

2020 Federal Reporting Requirements



for Episcopal Churches, Schools and Institutions

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In keeping with The Church Pension Fund's ongoing commitment to conserving our natural and financial resources, the *2020 Federal Reporting Requirements for Episcopal Churches, Schools and Institutions* is being offered exclusively as an online booklet.

The *2020 Clergy Tax Return Preparation Guide for 2019 Returns* also is being disseminated online.

To access that document, please go to cpg.org/taxpubs.

Faithfully,

Mary Kate Wold
CEO and President

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Introduction

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 and refers to actions taken by the vestry and/or the congregation, depending on the nature of the action. This may include entities that are controlled by or associated with the Episcopal Church.

Many of the reporting obligations covered in the *2020 Federal Reporting Requirements* can be met by using a payroll services provider.

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 non-compliance by churches with payroll reporting procedures.

A number of special rules apply to churches:

- **A definition of “minister” for IRS tax purposes.**

Key Point

The IRS has its own criteria for determining who is a minister for tax purposes.

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. These rules include:

1. Eligibility for housing allowances.
2. Self-employed status for Social Security and Medicare tax purposes.
3. 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.

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 (the Clergy Pension Plan) does not automatically qualify a cleric for clergy tax treatment. If the cleric does not qualify for clergy tax treatment, he or she will be treated as a lay person 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 cleric must be assigned to the position by the bishop.

E Example

John is a minister at his church. In addition, he works a second job as a counselor for a school district. 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.

- **Ministers are always self-employed for Social Security and Medicare tax purposes with respect to their church compensation.** While most clergy are employees for federal income tax reporting purposes, they are self-employed for Social Security and Medicare tax with respect to their church compensation. This means that they pay the “self-employment tax” (Self-Employment Contributions Act, or SECA, tax), rather than the employee’s share of Social Security and Medicare taxes. As such, the church should not withhold the employee’s share of Social Security and Medicare taxes from their wages.

There is much confusion regarding this issue. 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, and should receive IRS Form W-2, Wage and Tax Statement, from their churches or employers reporting their taxable compensation. This statement applies to part-time as well as full-time employees. However, all ministers are self-employed for Social Security and Medicare tax purposes (with respect to services they perform in the exercise of their ministry).

- **A minister's wages are exempt from compulsory income tax withholding.** Clergy may, however, enter into a voluntary income tax withholding agreement with their Episcopal employer.
- **Because of liabilities attached 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.

Key Point

Care should be taken to ensure that the payroll service understands how clergy are taxed. There should be no withholding or FICA.

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

Generally, it is no longer permissible for an employer to directly reimburse an employee, or directly pay on behalf of an employee, the premiums for his or her individual health insurance policy. This type of reimbursement / direct payment of an employee's individual health insurance policy is prohibited, regardless of whether the reimbursement / direct payment is treated as taxable or non-taxable compensation

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.

Reporting the Value of Health Care Coverage Provided to Non Tax-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 dependent, 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 Non Tax-Dependent. One way of obtaining this imputed value may be to go to the Health Insurance Marketplace and determine costs for comparable health

coverage of the Non Tax-Dependent. Please consult your personal tax advisor for further information.

Example

Larry Jones, Jr., an adult child, turns 26 on July 1, 2019. His health coverage is provided tax-free through the employer of Larry Jones, Sr., until December 31, 2019. Beginning January 1, 2020, the value of his health coverage is considered a taxable benefit for federal income tax and employment tax purposes and should be reported on the Form W-2 issued to Larry Jones, Sr., as imputed compensation.

Reporting Requirements for 2019 Calendar Year for Employer-Provided Health Insurance Offer and Coverage

The reporting requirements consist of the following forms:

- 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 in the Medical Trust Plan.
- 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 (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 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).

Key Point

IRS Notice 2019-63 extended the due date for furnishing Forms 1095-B to individuals and Forms 1095-C to employees from January 31, 2020 to March 2, 2020.

See the instructions to these forms on the IRS website ([irs.gov](https://www.irs.gov)) for more information.

Key Point

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 the Forms 1094-B and 1095-B.

📌 Key Point

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 personal advisors as soon as possible in order to comply with these tax reporting requirements and to avoid potential penalties under the Employer Shared Responsibility provisions.

Maximizing Tax Benefits for Your Minister

Special Notes for New Clergy

- When negotiating the contract for a new cleric, make certain that a proper housing allowance resolution has been adopted by the vestry (or other governing body) before compensation is earned. A housing allowance election should not be included in the contract.
- 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 cleric begin saving for retirement through an Internal Revenue Code Section 403(b) salary reduction plan (RSVP) 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 the Church Pension Group website.
- Discretionary funds are the property of the church. The cleric 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, 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, contact one of the following individuals before taking action:

Nancy Fritschner, CPA (877) 305-1414

Bill Geisler, CPA (877) 305-1415 (*through April 30, 2020*)

Mary Ann Hanson, CPA (877) 305-1415 (*beginning May 1, 2020*)

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 received by a cleric from the Clergy Pension Plan and distributions from the RSVP sponsored by The Church Pension Fund 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 cleric's primary residence, they may be excluded from taxation, subject to the housing allowance limitations.
- Earnings from ministerial services after retirement are also eligible for designation as housing allowance. If a cleric's Clergy Pension Plan benefits and distributions from an RSVP are enough to cover qualified housing costs, he or she should not request additional housing allowance designation for any compensation for ministerial services.
- Self-employment tax (SECA) is due on all currently earned income, even if the cleric is retired and collecting Social Security. The cleric should include any currently earned housing allowance and/or the fair rental value of any church-provided housing. Failure by the cleric 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.

Key Point

No SECA tax is due on qualified pension plan distributions paid pursuant to retirement nor on any long-term disability payments received after the first six months.

- Housing provided to clergy employed for a short time away from home (a short time is generally considered to be a contract for one year or less) can in some cases be treated as a reimbursable business expense 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 cleric'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 a tax-free treatment since it is not considered business travel for tax purposes. Any reimbursement of commuting mileage must be reported as wages on the Form W-2.
- Pensions are not earned income and therefore are not subject to SECA.

📌 Key Point—Tax Cuts and Jobs Act Update

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

- If a cleric meets the eligibility requirements for active health coverage through his or her 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 cleric's primary medical coverage unless the cleric is employed by an employer who qualifies for the Medicare Secondary Payer—Small Employer Exception.

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

It is **important** that the employer and cleric 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 cleric no longer qualifies for active health coverage, it is **important** that the cleric contact Medicare and a representative from The Episcopal Church Medical Trust Client Services Team to reactivate proper coverage. This applies to lay employees as well.

- Be aware of one important Clergy Pension Plan reporting requirement. Some retired clergy who return to work may be considered to have “returned to active ministry” under the Clergy Pension Plan. To avoid such a determination, which will result in the suspension of pension benefits and re-imposition of pension assessments, retired clergy pursuing compensated ministry in the Church should be aware of the Clergy Pension Plan's Working While Pensioned guidelines.
- If you have tax questions, it is always better to call our tax line before taking action. (See tax line information on page 5.)

Housing Allowance

📌 Key Point

The housing allowance was challenged in federal court as an unconstitutional preference for religion. In 2019, a federal appeals court rejected this argument and affirmed the constitutionality of the clergy 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 designate a portion of their cleric's compensation as a housing allowance, and thereby deprive the cleric of an important tax benefit.

A housing allowance is simply a portion of a cleric's compensation that is so designated in advance by the cleric's employing church. For example, in December 2019 a church agrees to pay its cleric "total compensation" of \$45,000 for 2020, and, **at the request of the cleric**, designates \$15,000 of this amount as a housing allowance. This "costs" the church nothing.

It is simply a matter of designating part of a cleric'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 non-taxable in computing federal income taxes to the extent that it:

1. Is declared in advance by resolution of the vestry
2. Is used for qualified housing expenses, and
3. Does not exceed the fair rental value of the cleric's home, furnished, plus utilities.

! **Key Point**

The housing allowance resolution should equal the fair rental value of the cleric's primary residence, furnished, plus estimated utilities or the anticipated housing expenses, whichever is lower. Any excess housing allowance must be reported by the cleric as taxable income on his or her Form 1040.

! **Key Point**

The amount of the housing allowance should not be included in the Letter of Agreement.

! **Key Point**

It is the responsibility of the ordained employee who owns or pays rent for his or her primary residence to determine the fair rental value, furnished, plus utilities of his or her home; and—unless the housing allowance resolution amount suggested by the ordained employee exceeds his or her compensation—the employer or vestry should accept and duly approve it.

! **Key Point**

Under no circumstances can a church designate a housing allowance retroactively. A housing allowance resolution can be amended prospectively.

! **Key Point**

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.

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 cleric’s income. Neither is it reported as additional taxable compensation on Form W-2.

Note, however, that an income tax exclusion that functions much like the clergy housing allowance resolution described above for clergy who own or rent also may be available to clergy in church-provided housing. In this case, the housing allowance resolution amount would **NOT** be the fair rental value itself but the added value that the cleric’s own furnishings bring to the fair rental value of the church-provided housing. Also note that determining these two values (the fair rental value plus the value that personal furnishings add to a fair rental value) is the responsibility of the ordained employee, **NOT** the employer or vestry.

Please note that qualified housing expenses for clergy who own/rent or the fair rental value of “rent-free” church-provided housing are non-taxable 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 Point

The cash housing allowance approved by the church should be included in the compensation reported to The Church Pension Fund. The church must also report whether housing is provided to the cleric. The amount used to compute the assessment is a calculation and is not the same as fair market rental value when calculating SECA.

❗ Key Point

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 **may** 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 may not be accepted by the IRS.

! Key Point

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 this page and the next for two sample housing allowance resolutions from the vestry or other church 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 his or her home:

The following resolution was duly adopted by the vestry of Christ Church at a regularly scheduled meeting held on December 18, 2019, 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 2020 shall be \$50,000, of which \$15,000 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 \$15,000 as a housing allowance shall apply to calendar year 2020 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 of Grace Church at a regularly scheduled meeting held on December 18, 2019, 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 2020 shall be \$50,000, of which \$5,000 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 \$5,000 as a housing allowance shall apply to calendar year 2020 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 2020 and for all future years 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 for such occupancy and use.

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 four requirements:

1. Only business expenses are reimbursed.
2. There is no reimbursement without an adequate accounting of expenses within a reasonable period of time (not more than 60 days after an expense is incurred).
3. Any excess reimbursement or allowance must be returned to the employer within a reasonable period of 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 in an appropriate resolution.

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. The Tax Cuts and Jobs Act of 2017 eliminated the ability for employees to deduct unreimbursed business expenses for federal income tax purposes. Therefore, an accountable business expense reimbursement plan is the best way for a church and an employee to handle reimbursements of business expenses.

Churches occasionally reimburse employees for non-business 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. Such personal, living, or family expenses are not deductible, and the entire amount of a church's reimbursement must be included on the employee's Form W-2.

Qualified Transportation Fringe Benefits

The exclusion for employer-provided reimbursement for van-pooling, mass transit passes and qualified parking was \$265 per month for 2019 and becomes \$270 for 2020. The exclusion for qualified bicycle commuting costs was eliminated effective January 1, 2018.

❗ Key Point—Parking Tax Update—Retroactive Elimination/Potential Refund Opportunity

Beginning in 2018, Pursuant to new Code Section 512(a)(7) implemented as part of the Tax Cuts and Jobs Act, the unrelated business taxable income ("UBTI") of tax-exempt organizations was increased by the amount the organization paid or incurred for any qualified transportation fringe benefits (as defined in Code Section 132(f)), or any parking facility used in connection with qualified parking (as defined in Code Section 132(f)(5)(C)), whether they were paid as an employer-funded benefit or appeared through employee pre-tax salary deductions.

As such, providing this benefit to your employees may have resulted in an ("UBIT") filing obligation on a Form 990-T and a liability for UBIT. Fortunately, the government funding bill passed on December 20, 2019 **retroactively repealed Code Section 512(a)(7)**, thereby eliminating the inclusion of qualified transportation fringe benefits when determining unrelated business income of tax-exempt organizations. Therefore, tax-exempt organizations that previously filed Form 990-T and paid UBIT under this tax provision should determine the best approach for obtaining a refund of any UBIT paid.

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 health care and dependent care expenses, subject to reimbursement maximums and other conditions.

Code Section 125 allows 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 “grace period” 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.

Health Flexible Spending Accounts (Health FSAs)

Health FSAs have several benefits, including the following:

- Employer contributions can be non-taxable.
- 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 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. See IRS Publication 502 for a list of 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 year).

Employees must be able to receive the total amount they have elected to contribute for the year at any time during the year, regardless of the amount they have actually contributed to date.

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.

However, the plan can provide for a grace period of up to 2½ months after the end of the plan year. If the plan provides for a grace period, any qualified medical expenses incurred in that grace period can be paid from any amounts left in the account at the end of the previous year. An employer is not permitted to refund any part of the Health FSA balance to the employee.

❗ **Key Point**

An employer, at its discretion, may amend its cafeteria plan document to provide for the carryover to the next plan year any amount (up to \$500) remaining unused as of the end of the plan year in a Health FSA. The carryover of up to \$500 may be used to pay or reimburse qualified medical expenses under the Health FSA incurred during the entire plan year to which it is carried over. For this purpose, the amount remaining unused as of the end of the plan year is the amount unused after medical expenses have been reimbursed at the end of the plan's run-out period for the plan year. In addition to the unused amounts of up to \$500 that a plan may permit an individual to carry over to the next year, the plan may permit the individual to also elect up to the maximum allowed salary reduction amount (\$2,700 for 2019 and \$2,750 for 2020). Thus, the carryover of up to \$500 does not count against or otherwise affect the \$2,700/\$2,750 salary reduction limit applicable to each plan year. Although the maximum unused amount allowed to be carried over in any plan year is \$500, the plan may specify a lower amount as the permissible maximum (and the plan sponsor has the option of not permitting any carryover at all).

❗ **Key Point**

A plan adopting this carryover provision is not permitted to also provide a grace period with respect to Health FSAs.

❗ **Key Point**

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 pre-tax dollars. An employee covered by an **High Deductible Health Plan (HDHP)** and a **Health FSA** or an **Health Reimbursement Account (HRA)** that pays or reimburses qualified medical expenses generally cannot contribute to an **HSA**. See IRS Publication 969 for more detailed information.

Dependent Care Flexible Spending Accounts (Dependent Care FSAs)

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 child care of children up to age 13, 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 person, 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 cannot be used for summer camps (other than "day camps") or for long-term care for parents who live elsewhere (such as in a nursing home).

The Dependent Care FSA is federally capped at \$5,000 per year, per household. Married spouses can each elect a Dependent Care FSA, but their total combined elections cannot exceed \$5,000. At tax time, all withdrawals in excess of \$5,000 are subject to taxation. If married, both spouses must have earned taxable income to be eligible to participate in a Dependent Care FSA.

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

Section 403(b) Plans

A 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:

1. Contributions are made by employee elective deferral of current taxable income. Compensation designated as housing allowance is ineligible for contribution.
2. Employees pay no income tax on the amounts contributed. Lay employee contributions are subject to Social Security and Medicare taxes.
3. Clergy elective deferrals are not subject to self-employment tax. This is a permanent tax savings.
4. Employers may contribute to the employee's Section 403(b) account.
5. Plan withdrawals will be subject to income tax and eligible for exclusion by clergy as housing allowance. Plan withdrawals before age 59½ may be subject to early withdrawal penalties.

For 2019, the maximum combined contribution (i.e., employer contributions and employee salary deferrals) was the lesser of 100% of taxable compensation or \$56,000 (\$62,000 for those ages 50 or older). For 2020, these amounts increase to \$57,500 (or \$63,500 for those ages 50 or older).

The maximum employee pre-tax salary deferral for 2019 was the lesser of 100% of taxable compensation or \$19,000 (\$25,000 for those ages 50 or older). For 2020, these amounts increase to \$19,500 (\$26,000 for those

ages 50 or older). If contributions made to a Section 403(b) account are more than these contribution limits, penalties may apply. Generally, annual contributions to a Section 403(b) plan cannot exceed either the limit on annual additions or the limit on elective deferrals. See IRS Publication 571 for details.

Qualified Charitable Distributions are not eligible from a Section 403(b) account, but only from an IRA. See page 40 for more details.

❗ Key Point

Contributions to a Section 403(b) plan can still be made from current church earnings even after an employee has started to receive RMDs from his or her Section 403(b) plan.

Complying with Federal Payroll Tax Reporting Obligations

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. It is used to reconcile a church's deposits of withheld taxes with the Forms W-2 issued to employees. 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 the IRS website at [irs.gov](https://www.irs.gov) and click on the "Apply for an EIN" link. You may also apply for an EIN by calling (800) 829-4933, or you may fax or mail Form SS-4 to the IRS. You should have only one EIN.

❗ Key Point

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. Further, a self-employed person typically is engaged in a specific trade or business and offers his or her 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 rather than 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 of time, 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 his or her 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.

 Warning

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.

 Warning

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 Point

For 2020, churches must withhold 24% of the compensation paid to a self-employed person who fails to provide his or her Social Security number to the church. This is referred to as “backup withholding” and is designed to promote the reporting of taxable income.

Key Point

A cleric who is receiving employer-provided fringe benefits must be considered an employee and receive a Form W-2. Common examples are group medical insurance and flexible savings accounts. Fringe benefits are non-taxable only when received by employees.

Warning

Effective January 1, 2018, the church is required to pay pension assessments to The Church Pension Fund, whether or not the cleric is classified as an employee or independent contractor, if a cleric 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 cleric.

After a cleric attains age 72, the employer may not pay assessments to The Church Pension Fund. However, a cleric who is earning taxable compensation can continue to personally contribute to a Section 403(b) plan after turning age 72.

For purposes of the Clergy Pension Plan, a cleric is considered regularly employed if he or she meets one or more of the following:

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

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

If the cleric is regarded as self-employed, assessment paid by the employer would normally be included in the compensation reported on Form 1099-MISC. If, instead, the cleric is classified as an employee who receives a Form W-2, the employer will not have to report the paid assessments as additional income.

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

After determining whether a worker is an employee or self-employed, you must obtain the worker’s Social Security number. A worker who does not have a Social Security number can obtain one by filing Form SS-5. If a self-employed worker performs services for your church (and earns

at least \$600 for the calendar year) but fails to provide you with his or her Social Security number, then the church is required by law to withhold a specified percentage of compensation as “backup withholding.” The backup withholding rate is 24% for 2020. Of course, 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-MISC (discussed below). Churches can be penalized if the Social Security number they report on a Form 1099-MISC is incorrect, unless they have exercised “due diligence.” A church will be deemed to have exercised due diligence if it has required self-employed persons 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. The Form 945 for 2019 must be filed with the IRS by January 31, 2020. However, if you made deposits on time in full payment of the taxes for the year, you may file the return by February 10, 2020.

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. In the past, income tax withholding was calculated based on the number of “withholding allowances” an employee claimed on his or her Form W-4. The IRS has made major changes to Form W-4 for 2020. Note the following:

- The new design reduces the form’s complexity and increases the transparency and accuracy of the withholding system. While it uses the same underlying information as the old design, it replaces complicated worksheets with more straightforward questions that make accurate withholding easier for employees.
- Withholding allowances are no longer used for the redesigned Form W-4 to increase transparency, simplicity, and accuracy. In the past, the value of a withholding allowance was tied to the amount of the personal exemptions. Due to changes in tax law, currently you cannot claim personal exemptions or dependency exemptions.
- Employees who have submitted a Form W-4 in any year before 2020 are not required to submit a new form merely because of the redesign. Employers will continue to compute withholding based on the

information from the employee's most recently submitted Form W-4.

- To provide maximum accuracy, employees should be encouraged to use the Tax Withholding Estimator available at irs.gov/W4app. Updates and improvements to the estimator are underway that will be compatible with the redesigned Form W-4 in 2020.
- Beginning in 2020, all new employees must use the redesigned form. Similarly, any employees hired prior to 2020 who wish to adjust their income tax withholding must use the redesigned form.
- For those employees who furnished forms before 2020 and who do not furnish a new one after 2019, you must continue to withhold based on the forms previously submitted. You are not permitted to treat employees as failing to furnish Forms W-4 if they don't furnish a new Form W-4. Note that special rules apply to Forms W-4 claiming exemption from withholding.
- Ministers generally are exempt from income tax withholding with respect to compensation received from the exercise of ministry (unless they have elected voluntary withholding).

Step 5. Compute each employee's taxable wages.

The amount of income taxes that a church should withhold from an employee's wages depends upon 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 on page 24.

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

The way employers will figure federal income tax withholding for 2020 is changing to match the changes to the new Form W-4. Beginning in 2020, employers use IRS Publication 15-T to figure the amount of federal income tax to withhold from their employees' wages. Beginning with the 2020 Form W-4, employees will no longer be able to request adjustments to their withholding using withholding allowances. Instead, using the new Form W-4, employees will provide employers with amounts to increase or reduce taxes and amounts to increase or decrease the amount of wage income subject to income tax withholding. The computations described in Publication 15-T will allow employers to figure withholding regardless of whether the employee provided a Form W-4 in an earlier year or will provide a new Form W-4 in 2020. 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 be withheld from an employee's wages:

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

❗ Key Point

The IRS has launched a new online assistant designed to help employers, especially small businesses, easily determine the right amount of federal income tax to withhold from their workers' pay. Known as the *Income Tax Withholding Assistant for Employers*, this new spreadsheet-based tool is designed to help employers easily transition to the redesigned withholding system (no longer based on withholding allowances), which goes into effect on January 1, 2020. It does this by helping employers easily implement new income tax withholding requests from employees who fill out the redesigned 2020 Form W-4. At the same time, the tool can also help employers continue to properly withhold from employees who still have a withholding request on file using a past version of the Form W-4, which was based on withholding allowances.

Wages paid to a cleric 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 cleric's wages as if the cleric's wages are not exempt from income tax withholding. Some clergy find voluntary income tax withholding attractive, since it avoids the additional work and discipline associated with the estimated tax procedure.

A cleric 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 cleric, or by mutual consent.

The tax code specifies that clergy are self-employed for Social Security and Medicare taxes with respect to services performed in the exercise of ministry. Clergy electing voluntary income tax withholding can indicate

on Form W-4 that they want an additional amount of federal income taxes to be withheld from each pay period that will be sufficient to satisfy the estimated self-employment and federal income tax liabilities by the end of the year. This additional withholding of federal income taxes is applied against a cleric's self-employment taxes on Form 1040. It is reported by the church as federal income taxes withheld on its quarterly Form 941 and on the cleric's Form W-2.

Since any federal income tax paid by voluntary income tax withholding is deemed to be timely paid, a cleric who pays his or her self-employment taxes using this procedure will not be liable for any underpayment penalty (assuming that a sufficient amount of 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 2019, the maximum wages subject to the Social Security tax (the 6.2% amount) was \$132,900. For 2020, the amount increases to \$137,700.

An Episcopal employer 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 help in making this computation. Wages of less than \$100.00 per year paid to an employee of an exempt 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 in excess of 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 (\$250,000 for married couples) in a calendar year (this amount is not indexed for inflation). There is no employer match for the Additional Medicare Tax.

Step 8. The church must deposit the taxes it withholds.

Churches accumulate three kinds of federal payroll taxes:

- Income taxes withheld from employees' wages.

- The employees' share of Social Security and Medicare taxes (withheld from employees' wages).
- The employer's share of Social Security and Medicare taxes.

Most employers must deposit payroll taxes on a monthly or semi-weekly basis. An employer's deposit status is determined by the total taxes reported in a four-quarter "lookback" period. For 2020, the lookback period will be July 1, 2018, through June 30, 2019.

Monthly depositor rule. Churches that reported payroll taxes of \$50,000 or less in the lookback period will deposit their withheld taxes for 2020 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 semi-weekly 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. If you accumulate less than a \$2,500 federal payroll tax liability during the current or previous quarter, you may remit your payroll taxes with your timely filed Form 941 instead of depositing monthly. See IRS Publication 15 for more information.

Key Point

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 you have reasonable cause for doing so. It is the employer's responsibility to ensure that federal taxes are deposited in a timely basis by the payroll vendor. Failure to timely deposit payroll taxes will result in substantial penalties to the employer.

To enroll in EFTPS, call (800) 555-4477, or to enroll online, visit 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. All employers subject to federal income tax withholding, Social Security and Medicare taxes, or both, must file Form 941 quarterly.

Form 941 reports the number of employees and 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:

<i>Quarter</i>	<i>Ending</i>	<i>Due date of Form 941</i>
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

If any due date for filing shown 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 the IRS website at [irs.gov](https://www.irs.gov) or call (800) 829-1040.

! Key Point

All employers who 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 cleric—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.

! Key Point

Form 1099-MISC need **NOT** be provided to a non-employee cleric who receives 100% of his or her compensation as housing. Many churches with this situation remind the cleric by letter that compensation of (insert dollar amount) should be reported for determining SECA tax.

! Key Point

Form 944 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, C, and 2 of the 2019 Forms W-2 to each employee by January 31, 2020. File Copy A with the Social Security Administration by January 31, 2020. Send all Copies A with Form W-3, Transmittal of Wage and Tax Statements.

❗ Key Point

If your employees give their consent, you may be able to furnish Forms W-2 to your employees electronically. See IRS Publication 15-A 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. 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.

❗ Key Point

Be sure to add cents to all amounts. Make all dollar entries without a dollar sign and comma, but with a decimal point and cents. For example, \$1,000 should read "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 (\$400)!

Here are some tips on 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 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 cleric's self-employment taxes paid by the Church.
- 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 which is paid by the church, the diocese, The Church Pension Fund, or other church organizations combined (refer to table on page 34).
- Imputed value of employer-provided health coverage to non-dependent 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 non-accountable 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 Publications 463 and 1542 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 (58 cents per mile for 2019; 57.5 cents per mile for 2020), 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 service of charitable organizations, the 2019 rate is 14 cents per mile, and remains unchanged for 2020.
- Use code L in Box 12 to report the amount 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 cleric of at least \$10,000 create taxable income to the cleric (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 legal advisor of the parish.
- A cleric’s debt to the church that has been forgiven by the church.
- Severance pay.
- Payment of a cleric’s personal expenses by the church.
- Retirement gifts from the parish vestry or 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 Point**

An employer contribution such as a housing equity allowance paid directly to a cleric’s RSVP (Code Section 403(b) account) should not be included in Box 1 of Form W-2.

 **Warning**

The failure to report the use of non-accountable 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 vestry.

 **Key Point**

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, pre-tax 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.

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. Report the lay employee's wages subject to the Social Security component of FICA taxes. Box 3 should not list more than the maximum wage base for the Social Security component of FICA taxes (\$132,900 for 2019 and \$137,700 for 2020). 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. For ordained clergy, this box should be left blank.**

Box 4. Report the Social Security component of FICA taxes that are withheld from lay employees' wages. This tax is imposed on all wages up to a maximum of \$132,900 for 2019 and \$137,700 for 2020. 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. **For ordained clergy, this box should be left blank.**

Box 5. Report the lay employee's current and deferred (if any) wages subject to the Medicare component of FICA taxes. This will be an employee's entire wages regardless of amount. There is no ceiling. For most workers (earning less than \$132,900 in 2019), the amount of wages subject to the Social Security and Medicare taxes (Boxes 3 and 5) should show the same amount. If you paid more than \$132,900 to a lay employee in 2019, Box 3 should show \$132,900 for 2019, and Box 5 should show the full amount of wages paid. **For ordained clergy, this box should be left blank.**

Box 6. 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. **For ordained clergy, this box should be left blank.**

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. Report all amounts paid or incurred, including those in excess of the \$5,000 exclusion reported in Box 1 for all employees, and in Boxes 3 and 5 for lay employees. For more information, see IRS Publication 15-B.

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 they have 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.

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 Section 403(b) tax-sheltered annuity, you would report "E 3000.00" in this box. The codes are as follows:

- A** This will not apply to church employees.
- B** This will not apply to church employees.
- C** The employee was provided with more than \$50,000 of group term life

insurance. Report the 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).

- D** Generally not applicable to churches.
- E** The church made contributions to a 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** Generally not applicable to churches.
- G** Generally not applicable to churches.
- H** Generally not applicable to churches.
- J** The church is reporting sick pay. Show the amount of any sick pay that is not includable in the employee’s income because he or she contributed to the sick pay plan.
- K** Generally not applicable to churches.
- L** The church reimbursed the employee for employee business expenses using the standard mileage rate or the per diem rates, and the amount you 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** Generally not applicable to churches.
- N** Generally not applicable to churches.
- P** Generally not applicable to churches.
- Q** Generally not applicable to churches.
- R** Employer contributions to an Archer MSA. Show any employer contributions to an Archer MSA. See Archer MSA.
- S** Employee salary reduction contributions under a Section 408(p) SIMPLE plan. 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 pre-tax 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 in excess of the \$14,080 exclusion.

- 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 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 Section 409A of the tax code because the NQDC fails to satisfy the requirements of Section 409A. Do not include amounts properly reported on Forms 1099-MISC 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 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 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 Forms W-2 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' Forms W-2. 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 2019. Employers should use this code to report in Box 12 any amounts of benefits allowable under a QSEHRA. The maximum reimbursement for an eligible individual employee under a QSEHRA employee for tax year

2019 is \$5,150, or \$10,450 if the benefit includes reimbursements for family members. For 2020, it is \$5,250 for an individual, and \$10,600 for family.

Box 13. Check the appropriate box:

- **Retirement plan.** This box should be checked for clergy covered by the Clergy Pension Plan and for any cleric 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 Section 401(a) (including a 401(k) plan); (2) an annuity contract or custodial account described in Section 403(b); (3) a simplified employee pension (SEP) plan; or (4) a SIMPLE retirement account.
- **Statutory employee.** Churches rarely, if ever, have statutory employees. These include certain drivers, insurance agents, and salespersons.
- **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. Some churches report a church-designated housing allowance in this box (for clergy who are classified as employees). Do not report the value of church-provided housing. The IRS uses Box 14 for this purpose in a comprehensive minister tax example in the current edition of its Publication 517, but this is not a requirement. This box can be used to also report the amount of utilities paid by the employer.

Tax Tip

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

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

1. Income tax withholding (Box 2).
2. Social Security and Medicare wages (Boxes 3, 5, and 7).
3. Social Security and Medicare taxes (Boxes 4 and 6).
4. Amounts reported on Forms W-2, W-3, and Forms 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-MISC.

The church must issue a Form 1099-MISC to every non-employee to whom the church pays “non-employee” compensation of \$600 or more during the year. To illustrate, if a guest speaker visited a church in 2019 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-MISC no later than January 31, 2020, and file Copy A with the IRS before January 31, 2020.

If you file electronically, the due date for filing Copy A with the IRS is January 31, 2020, if non-employee compensation is reported in Box 7. If information is in other boxes, the filing deadline is February 28, 2020. Form 1099-MISC is designed to induce self-employed persons to report their full taxable income. The same rule applies to other “non-employees,” 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-MISC to a corporation, or 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 figure.

To send the individual a properly completed Form 1099-MISC, the church will need to obtain his or her name, address, and Social Security number.

Churches should obtain this information at the time of the person’s visit, since it often can be difficult to obtain the necessary information at a later date. IRS Form W-9 can be used to obtain this information. If a self-employed individual who is paid \$600 or more during the course of a year by a church refuses to provide his or her Social Security number, then the church may be required to withhold 24% of the person’s total “non-employee” compensation as “backup withholding.”

Key Point

The 2019 tax year is the last year the Form 1099-Misc will be used to report “non-employee” compensation. Starting in tax year 2020, payment of “non-employee” compensation (i.e., payments to independent contractors) will be reported on **Form 1099-NEC**.

Warning

Misclassifying your workers as “non-employees” can result in significant tax penalties and interest. The IRS is aggressively pursuing employers who misclassify their workers.

Key Point

Before paying any non-employee for personal services, obtain a Form W-9.

Other Important Requirements for Churches

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 protection for 1-month period			
Age bracket	Cost	Age bracket	Cost
Under 25	5 cents	25 to 29	6 cents
30 to 34	8 cents	35 to 39	9 cents
40 to 44	10 cents	45 to 49	15 cents
50 to 54	23 cents	55 to 59	43 cents
60 to 64	66 cents	65 to 69	\$1.27
70+	\$2.06		

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:

1. 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 x 120 (corresponding to \$120,000 of group term life insurance provided in excess of \$50,000) = \$86.40.
2. 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 x 5 = \$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 Point

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 someone is hired by your organization—including clergy. The church's payroll service vendor should do this for you.

Form I-9

All employers are responsible for verifying the identity and eligibility of employees to work in the United States. As employers, churches must complete an Employment Eligibility Verification form for each new employee. This form is better known as 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:

- 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 someone is a U.S. citizen. An employee signs part of the form and the employer signs part of the form. The form's instructions list documents employees may show to verify their identity and eligibility to work in the United States.
- Review the United States Citizenship and Immigration Services (USCIS) website for instructions on completing the Form I-9. Form I-9 can be downloaded from the USCIS website, 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 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, Department of Labor, or the Justice Department’s Office of Special Counsel for Unfair Immigration-Related Employment Practices. Officials will give three days’ notice before inspection.
- 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.

Warning

Caution. As of September 18, 2017, all employers must use the updated Form I-9 with the revision date 07/17/17 N.

Annual Certification of Racial Non-Discrimination

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 15 day of the fifth month following the end of the organization’s fiscal year. This is May 15th of the following year for organizations that operate on a calendar year basis. This means that the Form 5578 for 2019 is due May 15, 2020.

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 Point

The term “school” also includes preschools, which makes this reporting requirement relevant for many churches. As many as 25% of all churches operate a preschool program.

Key Point

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 non-discrimination 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 non-discriminatory policy toward students.
- The school has a statement of its racially non-discriminatory policy toward students in all its brochures and catalogs dealing with student admissions, programs, and scholarships.
- The school makes its racially non-discriminatory policy known to all segments of the general community served by the school through the publication of a notice of its racially non-discriminatory policy at least annually in a newspaper of general circulation, through utilization of the broadcast media, or by displaying a notice of its racially non-discriminatory 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, *IRS Revenue Procedure 2019-22*).
- However, such notice is not required if one or more of these exceptions apply:
 1. 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 non-discriminatory policy in religious periodicals distributed in the community, or
 2. The school draws its students from local communities, follows a racially non-discriminatory policy toward students, and demonstrates that it follows a racially non-discriminatory 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 non-discriminatory basis.

Filing the certificate of racial non-discrimination is one of the most commonly 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 the following:

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:
 1. a statement that no goods or services were provided by the church in return for the contribution
 2. a statement that goods or services that a church provided in return for the contribution consisted entirely of intangible religious benefits, or
 3. 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: (1) the date the donor files a tax return claiming a deduction for the contribution, or (2) 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 two 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, and
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 2019, token goods or services were those having a value not exceeding the lesser of \$111 or 2% of the amount of the contribution. 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 non-cash property valued by the donor at \$500 or more. Donors who claim a deduction over \$500 but not over \$5,000 for a non-cash charitable contribution must retain certain records and complete the front side (Section A, Part I, and Part II if applicable) of IRS Form 8283. 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 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 the instructions to Form 1098-C for more information.

For contributions of non-cash 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) in excess of \$500,000.

Note: Tax-free distributions from individual retirement plans for charitable purposes. The PATH Act of 2015 has permanently extended (both retroactively and prospectively) the ability of individuals at least 70½ years of age to exclude from their gross income qualified charitable distributions (QCD) made from Individual Retirement Accounts (IRAs). The exclusion may not exceed \$100,000 per taxpayer in any tax year. 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).

While the SECURE Act did not change the age at which an individual can make a QCD from their IRA, which remains at age 70½, the SECURE Act does place a limit on the amount of a QCD based on the amount of deductible IRA contributions made for any tax year after an individual reaches age 70½.

! **Key Point**

QCD tax-favored treatment is not eligible 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.

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

Department of the Treasury — Internal Revenue Service

2020

Form W-2 Wage and Tax Statement

Copy 1 — For State, City, or Local Tax Department

Legend

- 1** Your total pay for the year, minus your housing allowance and certain elective deferrals, such as 403(b) plans.
- 2** Clergy W-2 wages not subject to Social Security. This box should be empty on a clergy Form W-2.
- 3** Clergy W-2 wages not subject to Medicare. The 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. This box should be empty on a clergy Form W-2.
- 6** Medicare is not withheld. 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 Section 403(b) salary reduction agreement.
Code W: Employer contributions (including an employee's contributions through an Internal Revenue 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).
- 14** Control Number used by employer to identify an employee's W-2.

Helpful Numbers and Resources

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 Churches, Schools and Institutions*: [cpg.org/taxpubs](https://www.cpg.org/taxpubs)

Tax Lines:

- Nancy Fritschner, CPA (877) 305-1414
- Bill Geisler, CPA (877) 305-1415 (*through April 30, 2020*)
- Mary Ann Hanson, CPA (877) 305-1415 (*beginning May 1, 2020*)
- Dolly Rios, CPA (833) 363-5751 *Fluent in English and Spanish*

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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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