolution has been adopted by the vestry or other governing body before compensation is earned. The amount of housing allowance should not be included in the letter of agreement with the clergyperson.

Also, when negotiating contracts, arrange to have an accountable reimbursable plan in place to ensure the tax-free reimbursement of automobile and other necessary business expenses.

Recommend that the clergyperson begin saving for retirement through a Code Section 403(b) salary reduction plan as soon as possible. Enrollment forms for The Episcopal Church Retirement Savings Plan (“RSVP”), a Code Section 403(b) salary reduction plan, are available on [cpg.org](http://cpg.org). You can enroll clergy in RSVP through My Admin Portal (MAP).

Discretionary funds are the property of the church. The clergyperson must use them only for proper purposes and is accountable to the church for such funds.

Make certain that the compensation details have been properly reported to The Church Pension Fund (CPF) by reviewing the information in MAP and the required employer contributions are being paid pursuant to the Clergy Pension Plan. The employer’s failure to pay contributions on time could result in the loss of Active status under the Clergy Pension Plan and the loss of certain benefits (e.g., life insurance and disability benefits). The employer will also be assessed interest on late assessment payments.

If you have questions pertaining to clergy tax issues, contact the following individual before taking action:

Dolly Rios, CPA, 833-363-5751 Fluent in English and Spanish

### Special Notes for Churches Pertaining to Current Employees, Including Those Receiving Pensions

The pension a clergyperson receives from the Clergy Pension Plan and distributions from the 403(b) savings plan sponsored by The Church Pension Fund (RSVP) are designated as housing allowance for federal income tax purposes. To the extent that these amounts were from contributions to the Clergy Pension Plan and the RSVP from earnings generated from ministerial services and are spent for qualified housing expenses for the clergyperson’s primary residence, they may be excluded from taxation, subject to the housing allowance limitations. See CPF Form B, Clergy Housing Allowance and Federal Income Tax Status of The Church Pension Fund Benefits, at [Tax Publications](#) on [cpg.org](http://cpg.org).

Earnings from ministerial services after retirement are also eligible for designation as housing allowance. If a clergyperson’s Clergy Pension Plan benefits and distributions from an RSVP are enough to cover qualified housing costs, they need not request additional housing allowance designation for any compensation for ministerial services, since it would not provide any tax benefit.

SECA tax is due on all currently earned income, even if the clergyperson is retired and collecting Social Security. The clergyperson should include in total compensation any currently earned housing allowance and/or the fair rental value of any church-provided housing. Failure by the clergyperson to include the proper value of such housing could result in additional tax liabilities, plus interest and penalties. If this income is not reported, the statute of limitations on assessing tax adjustments may not apply.

Pensions are not earned income and therefore are not subject to SECA.

#### Key Point

No SECA tax is due on qualified pension plan distributions paid pursuant to retirement or on any long-term disability payments received after the first six months.

### Interim Ministry Contracts

Lodging, meals, and incidentals provided to clergy employed for a short time away from home (generally considered to be a contract for one year or less) can in some cases be treated as reimbursable business expenses and will not be subject to income tax or SECA. Contracts for an indefinite period, or a specific period of more than one year, would not qualify for such exclusion. Such arrangements could result in moving the clergyperson’s “tax home” (primary residence) to the interim location. Be very careful about the wording of interim ministry contracts.

Reimbursement for the cost of commuting to work does not qualify for tax-free treatment, since it is not considered business travel for tax purposes. Any reimbursement of commuting mileage must be reported as wages on Form W-2.



Payment or reimbursement of moving expenses to any employee will need to be reported as wages on Form W-2 and is assessable for pension calculation.

If a clergyperson meets the eligibility requirements for active health coverage through the employer and is also covered by Medicare, under the Medicare Secondary Payer rules, Medicare will require the employer's active medical coverage to become the clergyperson's primary medical coverage unless they are employed by an institution that qualifies for the Medicare Secondary Payer—Small Employer Exception. See [cpg.org](http://cpg.org) for details.

The employer is prohibited from excluding employees or their spouses who are age 65 or older from active healthcare coverage if they otherwise meet the eligibility requirements. This means that a clergyperson who is enrolled in Medicare and eligible for employer-provided active health coverage is no longer eligible for the Medical Trust's Group Medicare Advantage health plan or the post-retirement health subsidy provided by The Church Pension Fund.

### Warning

- It is important that the employer and clergyperson talk with a diocese administrator or Church Pension Group representative. Failure to comply with the Medicare Secondary Payer rules could result in penalties being assessed against the employer. When a clergyperson no longer qualifies for active health coverage, it is important that the clergyperson contact Medicare and a representative from the Medical Trust Client Services Team at 800-480-9967 to reactivate proper coverage. This applies to lay employees as well.
- Be aware that some retired clergy who return to work may be considered to have “returned to active ministry” under Clergy Pension Plan rules, which will result in the suspension of pension benefits and the re-imposition of pension assessments. Retired clergy pursuing compensated ministry in the Church should consult the Clergy Pension Plan's [Working While Pensioned guidelines](#).

### Housing Allowance

The most important tax benefit available to clergy who own or rent their home is the housing allowance exclusion. Unfortunately, many churches fail to properly designate a portion of their clergyperson's compensation as a housing allowance and thereby deprive the clergyperson of an important tax benefit.

A housing allowance is simply a portion of a clergyperson's compensation that is so designated in advance by the employing church. For example, in December 2024, a church agrees to pay its clergyperson “total compensation” of \$65,000 for 2025, and, at the request of the clergyperson, designates \$20,000 of this amount as a housing allowance. This “costs” the church nothing. It is simply a matter of properly designating part of a clergyperson's salary as “housing allowance.”

Internal Revenue Code Section 107 specifies that the housing allowance of clergy who own or rent their primary residence is nontaxable in computing federal income taxes to the extent that it

1. is declared in advance by resolution of the vestry or governing body,
2. is used for qualified housing expenses, and
3. does not exceed the fair rental value of the clergyperson's home, furnished, plus utilities.

### Key Points

- The housing allowance resolution should equal the fair rental value of the clergyperson's primary residence, furnished, plus estimated utilities or the anticipated housing expenses, whichever is lower. Any excess housing allowance must be reported by the clergyperson as taxable income on their Form 1040.
- For clergy living in church-provided housing, the portion of the fair rental value test that applies is the portion not provided by the church. Therefore, if the church provides the house and pays the utilities, the value added for furnishings is the only relevant amount to be used as housing.
- The amount declared as housing allowance should be by vestry resolution rather than by designating an amount in the Letter of Agreement.
- It is the responsibility of the ordained employee who owns or pays rent for their primary residence to determine the fair rental value, furnished, plus utilities of their home; the employer or vestry should accept and duly approve it, unless the housing allowance resolution amount that the ordained employee suggests exceeds their compensation.
- Under no circumstances may a church designate a housing allowance retroactively. A housing allowance resolution can be amended prospectively.
- Although the costs of a mortgage may qualify as part of the housing allowance, costs associated with refinancing a principal residence or with obtaining a home equity loan qualify only if the proceeds are specifically used for acquiring, improving, or maintaining a principal residence.

- If a home office deduction is taken on a Schedule C for a business in the home, those amounts should be excluded from the actual expenses used for qualified housing expenses. A clergyperson receiving a Form W-2 will no longer get a tax benefit for federal income tax from taking a home office deduction; however, these expenses could be deducted from self-employment taxable income when calculating SECA tax.

Clergy who live in “rent-free” church-provided housing, which is provided as compensation for ministerial services, do not include the annual fair rental value of church-provided housing as income in computing their federal income taxes. The annual fair rental value is not “deducted” from the clergyperson’s income, nor is it reported as additional taxable compensation on Form W-2.

In addition, clergy living in church-provided housing can have a portion of their cash compensation designated by the vestry or governing body as a parsonage (or rectory) allowance for housing-related expenses that they pay, such as utilities, repairs, and furnishings. This exclusion from income tax works like the housing allowance for clergy who own or rent their home. The exclusion is limited to the lower of

- the amount designated by the vestry,
- the actual expenses incurred, or
- the fair rental value test.

Please note that qualified housing expenses for clergy who own/rent and the fair rental value of “rent-free” church-provided housing are nontaxable when computing federal income taxes and most—though not all—state income taxes, but they are taxable when computing self-employment taxes. Clergy who own or rent may not exclude housing allowance amounts from income when computing self-employment taxes. Clergy in church-provided housing must include the fair rental value of church-provided housing as income when computing self-employment taxes.

### 📌 Key Points

- The cash housing allowance approved by the vestry or other governing body should be included in the compensation reported to The Church Pension Fund. The church must also report whether housing is provided to the clergyperson. The amount used to compute the assessment is a calculation made just for purposes of the assessment and is not the same as fair market rental value when calculating self-employment tax.
- Church treasurers should be sure that the designation of a housing allowance for the following tax year is on the agenda of the church for one of its business meetings of the current year. The designation should be an official action, and it should be duly recorded in the minutes of the meeting. The IRS might recognize designations included in employment contracts and budget line items—assuming in each case that the church duly adopted the designation in advance—but these designations do not comply with Code Section 107 and therefore might not be accepted by the IRS.
- Clergy who live in “rent-free” church-provided housing will not be allowed to claim a housing allowance for any other real property that they own or rent while living in “rent-free” church-provided housing. This is because “rent-free” church-provided housing will be considered their primary residence for tax purposes.

See the two sample housing allowance resolutions below from the vestry or other governing body. Notice the use in both examples of so-called safety net language (“and all future years unless otherwise provided”). Such language provides a basis for continuing the housing allowance at its current level but is not a substitute for the annual resolution.

### Sample housing allowance resolution for a minister who owns or rents their home:

*The following resolution was duly adopted by the vestry of Christ Church at a regularly scheduled meeting held on December 18, 2024, a quorum being present:*

Whereas, the Reverend Samuel Johnson is compensated by Christ Church exclusively for the services as a minister of the gospel; and

Whereas, Christ Church does not provide Fr. Johnson with a rectory; therefore, it is hereby

Resolved, that the total compensation paid to Fr. Johnson for calendar year 2025 shall be \$65,000, of which \$20,000 is hereby designated to be a housing allowance pursuant to Section 107 of the Internal Revenue Code; and it is further

Resolved, that the designation of \$20,000 as a housing allowance shall apply to calendar year 2025 and all future years unless otherwise provided.

## Sample housing allowance resolution for a minister who lives in a church-provided rectory:

*The following resolution was duly adopted by the vestry Grace Church at a regularly scheduled meeting held on December 18, 2024, a quorum being present:*

Whereas, the Reverend John Smith is compensated by Grace Church exclusively for services as a minister of the gospel; and

Whereas, Grace Church provides Fr. Smith with rent-free use of a church-provided rectory as compensation for services that he renders to the church in the exercise of his ministry; and

Whereas, Fr. Smith incurs expenses for living in church-provided housing; therefore it is hereby

*Resolved*, that the annual compensation paid to Fr. Smith for calendar year 2025 shall be \$65,000, of which \$6,000 is hereby designated to be a housing allowance pursuant to Section 107 of the Internal Revenue Code; and it is further

*Resolved*, that the designation of \$6,000 as a housing allowance shall apply to calendar year 2025 and all future years unless otherwise provided by the vestry; and it is further

*Resolved*, that as additional compensation to Fr. Smith for calendar year 2025 and for all future years while providing services as a minister of the gospel unless otherwise provided for by this vestry, Fr. Smith shall be permitted to live in the church-provided rectory located at 123 Main Street, and that no rent or other fee shall be payable by Fr. Smith.

### Accountable Business Expense Reimbursement Plan

The best way for employees to handle their church-related business expenses is to have their employing church adopt an “accountable” business expense reimbursement plan. An accountable business expense reimbursement plan is one that meets the following five requirements:

1. Only business expenses are reimbursed.
2. There is no reimbursement without an adequate accounting of expenses within a reasonable time (not more than 60 days after an expense is incurred).
3. Any excess reimbursement must be returned to the employer within a reasonable time (not more than 120 days after an excess reimbursement is paid).
4. An employer’s reimbursements must come out of the employer’s funds and not by reducing the employee’s salary.
5. An accountable business expense reimbursement plan should be established by the vestry or governing body in an appropriate resolution.

The Tax Cuts and Jobs Act of 2017 eliminated the ability for employees to deduct unreimbursed business expenses for federal income tax purposes. Under an accountable business expense reimbursement plan, reimbursements of business expenses are not reported as taxable compensation on the employee’s Form W-2 and Form 1040. Therefore, an accountable business expense reimbursement plan is the best way for a church and an employee to handle reimbursements of business expenses.

An accountable reimbursement arrangement should be established by the vestry or governing body in an appropriate resolution. Be sure to condition the reimbursement of any expense on adequate substantiation. This will include written evidence for all expenses and receipts for most expenses of \$75 or more and for all lodging expenses, no matter the amount. For most expenses, the evidence must substantiate the amount, date, place, and business nature of each expense. In 2024, business meals are 50% deductible; however, most entertainment expenses are still not deductible at all.

#### Key Points

- A church must require the same degree of substantiation as would be required for a deduction on the minister’s income tax return.
- Churches occasionally reimburse employees for nonbusiness expenses. Such reimbursements, though they require an accounting, ordinarily must be included in the employee’s wages for income tax reporting purposes, and they are not deductible by the employee.

### Qualified Transportation Fringe Benefits

For 2024, the monthly limit that may be excluded from an employee’s income under Code Section 132(f) for contributions toward qualified transportation and parking benefits is 315. That amount increases slightly to 325 for 2025. The exclusion for qualified bicycle commuting costs was suspended for tax years beginning after 2017 and before 2026. Certain localities and jurisdictions have laws requiring certain employers to offer this benefit to their employees. Please check your local taxing authority to make sure you are in compliance.

## Flexible Spending Accounts (FSAs)

A church or employing organization may set up a flexible spending account for ministers and lay employees. A flexible spending account utilizes a salary reduction agreement for the purpose of reimbursing ministers and lay employees for certain healthcare and dependent care expenses.

Code Section 125 cafeteria plans allow salary reductions for a flexible spending account if the following conditions are met:

1. The salary reduction is established in advance. (This is interpreted to mean prior to both the compensation and the expense.)
2. Reimbursement is made only when a bona fide expense has been incurred by the participant.
3. The participant agrees to forfeit any unused balance in the account at the end of the plan year. (However, see the “carryover provision” that applies to Health FSAs below.)
4. The plan must be properly structured (contact a CPA or attorney experienced in such programs) and formally adopted by the vestry or governing body.

## Health Flexible Spending Accounts (Health FSAs)

Health FSAs have several benefits, including the following:

- Employer contributions can be nontaxable.
- No income taxes or employment taxes are deducted from employee contributions.
- Amounts used for qualified medical expenses may be tax-free.
- Employees can withdraw funds from a Health FSA to pay for qualified medical expenses even if they have not yet placed the funds in the account.

Generally, distributions from a Health FSA must be paid to reimburse the employee for qualified medical expenses. Qualified medical expenses are those incurred by an employee or the employee’s spouse and certain dependents (including a child under age 27 at the end of the calendar year). The maximum salary reduction allowed for 2024 is \$3,200, and increases to \$3,300 for 2025. See [IRS Publication 502](#) for a list of qualified medical and dental expenses.

Health FSAs are “use-it-or-lose-it” plans. This means that amounts in the account at the end of the plan year cannot be carried over to the next year or refunded to the employee. However, employers, at their discretion, may amend their plans to choose one of the following two modifications to the “use-it-or-lose-it” provision:

- **Option 1:** An employer may amend its cafeteria plan document to provide for a carryover amount from one plan year to the next. The maximum carryover amount is now indexed for cost-of-living changes. The amount is \$640 for the 2024 plan year and increases to \$660 for the 2025 plan year. The amount carried over may be used to pay or reimburse qualified medical expenses incurred during the entire plan year to which it is carried over. The carryover amount does not impact the maximum allowed annual salary reduction contribution.
- **Option 2:** The plan can be modified to provide for a grace period of up to two and a half months after the end of the plan year to spend unused amounts from the prior year. If the plan provides for a grace period, any qualified medical expenses incurred during that grace period can be paid from amounts left in the account at the end of the previous year.

### Key Points

- An employer, at its option, may amend its cafeteria plan document to provide for the carryover to the immediately following plan year and may roll over any remaining amount if previously elected as an option by the employer.
- The Affordable Care Act prohibits employers from using a Health FSA to pay for, or reimburse, the cost of individually owned health insurance policies with pretax dollars. An employee covered by a High Deductible Health Plan (HDHP) and a Health FSA or a Health Reimbursement Account (HRA) that pays or reimburses qualified medical expenses generally cannot contribute to a Health Savings Account. See [IRS Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans](#) for more detailed information.

## Dependent Care Flexible Spending Accounts (Dependent Care FSA)

Dependent Care FSAs can also be established to pay for certain expenses to care for eligible dependents. While this type of plan generally covers expenses related to childcare of children age 12 years old or younger, it can also be used for children of any age who are physically or mentally incapable of self-care, as well as adult day care for senior citizen dependents who live with the employee, such as parents or grandparents. Additionally, the person or persons on whom the dependent care funds are spent must be able to be claimed as a dependent on the employee’s federal tax return. The funds can be used for summer camps, daycare, before and after school care, and babysitting expenses, but cannot be used for overnight camps or for long-term care for parents who live elsewhere (such as in a nursing home).

The maximum annual contribution amount for Dependent Care FSAs for 2025 did not increase from the 2024 limits of \$5,000 per household, or \$2,500 for married spouses filing separately. Married spouses can each elect a Dependent Care FSA, but their total combined elections cannot exceed the maximum contribution allowed per household. If married, both spouses must have earned taxable income to be eligible to participate in a Dependent Care FSA. If an employee makes ineligible contributions, the withdrawal of those contributions will be taxable income.

A Dependent Care FSA is a “use-it-or-lose-it” plan with no grace period, unlike Health FSAs.

### 📌 Key Points

Unlike Health FSAs, Dependent Care FSAs are not “prefunded”; employees cannot receive reimbursement for the full amount of the annual contribution on day one. Employees can be reimbursed only up to the amount they have contributed during that plan year.

### Code Section 403(b) Plans

A Code Section 403(b) plan, such as The Episcopal Church Retirement Savings Plan (RSVP), is a retirement plan for certain employees of churches and other tax-exempt organizations. These plans have the following tax attributes:

- Contributions are made by employees’ elective deferral of current taxable income. Compensation already designated as housing allowance is ineligible for contribution to a Code Section 403(b) plan.
- Contributions:
  - Employees may contribute on a pre-tax, Roth, and after-tax basis.
  - For more information about contributions, see the [RSVP & Lay DC Plan Employee Guide](#).
- Clergy elective deferrals are not subject to self-employment tax. This is a permanent tax savings.
- Employers may contribute to the employee’s Code Section 403(b) account.
- Withdrawals from a Code Section 403(b) plan may be subject to federal income tax. For clergy who withdraw from the RSVP, withdrawals may be eligible for the housing allowance exclusion.
- Plan withdrawals before age 59½ may be subject to early withdrawal penalties.
- If a clergy person rolls over their resettlement benefit to a Code Section 403(b) plan, the rollover does not count toward their IRS annual contribution limits (provided the member has enough qualifying earned income that year).

The maximum employee pretax and/or Roth salary deferrals for 2024 was the lesser of 100% of taxable compensation or \$23,000 (\$30,500 for those age 50 or older). For 2025, this amount is \$23,500 (\$31,000 for those age 50 or older). Beginning January 1, 2025, for those who will attain age 60, 61, 62, or 63 during the calendar year but will not have attained age 64 by the end of the year, this amount increases to \$34,750.

For 2024, the maximum combined contribution (i.e., employer contributions and employee salary deferrals) was the lesser of 100% of taxable compensation or \$69,000 (\$76,500 for those age 50 or older). For 2025, this amount increases to \$70,000 (or \$77,500 for those age 50 or older). Beginning January 1, 2025, for those who will attain age 60, 61, 62, or 63 during the calendar year but will not have attained age 64 by the end of the year, this amount increases to \$81,250.

If contributions made to a Code Section 403(b) account exceed these contribution limits, penalties may apply. Generally, annual contributions to a Code Section 403(b) plan cannot exceed either the limit on annual additions or the limit on elective deferrals. See [IRS Publication 571, Tax-Sheltered Annuity Plans \(403\(b\) Plans\) For Employees of Public Schools and Certain Tax-Exempt Organizations](#), for details.

Qualified Charitable Distributions are not eligible from a Code Section 403(b) account, but only from an IRA. See below for more details.

### 📌 Key Points

Contributions to a Code Section 403(b) plan can still be made from current church earnings even after an employee has started to receive the required minimum distribution (RMD) from a Code Section 403(b) plan.

## Complying with Federal Payroll Tax Reporting Obligations

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

This number must appear on some of the tax forms and returns listed below. The EIN is a nine-digit number that looks like this: 99-9999999. If your church does not have an EIN, you may apply for one online. Go to [irs.gov](https://irs.gov) and search for “obtaining an employer identification number for an exempt organization.” You should have only one EIN.

## ! Key Points

The employer identification number is not a “tax exemption number” and has no relation to your nonprofit status. It merely identifies the organization as an employer subject to tax withholding and reporting and ensures that your church receives proper credit for payments of withheld taxes.

## Step 2. Determine whether each church worker is an employee or self-employed.

In some cases, it is difficult to determine whether a particular worker is an employee or is self-employed. If in doubt, churches always should treat a worker as an employee, since substantial penalties can be assessed against a church for treating a worker as self-employed whom the IRS later reclassifies as an employee. In general, a self-employed worker is one who is not subject to the control of an employer with respect to how a job is to be done. Furthermore, a self-employed person typically is engaged in a specific trade or business and offers services to the general public. The IRS has developed several criteria to assist in classifying a worker as an employee or self-employed. Factors that tend to indicate employee status include the following:

- The worker is required to follow an employer’s instructions regarding when, where, and how to work.
- The worker receives “on-the-job” training from an experienced employee.
- The worker is expected to perform the services personally and not use a substitute.
- The employer, not the worker, hires and pays any assistants.
- The worker has a continuing working relationship with the employer.
- The worker receives a regular wage amount for an hourly, weekly, or other period, regardless of whether the worker is full time or part time.
- The work is done on the employer’s premises.
- The worker must submit regular oral or written reports to the employer.
- The worker’s business expenses are reimbursed by the employer.
- The employer furnishes the worker’s tools, supplies, and equipment.
- The worker does not work for other employers/businesses.
- The worker does not advertise their services to the general public.

Not all of these factors must be present for a worker to be an employee. But if most of them apply, the worker is an employee. Once again, if in doubt, treat the worker as an employee.

## W Warnings

- The IRS and other governmental agencies are becoming much more aggressive in classifying workers as employees. Improper classification can result in significant back taxes and penalties.
- State employment laws may differ significantly from federal employment laws when it comes to the classification of a church worker. Please ensure compliance with state and city employment laws as well as federal employment laws.

## ! Key Points

- The determination of employment status for income tax and federal payroll reporting purposes discussed above is different from the determination of employment status for Clergy Pension Plan assessment purposes.
- Effective January 1, 2018, a church is required to pay pension assessments to The Church Pension Fund, whether or not a clergyperson is classified as an employee or independent contractor, if a clergyperson is “regularly employed” for five or more consecutive months and is compensated. Note that compensation will include employer-provided housing even if no salary is paid to the clergyperson.

For purposes of the Clergy Pension Plan, a clergyperson is considered regularly employed if they meet one or more of these criteria:

- Has a letter of agreement or contract of employment
- Is duly called to their position by their bishop, vestry, or rector
- Has a formal title indicating a substantial ongoing relationship
- Is issued a Form W-2 (or equivalent)
- Is scheduled to work at least 20 hours per week

If a clergyperson would otherwise meet the plan criteria above except that they are expected to work for fewer than five consecutive months, the clergyperson and employer may choose to participate in the Clergy Pension Plan if they have a Letter of Agreement (or other contract of employment) that provides for the payment of assessments by the employer.

An employer cannot pay pension assessments to The Church Pension Fund for any period following a clergy person's mandatory Church retirement date (at age 72).

The payment of pension assessments for a clergy person determined to be an employee of the church will not be taxable to the clergy person. However, pension assessments paid by the church for a clergy person who is classified as an independent contractor are taxable to the clergy person and should be included on *Form 1099-NEC, Nonemployee Compensation*, provided to the clergy person / independent contractor.

Employer-provided fringe benefits, such as group medical insurance and flexible savings accounts, are nontaxable only for employees. A clergy person who is receiving employer-provided fringe benefits must be considered an employee and receive a Form W-2.

### **Step 3. Obtain the Social Security number of each worker.**

A worker who does not have a Social Security number can obtain one by filing Social Security Administration *Form SS-5, Application for a Social Security Card*. If a self-employed worker performs services for a church (and earns at least \$600 for the calendar year) but fails to provide the church with their Social Security number, the church is required by law to withhold a specified percentage of compensation as "backup withholding." The backup withholding rate is 24% for 2024 and remains unchanged for 2025. A self-employed person can stop backup withholding by providing the church with a correct Social Security number.

The church will need the correct number to complete the self-employed worker's Form 1099-NEC (discussed in Step 11 below). Churches can be penalized if the Social Security number they report on a Form 1099-NEC is incorrect, unless they have exercised "due diligence." A church will be deemed to have exercised due diligence if it has required self-employed workers to provide their Social Security numbers using *Form W-9, Request for Taxpayer Identification Number and Certification*. As a result, it is a good idea for employers to establish a policy of obtaining a Form W-9 from all self-employed individuals prior to issuing any payments for services rendered. The church should retain each Form W-9 to demonstrate its due diligence.

All taxes withheld through backup withholding must be reported to the IRS on *Form 945, Annual Return of Withheld Federal Income Tax*. The Form 945 for 2024 must be filed with the IRS by January 31, 2025, or—if the church made deposits on time in full payment of the taxes for the year—by February 10, 2025.

### **Step 4. Have each employee complete a Form W-4, Employee's Withholding Certificate.**

Employees need to provide their employer with a Form W-4 to enable the employer to determine how much income tax to withhold from their compensation. Note the following:

- While not required, it is advisable to have employees complete a new Form W-4 annually, as their financial situation may have changed. If a new Form W-4 is not submitted, an employer will continue to withhold based on the information on the last completed Form W-4.
- To provide maximum accuracy, employees should be encouraged to use the Tax Withholding Estimator available at [irs.gov/W4app](https://irs.gov/W4app). Ministers generally are exempt from income tax withholding with respect to compensation received from the exercise of ministry (unless they have elected voluntary withholding).

#### **Key Points**

Please visit [irs.gov](https://irs.gov) to make sure that you are using the most up-to-date version of the Form W-4.

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

The amount of income taxes that a church should withhold from an employee's wages depends on two things: the information contained on the employee's Form W-4 and the amount of the employee's wages. Wages subject to federal income tax withholding include pay given to an employee for service performed. The payment may be in cash or in other forms, which are measured by their fair market values. A comprehensive list of types of wages, other than salary, may be found in Step 10 (see Box 1) below.

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

Employers may use *IRS Publication 15-T, Federal Income Tax Withholding Methods*, to determine the amount of federal income tax to withhold from employee wages. The computations described in Publication 15-T will allow employers to figure withholding for all versions of Form W-4. Publication 15-T also allows employers to figure withholding based on their payroll system (automated or manual) and withholding method of choice.

Publication 15-T describes five methods for determining the amount of income taxes to withhold from an employee's wages:

1. Percentage method tables for automated payroll systems

2. Wage bracket method tables for manual payroll systems with Forms W-4 from 2020 or later
3. Wage bracket method tables for manual payroll systems with Forms W-4 from before 2020
4. Percentage method tables for manual payroll systems with Forms W-4 from 2020 or later
5. Percentage method tables for manual payroll systems with Forms W-4 from before 2020

### **Voluntary Withholdings on Clergy Compensation**

Wages paid to a clergyperson as compensation for ministerial services are exempt from federal income tax withholding. However, clergy who are treated as employees can enter into a voluntary withholding arrangement with their church. Under such an arrangement, the church withholds federal income taxes from the clergyperson's wages as if these wages are not exempt from income tax withholding. Some clergy find voluntary income tax withholding attractive, since it eliminates the additional work and discipline associated with the estimated tax procedure.

A clergyperson initiates voluntary income tax withholding by providing the church with a completed Form W-4. The filing of this form is deemed to be a request for voluntary income tax withholding. Voluntary income tax withholding arrangements may be terminated at any time by either the church or clergyperson, or by mutual consent.

The tax code specifies that clergy are self-employed for Social Security and Medicare tax purposes with respect to services performed in the exercise of ministry. Therefore, there will be no withholding of Social Security or Medicare taxes. However, clergy electing voluntary income tax withholding can indicate on Form W-4 that they want an additional amount of federal income tax to be withheld from each pay period to satisfy their total estimated tax liability (self-employment and federal income tax) by the end of the year. The amount of income tax withholding will be applied toward the clergyperson's self-employment and income tax liabilities on Form 1040. The amount withheld is reported by the church as federal income taxes withheld on its quarterly Form 941 (or annual 944) and on the clergyperson's Form W-2.

Since any federal income tax paid by voluntary income tax withholding is deemed to be timely paid, a clergyperson who pays their income and self-employment taxes using this procedure will not be liable for any underpayment penalty (assuming that sufficient federal income taxes are withheld).

### **Step 7. Withhold Social Security and Medicare taxes from non-ordained employees' wages.**

Employees and employers each pay Social Security and Medicare taxes (FICA) equal to 7.65% of an employee's wages. The 7.65% tax rate is comprised of two components:

1. A Medicare hospital insurance tax of 1.45%
2. An "old age, survivor, and disability" (Social Security) tax of 6.2%

There is no maximum amount of wages subject to the Medicare tax. For 2024, the maximum wages subject to the Social Security tax (the 6.2% amount) was \$168,600. For 2025, the amount increases to \$176,100.

A church must withhold a lay employee's share of Social Security and Medicare taxes from each wage payment. Simply multiply each wage payment by the applicable percentage above. Special tables in *IRS Publication 15, (Circular E), Employer's Tax Guide*, help in making this computation. Wages of less than \$100 per year paid to an employee of a nonprofit organization are exempt from these taxes.

The Affordable Care Act increased the Medicare tax by an additional 0.9% on taxable compensation and self-employment income received over a threshold amount based on the individual's filing status (the Additional Medicare Tax).

The statute requires an employer to withhold the Additional Medicare Tax on wages it pays to an employee in excess of \$200,000 in a calendar year. (This amount is not indexed for inflation.) An employer must begin withholding the Additional Medicare tax in the pay period in which the wages for the year exceed \$200,000. The employer then continues to withhold the tax in each pay period until the end of the calendar year. There is no employer match for the Additional Medicare Tax.

### **Step 8. Deposit taxes that have been withheld.**

Churches accumulate three kinds of federal payroll taxes:

1. Income taxes withheld from employees' wages
2. The employees' share of Social Security and Medicare taxes (withheld from employees' wages)
3. The employer's share of Social Security and Medicare taxes

Most employers must deposit payroll taxes on a monthly or semiweekly basis. An employer's deposit status is determined by the total taxes reported in a four-quarter "lookback" period—the 12 months (covering four quarters) ending on June 30 of the prior year. For 2025, the lookback period was July 1, 2023, through June 30, 2024.



**Monthly depositor rule.** Churches that reported payroll taxes of \$50,000 or less in the lookback period will deposit their withheld taxes for 2025 on a monthly basis. Payroll taxes withheld during each calendar month, along with the employer’s share of FICA taxes, must be deposited by the 15th day of the following month.

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

**Payment with return rule.** Churches that accumulate less than a \$2,500 federal payroll tax liability during the current or previous quarter may remit their payroll taxes with their timely filed Form 941 instead of depositing monthly. If they aren’t sure if their total tax liability for the current quarter will be less than \$2,500 (and their liability for the prior quarter wasn’t less than \$2,500), they should make deposits using the semiweekly or monthly rules so that they won’t be subject to a failure-to-deposit penalty. See [Publication 15](#) for more information.

### 📌 Key Points

- All deposits must be made using the Electronic Federal Tax Payment System (EFTPS). There are penalties for depositing late, or for mailing payments directly to the IRS that are required to be electronically deposited, unless the employer has reasonable cause for doing so. It is the employer’s responsibility to ensure that federal taxes are deposited on a timely basis by the payroll vendor. Failure to deposit payroll taxes in a timely way will result in substantial penalties to the employer.
- To enroll in EFTPS, call 800-555-4477, or to enroll online, visit [eftps.gov](https://eftps.gov). If you do not want to use EFTPS, you can arrange for your tax professional, financial institution, payroll services, or other trusted third party to make deposits electronically on your behalf.

### Step 9. File Form 941 or Form 944, as required.

All employers subject to federal income tax withholding or Social Security and Medicare taxes, or both, must file Form 941 quarterly or, in the case of eligible small employers, Form 944 annually. Generally, total payroll tax for the year must be \$1,000 or less to qualify as an eligible small employer. Forms 941 and 944 report the number of employees and the amount of Social Security and Medicare taxes and withheld federal income taxes that are payable.

Form 941 is due on the last day of the month following the end of each calendar quarter. Form 944 is due on January 31 after the close of the year.

If any due date for filing described above falls on a Saturday, Sunday, or legal holiday, you may file your return on the next business day. Form 941 may be filed electronically. For more information, visit [irs.gov](https://irs.gov) or call 800-829-1040.

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

### 📌 Key Points

- All employers that provide Forms W-2 would be wise to file quarterly Forms 941, even if there are no withholdings. In such a case—as can happen in a parish whose only employee is its clergyperson—one can argue that the form is not strictly necessary (given that the IRS requires a Form 941 for any given calendar quarter only if the employer is “required to deduct and withhold” income taxes in that quarter). However, failing to file Form 941 may invite IRS inquiries because of the apparent discrepancy of having an employee (as evidenced by a Form W-2) but no Form 941 filings.
- [Form 1099-NEC, Nonemployee Compensation](#), need not be provided to a nonemployee clergyperson who receives 100% of their compensation as housing. Instead, the church should remind the clergyperson by letter that compensation of [insert dollar amount] has been excluded from income reporting since it has been set aside as a housing allowance but yet is reportable as self-employment income for SECA tax purposes.

- *Form 944, Employer's Annual Federal Tax Return*, replaces Form 941 for eligible small employers. The purpose of Form 944 is to reduce the burden on the smallest employers by allowing them to file their employment tax returns annually and, in most cases, to pay the employment tax due with their return. Generally, the employer is eligible to file this form only if the payroll taxes for the year are \$1,000 or less. You must file Form 944 if the IRS has notified you to do so, unless you contact the IRS to request, and receive written notice, to file quarterly Form 941 instead.

### **Step 10. Prepare a Form W-2 for every employee, including ordained ministers on the church's staff.**

A church reports each employee's wages and withheld federal income taxes as well as Social Security and Medicare taxes on this form. A church should furnish copies B and C and Copy 2 of the 2024 Form W-2 to each employee by January 31, 2025. File Copy A with the Social Security Administration by January 31, 2025. Send all Copies A with *Form W-3, Transmittal of Wage and Tax Statements*.

#### **Key Points**

- If your employees give their consent, you may be able to furnish Forms W-2 to your employees electronically. See *IRS Publication 15-A, Employer's Supplemental Tax Guide*, for additional information. For information on how to file electronically, call the Social Security Administration (SSA) at 800-772-6270.
- You may file a limited number of Forms W-2 and W-3 online using the SSA website at [ssa.gov/employer](https://ssa.gov/employer). The site also allows you to print out copies of the forms for filing with state or local governments, for distribution to your employees, and for the church's records.
- Be sure to add cents to all amounts. Do not use dollar signs or commas. Use a decimal point and cents. For example, \$1,000 should be entered as 1000.00. Government scanning equipment assumes that the last two figures of any amount are cents. If you report \$40,000 of income as 40000, the scanning equipment would interpret this as 400.00.

#### **Tips for filling in the boxes on Form W-2**

**Box a.** Report the employee's Social Security number. Insert "applied for" if an employee does not have a Social Security number but has applied for one. If you do not provide the correct employee name and Social Security number on Form W-2, you may owe a penalty unless you have a reasonable cause.

**Box b.** Insert your church's federal employer identification number (EIN). This is a nine-digit number that is assigned by the IRS. If you do not have one, you can obtain one by submitting a completed Form SS-4 to the IRS. Some churches have more than one EIN. (For example, a church that operates a school may have separate numbers for the church and the school.) Be sure that the EIN listed on an employee's Form W-2 is the one associated with the employee's actual employer.

**Box c.** Enter the church's name, address, and ZIP code (enter the same address used for Form 941).

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

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

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

**Box 1.** Report all wages paid to workers who are treated as employees for federal income tax reporting purposes. Among the types of wages that may be reported in Box 1 of Form W-2 are the following:

- Salary, bonuses, prizes, and awards
- Any portion of a clergy person's self-employment taxes paid by the church to the clergy person
- Imputed value of employer-provided group term life insurance coverage that exceeds \$50,000, and cost of coverage of spouse and dependents over \$2,000 that is paid by the church, the diocese, The Church Pension Fund, or other church organizations combined (refer to table below, "Cost per \$1,000 of protection for one-month period")
- Imputed value of employer-provided health coverage to nondependent domestic partners, their children, and employee's adult children age 27 or older
- Moving expenses either provided or reimbursed to the employee
- The value of the personal use of an employer-provided car
- Most Christmas, birthday, anniversary, and other special occasion gifts paid by the church to the employee
- Business expense reimbursements paid under a nonaccountable plan (one that does not require substantiation of business expenses within a reasonable time or does not require excess reimbursements to be returned to the church, or reimburses expenses out of salary reductions)
- If you reimburse employee travel expenses under an accountable plan using a "per diem" rate, include in Box 1 the amount by which your per diem rate reimbursements for the year exceed the IRS-approved per diem rates. Also note that such

excess reimbursements are subject to income tax and Social Security withholding if paid to lay employees. Use code L in Box 12 to report the amount equal to the IRS-approved rates. Refer to *IRS Publication 463, Travel, Gift, and Car Expenses*, and *IRS Publication 1542, Per Diem Rates*, for sources of additional information on per diem rates.

- If you reimburse employee travel expenses under an accountable plan using a standard business mileage rate in excess of the IRS-approved rate (67 cents per mile in 2024; 70 cents per mile in 2025), include in Box 1 the amount by which your mileage rate reimbursements for the year exceed the IRS-approved rates. Also, note that such excess reimbursements are subject to income tax and Social Security withholding if paid to lay employees. For nonemployee service to a charitable organization, the mileage rate in 2024 is 14 cents per mile and is expected to remain unchanged in 2025.
- Use code L in Box 12 to report the amount of reimbursed employee travel expenses equal to the IRS-approved rates. If volunteer travel expenses are reimbursed at more than 14 cents per mile, the excess must be reported on a Form 1099.
- Amounts includable in income under a nonqualified deferred compensation plan because of Code Section 409A
- Designated Roth contributions made under a Code Section 403(b) salary reduction agreement
- Reimbursements of a spouse's travel expenses incurred while accompanying an employee on a business trip, unless the spouse's presence serves a legitimate and necessary business purpose, and the spouse's expenses are reimbursed by the church under an accountable plan
- Churches that make a "below-market loan" to a clergyperson of at least \$10,000 create taxable income to the clergyperson (some exceptions apply). A below-market loan is a loan on which no interest is charged, or on which interest is charged at a rate below the applicable federal rate. For this type of transaction, please contact the church's legal advisor.
- A clergyperson's debt to the church that has been forgiven by the church
- Severance pay
- Payment of a clergyperson's personal expenses by the church
- Retirement gifts for which the donors were given a tax deduction
- Grants and other funds received for sabbatical purposes, except for eligible reimbursed business expenses

### 📌 Key Points

- An employer contribution such as a housing equity allowance paid directly to a clergyperson's RSVP (Code Section 403(b) account) should not be included in Box 1 of Form W-2.
- For clergy who are treated as employees, do not report in Box 1 the annual fair rental value of any church-provided housing and do not include any portion of their compensation that was designated (in advance) as a housing allowance by the church. In addition, pretax salary deferrals made to certain retirement plans (such as a Code Section 403(b) plan like the RSVP) are not reported in Box 1. However, amounts distributed to an employee by the employer under a nonqualified deferred compensation plan are included in Box 1. Also, see boxes 11 and 13.
- Amounts reported as imputed income, noncash compensation, such as the imputed value of employer-provided life insurance, are not eligible to be excluded under a housing allowance, since there was no cash compensation provided.

### ⚠ Warning

Failure to report the use of nonaccountable funds on the Form W-2 as income could result in the imposition of "Intermediate Sanctions" by the Internal Revenue Service. The penalty is 200% of the unreported income, plus interest and penalties, plus a fine of up to \$20,000 levied on the church.

**Box 2.** List all federal income taxes that you withheld from the employee's wages. Also, include any voluntary federal income taxes withheld for ordained clergy. The amounts reported in this box (for all employees) should correspond to the amount of withheld income taxes reported on all four quarterly Forms 941.

**Box 3.** For ordained clergy, this box should be left blank. Report the lay employee's wages subject to the Social Security component of FICA taxes. Do not report more than the maximum wage base subject to this tax (\$168,600 for 2024 and \$176,100 for 2025). This box usually will be the same as Box 1, but not always. For example, certain retirement contributions are included in Box 3 that are not included in Box 1. To illustrate, contributions to a Code Section 403(b) plan by salary reduction agreement may be excludable from income and not reportable in Box 1, but lay employees are subject to FICA taxes and, accordingly, contributions to a Code Section 403(b) plan by salary reduction represent Social Security and Medicare wages for such employees. Remember that clergy (including those who report their income taxes as employees) are self-employed for Social Security and Medicare taxes with respect to their ministerial services, and so they pay self-employment taxes rather than the employee's share of Social Security and Medicare taxes.

**Box 4.** For ordained clergy, this box should be left blank. Report the Social Security component of FICA taxes that are withheld from the lay employee's wages. This tax is imposed on all wages up to a maximum of \$168,600 for 2024 and \$176,100 for 2025. Do not report the church's portion (the employer's share) of Social Security and Medicare taxes. Clergy

who report their income taxes as employees are still treated as self-employed for Social Security and Medicare tax purposes with respect to their ministerial services.

**Box 5.** For ordained clergy, this box should be left blank. Report the lay employee's current and deferred wages (such as 403(b) contributions, if any) subject to the Medicare component of FICA taxes. This will be the lay employee's entire wages, regardless of amount. There is no ceiling for the Medicare component. Note that boxes 3 and 5 will be the same for lay employees who earn less than the maximum Social Security wage base amount (\$168,600 for 2024 and \$176,100 for 2025).

**Box 6.** For ordained clergy, this box should be left blank. Report the Medicare component of FICA taxes that are withheld from the lay employee's wages. This tax is imposed on all wages, current and deferred (if any), regardless of amount.

**Box 10.** Show the total dependent care benefits under a dependent care assistance program (Code Section 129) paid or incurred for your employee. Include the fair market value of employer-provided daycare facilities and amounts paid or incurred for dependent care assistance in a Code Section 125 cafeteria plan. For 2023 and 2024, the maximum amount of dependent care benefits that can be excluded from an employee's income is \$5,000 (\$2,500 for Married Filing Separately). For more information, see *IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits*.

**Box 11.** The purpose of Box 11 is for the Social Security Administration to determine if any part of the amount reported in Box 1 or boxes 3 or 5 was earned in a prior year. The SSA uses this information to verify that it has properly applied the Social Security earnings test and paid the correct amount of benefits. Report distributions to an employee from a nonqualified plan in Box 11. Also report these distributions in Box 1.

Under nonqualified plans, deferred amounts that are no longer subject to a substantial risk of forfeiture are taxable even if not distributed. Report these amounts in Box 3 (up to the Social Security wage base) and Box 5. Do not report in Box 11 deferrals included in boxes 3 or 5 and deferrals for current-year services (such as those with no risk of forfeiture).

If you made distributions and also are reporting any deferrals in boxes 3 or 5, do not complete Box 11. See *IRS Publication 957, Reporting Back Pay and Special Wage Payments to the Social Security Administration*.

Unlike qualified plans, nonqualified plans do not meet the qualification requirements for tax-favored status. Nonqualified plans include those arrangements traditionally viewed as deferring the receipt of current compensation, such as a rabbi trust.

For additional information, see IRS publications 15 and 957.

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

**A and B.** Do not apply to church employees.

**C.** If the employee was provided with more than \$50,000 of group term life insurance, report the taxable cost of coverage in excess of \$50,000. It should also be included in Box 1 (and in boxes 3 and 5 for lay employees). See the discussion of employer-provided group term life insurance below in this guide for additional information.

**D.** Generally not applicable to churches.

**E.** If the church made contributions to a Code Section 403(b) plan pursuant to a "salary reduction agreement" on behalf of the employee, report the amount of the contributions. While this amount ordinarily is not reported in Box 1, it is included in Box 3 (up to the Social Security wage base) and Box 5 for lay employees, since it is subject to Social Security and Medicare taxes with respect to such workers.

**F, G, and H.** Generally not applicable to churches.

**J.** If the church is reporting sick pay, show the amount of any sick pay that is not includable in the employee's income because they contributed to the sick pay plan.

**K.** Generally not applicable to churches.

**L.** Reimbursement of mileage. If the church reimbursed the employee for employee business expenses using the standard mileage rate or the per diem rates, and the amount reimbursed exceeds the amounts allowed under these methods, enter code "L" in Box 12, followed by the amount of the reimbursements that equals the allowable standard mileage or per diem rates. Any excess should be included in Box 1. For lay employees, report the excess in Box 3 (up to the Social Security wage base) and Box 5 as well. Do not include any per diem or mileage allowance reimbursements for employee business

expenses in Box 12 if the total reimbursements are less than or equal to the amount deemed substantiated under the IRS-approved standard mileage rate or per diem rates.

**M, N, P, and Q.** Generally not applicable to churches.

**R.** Show any employer contributions to an Archer MSA. See *Publication 969, Health Savings Accounts and Other Tax-Favored Health Plans* for information.

**S.** Show deferrals under a Section 408(p) salary reduction SIMPLE retirement account. However, if the SIMPLE plan is part of a section 401(k) arrangement, use code D.

**T.** Adoption benefits. Show the total that you paid or reimbursed for qualified adoption expenses furnished to your employee under an adoption assistance program. Also include adoption benefits paid or reimbursed from the pretax contributions made by the employee under a Section 125 cafeteria plan. However, do not include adoption benefits forfeited from a Section 125 cafeteria plan. Report all amounts, including those more than the \$16,800 exclusion for 2024. For 2025, the exclusion has been increased to \$17,280.

**V.** Generally not applicable to churches.

**W.** Report employer contributions to a health savings account (HSA). Include amounts the employee elected to contribute using a Section 125 cafeteria plan.

**Y.** It is no longer necessary to report deferrals under a Code Section 409A nonqualified deferred compensation plan in Box 12 using code Y.

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

**AA.** Generally not applicable to churches.

**BB.** Report designated Roth contributions under a Code Section 403(b) salary reduction agreement. Do not use this code to report elective deferrals under code E.

**DD.** The Affordable Care Act requires certain employers to report the cost of coverage under an employer-sponsored group health plan. IRS Notice 2012-9 provided relief for smaller employers filing fewer than 250 W-2s by making the reporting requirement optional for them until further guidance is issued. Also, coverage provided through a self-funded church plan, such as The Episcopal Church Medical Trust Plans, is exempt from this reporting requirement until further guidance is issued. If you have 250 or more employees and do not provide coverage through The Episcopal Church Medical Trust Plans, contact your broker, as you may need to report the cost of coverage on your employees' W-2s. The reporting under this provision is for informational purposes only; the amounts reported are not included in taxable wages and are not subject to any taxes.

**EE.** Generally not applicable to churches.

**FF.** Use to designate permitted benefits under a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) for tax year 2024. The maximum reimbursement for an eligible individual employee under a QSEHRA for tax year 2024 is \$6,150, or \$12,450 if the benefit includes reimbursements for family members. For 2025, it is \$6,350 for an individual and \$12,800 for a family.

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

- **Retirement plan.** This box should be checked for clergy covered by The Church Pension Fund Clergy Pension Plan and for any clergyperson or lay employee who was an active participant (for any part of the year) in any of the following: (1) a qualified pension, profit-sharing, or stock bonus plan described in Code Section 401(a) (including a Code Section 401(k) plan); (2) an annuity contract or custodial account described in Code Section 403(b); (3) a simplified employee pension (SEP) plan; or (4) a SIMPLE retirement account.
- **Statutory employee.** These include certain drivers, insurance agents, and salespersons. Churches rarely, if ever, have statutory employees.
- **Third-party sick pay.** Churches generally will not check this box.

**Box 14.** This box is optional. Use it to provide information to the church employee about a housing allowance or qualified sick and family leave wages.

Some churches report a church-designated housing allowance in this box (for clergy who are classified as employees). You are not required to report the value of church-provided housing, but you should report the amount paid by the employer for utilities.

### Tax Tip

The IRS has provided the following suggestions to reduce the discrepancies between amounts reported on Forms W-2, W-3, and 941:

First, be sure the amounts on Form W-3 are the total amounts from Form W-2. Second, reconcile Form W-3 with the four quarterly Forms 941 by comparing amounts reported for the following:

- Income tax withholding (Box 2)
- Social Security and Medicare wages (boxes 3, 5, and 7)
- Social Security and Medicare taxes (boxes 4 and 6)

Amounts reported on Forms W-2, W-3, and 941 may not match for valid reasons. If they do not match, be sure to determine that the reasons are valid.

### **Step 11. Prepare Form 1099-NEC.**

The church must issue a Form 1099-NEC to every nonemployee to whom the church pays “nonemployee” compensation of \$600 or more during the year. To illustrate, if a guest speaker visited a church in 2024 and received compensation from the church in an amount of \$600 or more (net of any travel expense reimbursement properly accounted for by the recipient), then the church must issue the person a Form 1099-NEC no later than January 31, 2025, and file Copy A with the IRS before February 1, 2025, using either paper or electronic filing procedures. See sample Form 1099-NEC at the end of the guide.

Forms 1099-NEC is designed to induce self-employed persons to report their full taxable income. The forms apply to “nonemployees,” including certain self-employed individuals who perform miscellaneous services for the church (plumbers, carpenters, lawn maintenance, etc.). Exceptions apply. For example, a church need not issue a Form 1099-NEC to a corporation. Nor should a church issue a Form 1099-NEC to an individual who will be receiving a Form W-2 for services rendered to the church as an employee. Also, travel expense reimbursements paid to a self-employed person under an accountable reimbursement plan do not count toward the \$600 reporting threshold.

To send the individual a properly completed Form 1099-NEC, the church will need to obtain their name, address, and Social Security number via the receipt of a Form W-9.

Churches should obtain this information at the time of the person’s visit, since it often can be difficult to obtain the necessary information later. If a self-employed individual who is paid \$600 or more during the course of a year by a church refuses to provide their Social Security number, then the church may be required to withhold 24% of the person’s total “nonemployee” compensation as “backup withholding.”

### Key Points

- To report nonemployee compensation, use Form 1099-NEC.
- Do not issue a Form 1099-NEC to any nonemployee whom you paid through a third-party settlement network.

### Warning

Misclassifying your workers as “nonemployees” can result in significant tax penalties and interest. Both the IRS and state governments are aggressively pursuing employers who misclassify their workers.

## Other Important Requirements for Churches

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### **Reporting Group Term Life Insurance**

Include in the income of employees the imputed cost of employer-provided group term life insurance coverage that exceeds \$50,000. Also include the imputed cost of all employer-provided group term life insurance on the life of a spouse or dependent if the coverage provided exceeds \$2,000. The imputed cost can be determined according to the following table:

**Cost per \$1,000 of All Group Term Life Insurance Coverage per Month Exceeding the \$50,000 Exclusion**

Age	Monthly Cost	Age	Monthly Cost
Under 25	\$.05	25 to 29	\$.06
30 to 34	.08	35 to 39	.09
40 to 44	.10	45 to 49	.15
50 to 54	.23	55 to 59	.43
60 to 64	.66	65 to 69	\$1.27
70+	\$2.06		

**E Example**

The Church Pension Fund pays the premiums on a \$150,000 group term life insurance policy on the life of Benjamin. St. George’s Church pays the premiums on a \$20,000 group term life insurance policy on the life of Benjamin, with Benjamin’s wife as beneficiary. Benjamin is 29 years old. St. George’s Church also pays the premium on a \$5,000 group term policy that covers Benjamin’s wife, who is 30 years old. The church must report \$91.20 as the imputed cost of the insurance provided to Benjamin and his wife. This amount is computed as follows:

For Benjamin, the table shows the “cost” per month for each \$1,000 of group term life insurance in excess of \$50,000. To compute the cost for Benjamin, take 6 cents x 12 months = 72 cents; 72 cents x 120 (corresponding to \$120,000 of group term life insurance provided in excess of \$50,000) = \$86.40.

In addition, the cost of the entire \$5,000 of insurance provided to Benjamin’s wife must be computed. Take 8 cents x 12 months = 96 cents; 96 cents x 5 (corresponding to \$5,000 of group term life insurance) = \$4.80. Combine this amount with the cost of Benjamin’s excess insurance to obtain the taxable amount of \$91.20. St. George’s Church should include this amount with wages in Box 1 of Form W-2. This amount should also be reported in Box 12 and labeled “C.” Any includable amount is subject to federal income tax as well as Social Security and Medicare tax withholding for lay church employees.

**! Key Points**

Effective January 1, 2018, the maximum life insurance provided to Eligible Active Clergy by The Church Pension Fund increased to six times Total Assessable Compensation (TAC), with a maximum of \$150,000.

**New Hire Report**

Be sure to file this report with the state as soon as anyone is hired by your organization—including a clergyperson. The church’s payroll service vendor should do this for you.

**Form I-9**

All employers, including church-related employers, are responsible for verifying the identity and eligibility of employees to work in the United States using an employment Eligibility Verification form for each new employee. This form is better known as US Citizenship and Immigration Services (USCIS) *Form I-9*.

Form I-9 is not an IRS form and is not filed with any government agency. However, it is important for churches to be familiar with this form because they can be assessed fines for failing to comply with the requirements summarized below.

Churches should take these steps:

- Ensure that each new employee completes Section 1 of the Form I-9 at the time of the hire. Review the employee’s documents and fully complete Section 2 of the Form I-9 within three business days of the hire. Collect a Form I-9 for all employees, including clergy, hired after November 6, 1986, even if the church has no doubt that a clergyperson or lay employee is a United States citizen. An employee signs part of the form, and the employer signs part of the form. The form’s instructions list documents that employees may show to verify their identity and eligibility to work in the United States.
- Review the USCIS website for instructions on completing the Form I-9 at [uscis.gov](https://uscis.gov).

- Collect Form I-9 from new employees only, not from all applicants. When extending job offers, churches should clarify that employment is conditioned on completion of a Form I-9. Employers should remind new employees to bring their documents on the first day of work. Forms should be completed no later than the end of the employee's third day at work.
- Accept only documents that appear to be genuine (i.e., appear genuinely to identify the new employee). If churches act reasonably when deciding that a document is genuine, they will not be held responsible for a mistake. Churches may keep photocopies of original identification and verification documents with each employee form. This is not required by law but may be helpful if there is ever a question about any document's authenticity.
- Keep each Form I-9 for a minimum of three years. If a church employs a person for more than three years, the church must retain the form until one year after the person leaves employment. Forms should be kept confidential.
- Upon request, show completed forms to authorized officials of the Department of Homeland Security, the Department of Labor, or the Justice Department's Civil Rights Division, Immigrant and Employee Rights Section.
- Churches, like any employer, can be penalized for failing to comply with the Form I-9 requirement. If you fail to complete, retain, or make available for inspection a Form I-9 as required by law, you may face a civil penalty for each violation. There are additional penalties for knowingly hiring unauthorized aliens.
- Providing an employee's Social Security number on Form I-9 is voluntary for all employees unless an employer participates in the USCIS E-Verify program.

### **W Warning**

Caution. As of November 1, 2024, all employers must use the updated Form I-9, dated August 1, 2024. **Make sure you're using the most recent version.**

### **Annual Certification of Racial Nondiscrimination**

Churches and other religious organizations that operate, supervise, or control a private school must file [Form 5578, Annual Certification of Racial Nondiscrimination for a Private School Exempt from Federal Income Tax](#), each year with the IRS. The certificate is due by the 15th day of the fifth month following the end of the organization's fiscal year. This is May 15 of the following year for organizations that operate on a calendar-year basis. This means that Form 5578 for 2024 is due May 15, 2025, for organizations that operate on a calendar-year basis.

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

### **! Key Points**

- The term "school" also includes preschools, which makes this reporting requirement relevant for many churches.
- Private religious schools that are not affiliated with a church or denomination, and that file Form 990, do not file Form 5578. Instead, they make their annual certification of racial nondiscrimination directly on Form 990.
- Form 5578 is easy to complete. A church official simply identifies the church and the school and certifies that the school has "satisfied the applicable requirements of Section 4.01 through 4.05 of Revenue Procedure 75-50." This reference is to the following requirements:
  - The school has a statement in its charter, bylaws, or other governing instrument, or in a resolution of its governing body, that it has a racially nondiscriminatory policy toward students.
  - The school has a statement of its racially nondiscriminatory policy toward students in all its brochures and catalogs dealing with student admissions, programs, and scholarships.
  - The school makes its racially nondiscriminatory policy known to all segments of the general community served by the school through the publication of a notice of its racially nondiscriminatory policy at least annually in a newspaper of general circulation, through utilization of the broadcast media, or by displaying a notice of its racially nondiscriminatory policy on its primary publicly accessible internet homepage at all times during its taxable year (excluding temporary outages due to website maintenance or technical problems) in a manner reasonably expected to be noticed by visitors to the homepage. (Allowing the notice to be placed on a school's website homepage is a new concession granted by the IRS in 2019. See [IRS Revenue Procedure 2019-22](#).)
- However, such notice is not required if one or more of these exceptions apply:
  - During the preceding three years, the enrollment consists of students at least 75% of whom are members of the sponsoring church or religious denomination and the school publicizes its nondiscriminatory policy in religious periodicals distributed in the community.



- The school draws its students from local communities, follows a racially nondiscriminatory policy toward students, and demonstrates that it follows a racially nondiscriminatory policy by showing that it currently enrolls students of racial minority groups in meaningful numbers. The school can demonstrate that all scholarships or other comparable benefits are offered on a racially nondiscriminatory basis.

### **W Warning**

Filing the certificate of racial nondiscrimination is one of the most ignored federal reporting requirements. Churches that operate a private school (including a preschool), as well as independent schools, may obtain copies of Form 5578 by calling the IRS forms number 800-TAX-FORM or 800-829-3676, or by visiting the IRS website at [irs.gov](https://www.irs.gov).

### **Charitable Contribution Substantiation Rules**

Several important rules apply to the substantiation of charitable contributions, including these:

**Cash contributions.** All cash contributions, regardless of amount, must be substantiated by either a bank record (such as a canceled check) or a written communication from the charity showing the name of the charity, the date of the contribution, and the amount of the contribution. Previously, donors could substantiate cash contributions of less than \$250 with “other reliable written records showing the name of the charity, the date of the contribution, and the amount of the contribution” if no canceled check or receipt was available. This is no longer allowed.

As noted below, additional substantiation requirements apply to contributions (of cash or property) of \$250 or more, and these must be satisfied as well.

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

- Name of the church
- Name of the donor (a Social Security number is not required)
- Date of the contribution
- Amount of any cash contribution
- For contributions of property (not including cash) valued by the donor at \$250 or more, the receipt must describe the property (no value should be stated).
- The receipt must contain one of the following:
  - A statement that no goods or services were provided by the church in return for the contribution
  - A statement that goods or services that a church provided in return for the contribution consisted entirely of intangible religious benefits
  - A description and good faith estimate of the value of goods or services other than intangible religious benefits that the church provided in return for the contribution
- The church may provide either separate acknowledgments for each single contribution of \$250 or more or one acknowledgment to substantiate several single contributions of \$250 or more (separate contributions are not aggregated for purposes of measuring the \$250 threshold).
- The written acknowledgment must be received by the donor on or before the earlier of the following two dates:
  - The date the donor files a tax return claiming a deduction for the contribution
  - The due date (including extensions) for filing the return

**“Quid pro quo” contributions of more than \$75.** If a donor makes a “quid pro quo” contribution of more than \$75 (that is, a payment that is partly a contribution and partly a payment for goods or services received in exchange), the church must provide a written statement to the donor that satisfies both of these conditions:

1. The statement must inform the donor that the amount of the contribution that is tax-deductible is limited to the excess of the amount of any money (or the value of any property other than money) contributed by the donor over the value of any goods or services provided by the church or other charity in return.
2. The statement must provide the donor with a good faith estimate of the value of the goods or services furnished to the donor.

A written statement need not be issued if only “token” goods or services are provided to the donor. For tax year 2024, token goods or services were those having an insubstantial value not exceeding the lesser of 2% of the amount of the contribution or \$132. This amount is adjusted annually for inflation. In addition, the rules do not apply to contributions in return for which the donor receives solely an intangible religious benefit that generally is not sold in a commercial context outside the donative context.

**Gifts of property.** Several additional rules apply to the substantiation of contributions of noncash property valued by the donor at \$500 or more. Donors who claim a deduction over \$500 but not over \$5,000 for a noncash charitable contribution must retain certain records and complete the front side (Section A, Part I, and Part II if applicable) of *Form 8283, Noncash Charitable Contributions*. The donor must enclose the completed form with the Form 1040 on which the charitable contribution is claimed. Special rules apply to donations of cars, boats, and planes valued by the donor at more than \$500. The church must provide the donor with a written acknowledgment and send a *Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes*, to the IRS containing required information about the donation. The Form 1098-C can be used as the written acknowledgment that must be issued to a donor. See *Instructions for Form 1098-C* for more information.

For contributions of noncash property valued at more than \$5,000 (\$10,000 for privately held stocks), a donor must obtain a qualified appraisal of the donated property from a qualified appraiser, complete a qualified appraisal summary (Section B of Form 8283), and have the summary signed by the appraiser and a church representative. The completed Form 8283 is then enclosed with the Form 1040 on which the charitable contribution deduction is claimed. The appraisal must be enclosed for contributions of property (other than inventory and publicly traded securities) valued at more than \$500,000.

**Note: Tax-free distributions from individual retirement plans for charitable purposes.** For 2025, individuals 70½ years of age or older are able to exclude up to \$105,000 from their gross income for qualified charitable distributions (QCDs) made from their Individual Retirement Accounts (IRAs) to a qualifying charity. This amount will increase to \$108,000 in 2025. Regardless of the intentions of the donor, the church receiving the gift must report the amount of the contribution and the date received (making note also of the date the gift was postmarked).

#### Key Points

QCD tax-favored treatment is not available for a distribution from a Code Section 403(b) account to a charity. If such a distribution is made, it will not be eligible for tax-favored treatment. Only a QCD received from an IRA is eligible for tax-favored treatment.

# Sample Form W-2 with Instructions for Clergy

22222		a Employee's social security number		OMB No. 1545-0008	
b Employer identification number (EIN)		1 Wages, tips, other compensation 1		2 Federal income tax withheld 4	
c Employer's name, address, and ZIP code		3 Social security wages 2		4 Social security tax withheld 5	
		5 Medicare wages and tips 3		6 Medicare tax withheld 6	
		7 Social security tips		8 Allocated tips	
d Control number 14		9		10 Dependent care benefits 7	
e Employee's first name and initial      Last name      Suff.		11 Nonqualified plans		12a each 7	
		13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b each	
		14 Other 13		12c each	
				12d each	
f Employee's address and ZIP code					
15 State	Employer's state ID number	16 State wages, tips, etc. 12	17 State income tax 11	18 Local wages, tips, etc. 10	19 Local income tax 9
					20 Locality name 8

Form **W-2** Wage and Tax Statement  
 Copy 1 — For State, City, or Local Tax Department

2024

Department of the Treasury—Internal Revenue Service

## Legend for Sample Form W-2 for Clergy

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- 1 Your total pay for the year, minus your housing allowance and certain elective deferrals, such as pretax 403(b) plans.
- 2 Clergy W-2 wages are not subject to Social Security tax. This box should be empty on a clergy Form W-2.
- 3 Clergy W-2 wages are not subject to Medicare tax. This box should be empty on a clergy Form W-2.
- 4 Federal taxes withheld from paycheck. Clergy default to \$0 unless optional withholding is set up with the employer.
- 5 Social Security is not withheld for members of the clergy. This box should be empty on a clergy Form W-2.
- 6 Medicare is not withheld for members of the clergy. This box should be empty on a clergy Form W-2.
- 7 Amounts deducted from wages for dependent care (Box 10) or other salary reduction plans (Box 12a).
  - Code C:** Taxable cost of group term life insurance over \$50,000
  - Code E:** Elective deferrals under a Code Section 403(b) salary reduction agreement
  - Code W:** Employer contributions (including an employee's contributions through a Code Section 125 cafeteria plan) to Health Savings Account (HSA)
- 8 Name or code of local tax jurisdiction in boxes 18 and 19.
- 9 Local taxes withheld from paycheck. Clergy default to \$0 unless optional withholding is set up with the employer.
- 10 Wages reported that are subject to local income tax.
- 11 State taxes withheld from paycheck. Clergy default to \$0 unless optional withholding is set up with the employer.
- 12 Wages reported that are subject to state income tax.
- 13 **Clergy Own/Rent Home** Housing Allowance.
  - Church-Provided Housing** Utilities (if paid by church).
  - Qualified sick leave wages and qualified family leave wages paid to employees under the Families First Coronavirus Response Act, P.L. 116-127
- 14 Control Number used by employer to identify an employee's W-2.

# Sample Form 1099-NEC

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.			OMB No. 1545-0116 Form <b>1099-NEC</b> (Rev. January 2022) For calendar year 20 ____	Nonemployee Compensation
PAYER'S TIN	RECIPIENT'S TIN	<b>1</b> Nonemployee compensation \$ _____		<b>Copy B                  For Recipient</b> <small>This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.</small>
RECIPIENT'S name		<b>2</b> Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>		
Street address (including apt. no.)		<b>3</b> _____		
City or town, state or province, country, and ZIP or foreign postal code		<b>4 Federal income tax withheld</b> \$ _____		
Account number (see instructions)		<b>5</b> State tax withheld \$ _____	<b>6</b> State/Payer's state no.	<b>7</b> State income \$ _____

Form **1099-NEC** (Rev. 1-2022) (keep for your records) [www.irs.gov/Form1099NEC](http://www.irs.gov/Form1099NEC) Department of the Treasury - Internal Revenue Service

## Helpful Numbers and Resources

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### To request IRS forms

- 800-TAX-FORM or 800-829-3676
- IRS homepage: [irs.gov](https://www.irs.gov)

### The Church Pension Fund

- 800-223-6602
- [cpg.org](https://www.cpg.org)
- Online version of *Federal Reporting Requirements for Episcopal Institutions* and other tax resources: [cpg.org/taxpubs](https://www.cpg.org/taxpubs)

### Tax Lines

- Dolly Rios, CPA, 833-363-5751 Fluent in English and Spanish

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

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*Throughout this document, tax examples are given that include fictional first names of clergy, lay employees, and parish names. The names for the persons and places in these examples were chosen at random and do not refer to any particular clergy, lay employees, parishes, or institutions of The Episcopal Church.*



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