

TREASURERS MANUAL

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Accountable Reimbursements

ACCOUNTABLE REIMBURSEMENT POLICIES Q&As

The following questions and answers are intended to assist local churches and organizations in establishing and maintaining accountable reimbursement policies for their clergy and staff. Also, at the end of this document, there are some examples of proper and improper expense reimbursements.

1. What is an accountable reimbursement policy and why should we have one?

For business and tax reasons, in most instances, it is in the best interests of the church and its staff to have in place an accountable reimbursement policy to pay for the business expenses that are necessary to do the ministry of the church. These policies are simply a method for claiming and reimbursing professional or business expenses rather than providing an expense allowance. It's as simple as this: A church sets up a budget for the pastor's professional and business expenses, such as travel, continuing education, subscriptions, etc. When the pastor incurs a professional or business expense, s/he submits a claim with backup substantiation. The church either pays the expense directly or reimburses the pastor.

2. Are accountable reimbursement policies only for clergy?

No. The church can set up the policy to cover the business expenses for all staff. When answers or examples refer to pastors, it is for illustration purposes and not meant to exclude other staff.

3. What are the advantages of an accountable reimbursement policy?

There are several advantages to using an accountable reimbursement policy. (a) Convenience: Staff reports the business expenses to the church and not to the IRS - this means that none of the expenses are reported on Forms W-2 and there is no need to worry about IRS forms or calculating deductions. (b) Data: It gives the church an accurate account of the "cost" of ministry and allows members to understand the financial support necessary for staff to do their work well. (c) No complex rules: the Deason rule does not apply (it otherwise requires clergy to reduce the deduction for business expenses proportionately if they have a tax exempt housing allowance). (d) Fewer limits: Certain limits on business meals are avoided. (e) Tax savings: It takes the place of Schedule C and may save on taxes.

4. What are the disadvantages of an accountable reimbursement policy?

There are two minor disadvantages: The clergyperson's work expenditures are subject to more review by church members and some

privacy may be lost. Also, the funds in the accountable reimbursement budget belong to the church and may not be given outright to the pastor at year-end if there is money left unspent.

5. What needs to go in an accountable reimbursement policy?

It's as easy as this. All you need is a written policy, which can be as simple as a short paragraph in the form of a resolution or a detailed plan, depending on the church's own needs and structure. This tax packet includes easy to implement sample policies (short and long). Most churches will want to have a budget amount which will "cap" the allowed amount for each staff person. It can be helpful (but it is not required) for the pastor, SPR committee, and finance committee to develop the budget together, with an idea of the types of expenses that can be expected.

6. When should the policy be set up?

The policy should be set up and funded when the church is doing the budget for the upcoming year. Once a written policy is in place, the church only needs to examine the budget funding for the accountable reimbursement policy each year.

7. How should the policy be funded?

Out of the church's budget, just like other expenses of running the church. The church needs to look at its budget and determine what amounts are necessary to pay for reasonable business expenses that fulfill the mission of the church, together with what it can reasonably afford. It is important for the church to realize that business expenses are properly church expenses and not something that the staff must cover from their own personal funds. It is important to review past expenditures (and future needs) carefully to arrive at an amount adequate to pay for the business expenses and at the same time within budget constraints.

8. Can the church "reduce" or "restructure" the pastor's salary to fund the accountable reimbursement policy?

The IRS has stated that it is currently reviewing some aspects of this issue. But until further notice from the IRS, churches should avoid these types of arrangements.

9. Can monies budgeted in the past for a travel allowance be used instead to fund an accountable policy?

Yes. For example, when the church is setting up its budget, it may reallocate the pastor's travel allowance (or other allowances other than a housing allowance) into an accountable reimbursement policy. By doing so, the church does not have to report the new travel reimbursement as part of W-2 income.

10. Can the church and the pastor negotiate compensation at the beginning of a new appointment that includes funding of an accountable reimbursement policy?

A pastor coming into a new appointment has the ability to create a salary/compensation/benefit package that includes an adequately funded accountable reimbursement policy. The best approach is to budget for the policy out of church funds because these expenditures are for professional expenses which staff need to do their job.

11. What expenses/categories/items should be part of the policy?

Attached to the sample "long-form" policy included in this tax packet is a worksheet designed to help churches determine an acceptable budget for an accountable policy. The worksheet lists examples of appropriate business expenses that may be included (e.g., business automobile expenses, parking, tolls, office supplies, business postage, office equipment, business-use computers, software, professional books/subscriptions, professional dues, religious materials, vestments, business gifts, continuing education, business entertainment, travel, etc.) There may be other business expenses that are appropriate to include, depending on the unique mission of your church. It is important to note that the categories on the worksheet are suggestions for budgeting, not rigid expense categories; the staff person, in consultation with the SPR chair and/or treasurer, or finance committee chair, may shift expenses during the year from one category to another. *Also see the examples at the end of these Q&As for suggestions about proper and improper reimbursements.*

12. Should the church reimburse the staff member or pay for their business expenses directly?

Either approach is acceptable. The staff person may submit a bill and ask that the church pay it. Alternately, s/he can substantiate the expense and ask that the church reimburse him/her. This tax packet includes a sample voucher form that can be used to submit requests for payment or reimbursement. Some churches provide certain members of their staff with business credit cards or long distance phone cards (restricted to business use) to make substantiation and bill payment easier. However, a credit card statement alone is not sufficient substantiation.

13. How should expenses be substantiated?

The IRS requires an adequate accounting by the employee and maintenance of good records by the employer. The IRS requires actual receipts for any expense over \$75.00. The church may use this figure or set a lower limit. (e.g., GCFA requires receipts for all expenses over \$25.00.) The documentation should show (or be listed on the receipt itself): the purchase, amount, date, place, and the business nature of the expense. For example, if the pastor purchased a \$10.25 notebook, the substantiation would not require a receipt, but at the very least should state, "Purchased Notebook for \$10.25 on 1/5/01 for keeping accountable reimbursement records for church." A meal expense might state, "\$5.90 lunch on 1/5/01, in Centerville while meeting with district superintendent." Another example is \$150 expenditure for a continuing education seminar where the staff can submit the invoice for payment by the church to the vendor. Or, if

the staff person paid personally, an acknowledgment of payment by way of a receipt for the seminar or the invoice with a front and back copy of a canceled check would be adequate to substantiate the reimbursement to the staff person.

14. When must substantiation/receipts be provided to the church?

The IRS requires that all substantiation of expenses occur within a reasonable time (within 60 days will be deemed reasonable) of the expense being paid or incurred. Using the above example of a notebook purchased on 1/5/01, the expense substantiation should be submitted no later than 3/4/01, to qualify as an accountable reimbursement. It is a good practice to turn in receipts at least every two weeks, to prevent forgetting about expenses or losing back-up receipts.

15. Can the church make advance payments? When must the staff substantiate the expenses?

Yes, it is appropriate to allow advances, if the church wishes to do so and has an adequate accounting system to track the substantiation for or reimbursement of advances. If an advance is given and exceeds the amount of business expense substantiated, the staff person must return the excess within a reasonable time (within 120 days will be deemed reasonable) of the date incurred or paid.

16. Who gets original receipts and documentation?

The church should be given the originals of receipts and written documentation and the staff person should keep a copy. It is unlikely that the staff person would ever need the copies unless s/he needed to substantiate expenses in excess of the amounts reimbursed.

17. Can the church give to the pastor at the end of the year any monies in the accountable policy not spent during the year?

No. The funds budgeted should not be shifted to a bonus or any other type of payment. This could jeopardize the entire accountable reimbursement policy. The monies can be used by the church for other types of expenses (e.g., for mission, to reserves, or as a carry over to the accountable reimbursement budget line for next year).

18. Can the church increase the funding of the accountable reimbursement policy during the year?

Yes. If the church has additional funds or wants to shift budgeted funds from one account to another, it may do so. (No shifting is allowed from salary to an accountable policy).

19. Which church officer should be responsible for reviewing the propriety of the items submitted and which officer should be responsible for paying the expenses?

There is no single correct way to handle this responsibility. One method is to have the chair of the SPRC (in consultation with the committee) review and approve the submitted expenses and for the treasurer to handle payment. This avoids conflicts that may arise concerning the appropriateness of a given expense if all of the responsibility is on the treasurer. Under any arrangement, it is important for someone, with credibility and respect to carefully review all of the submitted requests for reimbursement to ensure their appropriateness. Also, someone needs to be in charge of monitoring all expenses to ensure budget compliance, timely reporting, return of any advances and the like.

20. How should confidential items be handled in terms of substantiation and reporting?

When the pastor makes confidential visits to parishioners, s/he may want to write "private" or "confidential visit with church member" on a travel log. The pastor should at least be able to answer any questions or share information about these entries in confidence with the chair of the SPRC.

21. What does the IRS consider to be a properly reimbursable business expense and is it different for a church than a for-profit oriented business?

A business expense is one that is directly related to the purposes and goals of the organization and is reasonably necessary to fulfill those goals. The basic idea applies to all organizations, from the smallest widget manufacturer to the largest business corporations in the U.S., from the smallest rural church to the mega churches, even though the goals of a church are different from the goals of a business. It is necessary that expenses relate to the church's unique mission and that they not be personal expenses of the pastor.

For example, it would not be proper for a minister to claim a travel reimbursement for the expense of visiting a sick relative who is not a member of the church and who lives 100 miles away, even if part of the purpose of the trip was to give spiritual comfort. The primary reason for the trip is to visit a relative. If a pastor went on a two-week vacation with his/her family and also preached at two churches during the trip, reimbursement for the travel vacation expenses would not be proper. Some of the expenses related to the preaching would be appropriate if the pastor's church encouraged such preaching arrangements during vacations, the pastor obtained approval for this, and the pastor incurred additional expenses on the trip for going to those church locations. If the personal nature of the expense is the primary consideration, it is not a business expense. Also see the sample list of proper and improper reimbursement items at the end of these Q & As.

22. May a church tell a pastor not to spend funds even if the expense may be a proper business expense?

Yes. The question suggests a conflict between the pastor and the treasurer's or the SPR committee's view of necessary or authorized expenses as they relate to the mission of the church. The best way to resolve most conflicts is to try to understand them, discuss them, and come to some agreement.

For example, it is hoped that most churches would agree that annual conference related committee work and travel are part of each church and pastor's commitment to the connectional system (these would be legitimate business expenses). If a conflict over such conference expenses exists, the DS may be able to facilitate some meeting of minds (or pocketbooks). A difficult problem may arise when the church and the pastor view their mission differently. If the church does not approve of the clergy's involvement in an international mission project and finds it to be outside of the church's mission, the pastor should not submit travel or related expenses for such an activity. These issues should be explored ahead of time with the SPRC to avoid misunderstandings.

23. What happens if a new pastor is appointed in June and the previous pastor has already spent all of the funds in the accountable reimbursement policy account for that calendar year?

The best answer is that this type of situation should not arise in the first place, because the departing pastor, SPRC chair, and treasurer should make sure that it does not occur. These individuals all need to monitor the expenses and make sure that the accounts, absent unusual circumstances, are spent proportionally throughout the year. However, if this scenario should occur, it is possible to add to the accountable reimbursement policy for the new pastor, if funds are available elsewhere in the budget.

24. Who owns the equipment and other items purchased under the accountable reimbursement policies?

The church. If a church has paid for items through an accountable reimbursement policy, the equipment or other property belongs to the church, unless there is some other agreement. This issue of ownership usually does not come up until a pastor receives a new appointment and wishes to take equipment with him/her. It is not an issue in relation to travel, continuing education, professional dues, or entertainment expenses, which are not "tangible" things. Likewise, it would not often be a problem for office supplies, postage, periodicals or personal religious supplies, such as robes. These items are used up or are so personal that they have limited or no value to the church.

A computer is the most common item that raises this question. In this day and age it is important for the church to supply staff with a computer. However, if the pastor needs a computer, and the church has not budgeted for this purchase, the pastor may want to use accountable funds to make this purchase. While the pastor is at the church, the pastor uses the computer for business purposes.

What happens when the pastor, Rev. Dos, who purchased a computer with accountable reimbursement funds, leaves?

Rev. Dos decides she likes her computer and wants to take it to her new appointment. She approaches the chair of the SPRC and offers to personally purchase the computer for current fair market value (a purchase, at fair market value, would not be a taxable event). The SPRC decides to give the computer to Rev. Dos. The gift is a taxable event and the value of the gift for income tax purposes is the current fair market value.

25. Do accountable reimbursement policies include the housing allowance?

No. These are totally separate and need to be established and maintained separately. Accountable reimbursement policies are for business expenses, are available to all church staff, and can be used by any business or organization. Housing allowances relate only to clergy, as ministers of the gospel, and are authorized specifically by Internal Revenue Code § 107.

26. Do accountable policies include a cafeteria plan (flexible spending plan) for medical reimbursements?

No. However it is possible to set up cafeteria or flexible spending plans that may allow church staff to have medical reimbursements, dependent care reimbursements, and life insurance coverage, without income tax consequences. *All of the above arrangements need to be set up properly in a separate resolution or plan, with the assistance of a tax and benefits advisor, and must conform to the applicable Internal Revenue Code provisions.*

27. Are there any pension concerns when using an accountable reimbursement policy?

No. Amounts that are paid as accountable reimbursements are not part of "includible compensation" for certain pension contribution limitations established by IRS rules.

28. What are the implications of an accountable reimbursement policy for local church/conference reporting information?

GCFA's Local Church Report to the Annual Conference and Local Church and Pastor Compensation and Expense Worksheet forms have been changed to show the distinction between **reimbursements** established for the pastor and **allowances** paid to the pastor. In the Report, line 66 is for reimbursements and line 67 is for allowances (other than the housing allowance that is put on line 65).

29. How should "ticketless" airline expenses be substantiated?

It is necessary that the documentation show the date, place, amount and business reason for the trip. The IRS has suggested that the itinerary from a travel agency and/or the airline receipt, along with an explanation of the reason for the travel, should be sufficient.

These Q & As are provided to give suggestions for establishing an accountable reimbursement policy. It is important to examine each situation closely to determine the correct result, because each church setting, ministry, budget and pastor are unique. The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.

Examples of Proper Reimbursement Items*

Reasonable travel and related expenses for attending meetings (e.g., annual conferences, United Methodist meetings, etc.)**

Church-approved trips to preach at another church

Trips to meet with the district superintendent, bishop or director of connectional ministries

Trips to visit members at hospitals, nursing homes, or parishioner's homes

Lunch meetings with officers of the church to discuss church business

Supplies for the church office (e.g., paper, pens, forms, notebooks, etc.)

Church-related continuing education

A computer required for church work

Vestments worn for worship

Church-related books and periodicals

Office furnishings and equipment (e.g., desk, chairs, telephone, etc.)

Spouse's travel expenses where the spouse accompanies the pastor **but only if the spouse was required by the church to be present for a business purpose** (e.g., the spouse is an elected delegate to the church meeting or group in charge of registration at the meeting and making a speech to the business meeting, etc.)

Business-related automobile operating expenses (if standard mileage rate was not used)

Long distance telephone calls to church when on vacation

Church-related telephone calls from the parsonage (most telephone expenses are covered under the housing allowance)

Many business related (non-personal) expenses allowable on Schedule C of the IRS tax return

**The items listed are, in most cases, proper. There may be some circumstances in which the church has specifically prohibited purchases. Each individual church must, in consultation with staff, make its own decision about what expenses are "professional and business" expenses and whether it will cover those items.*

*****If the conference pays a pastor 15 cents per mile for attending a conference meeting, it is proper for the church to reimburse the difference between the church's rate and the 15 cents. For example, if the church reimburses staff travel at 31 cents per mile, in this case, the conference would pay 15 cents per mile and the church would pay 16 cents per mile for mileage.***

Examples of Improper Reimbursement Items***

Mileage to church from home for daily work (considered personal) - Mileage to home and back to church for lunch break

Meals with friends at which church matters are discussed

Spouse's travel under most circumstances (see example of proper reimbursement in limited circumstances above)

Vacations (including trip to Holy Land)

Books to plan vacation to Holy Land

Trips to visit sick relative

Trips to funeral home where that pastor is personally paid an honorarium for service (may be deducted on a Schedule C)

Tickets to attend the play "Joseph and His Amazing Technicolor Dream Coat"

Expenditures (e.g., travel, books, phone calls) to research a book or article

Continuing education primarily for personal improvement

A computer used primarily by family

Everyday clothing, including business suits

Alcohol, even as an item on a receipt for a business meal

Medical expenses (may be part of a cafeteria or flexible spending accountable reimbursement policy)

Child care/dependent expenses (may be part of a cafeteria or flexible spending reimbursement plan)

Life or disability insurance premiums

Medical insurance premiums (may be part of a cafeteria or flexible spending plan)

Charitable contributions, tickets to charity functions

Expenditures related to a private business or generating income from a non-church source

Housing related expenses (e.g., utilities, furniture, upkeep (these are part of the housing allowance)) except to the extent they relate to an office

Subscriptions to a national news magazine for the pastor's personal use

****The items listed, in most cases, are improper. There may be some circumstances, particularly where the church has directed the staff person to make the expenditure for church mission, when these items may be proper. Each individual church must, in consultation with staff, make its own decision about what expenses are "professional and business" expenses and whether it will cover those items.*

(SAMPLE)
SHORT FORM

ACCOUNTABLE REIMBURSEMENT POLICY

The following resolution is hereby adopted by the church council of _____
_____. It will be effective for the calendar year _____ and all future years
unless specifically revoked or superseded.

The church pastor (or other employee(s)) will be reimbursed for ordinary and necessary business expenses incurred in the performance of his or her responsibilities when he/she substantiates the amount, business purpose, date, and place of the expense.

This substantiation must be provided to the chair of the pastor parish relations committee (or church treasurer) within sixty (60) days of incurring the expense. The individual must return to the church any amounts received in excess of the substantiated expenses within one hundred twenty (120) days of receipt.

The church will not report any properly substantiated reimbursement payments as income on any Form W-2.

Chair, Church Council

Committee on SPR/PPR Chairperson

Treasurer

Pastor/Staff Person

Secretary

(The church may wish to designate certain items which it elects to have covered by this policy, such as travel, continuing education, attendance at annual conference, books, subscriptions, work supplies, vestments, etc. There may be a cap or dollar amount on the total reimbursable business expenses that will be paid, for example: "The reimbursement amount shall be no more than _____. " The church may also want to require pre-approvals by the treasurer or SPR/PPR chair of business expenses in excess of \$ 500 (or any other amount deemed appropriate). These additional requirements should be included in the policy.)

This is a sample of an accountable reimbursement policy. The specifics of each policy should be reviewed by each church and minister considering their specific concerns. If legal or tax advice is required, the services of a competent professional advisor should be sought.

(SAMPLE)
LONG FORM

ACCOUNTABLE REIMBURSEMENT POLICY

The _____ United Methodist Church ("Church") recognizes that certain expenses of ministry paid by the pastor/staff person are part of the ordinary and necessary costs of ministry in this Church/charge. Accordingly, we hereby establish an accountable reimbursement policy to defray them directly. The reimbursement account shall be an annual line item in the Church budget. It shall be in addition to the pastor's annual salary and housing. The reimbursement account for 20__ shall be \$ _____. *(Amount may be determined by using the attached suggested worksheet.)*

The following requirements for the policy are binding upon the Church and upon _____, its pastor/staff person.

Accordingly, the Church hereby establishes an accountable reimbursement policy, pursuant to IRS regulations and upon the following terms and conditions:

1. The pastor/staff person shall be reimbursed from the reimbursement account for his/her ordinary, necessary, and reasonable business expenses incurred in the conduct of the ministry for, and on behalf of, the Church. The following expenses are budgeted in this accountable reimbursement policy, as suggested for the work needs of the pastor/staff person.
2. The committee on SPR/PPR chairperson, Church payroll person, or treasurer, (as designated by the Church) must be given an adequate accounting within 60 days after the expense is paid or incurred. The adequate accounting shall include, but not be limited to, a statement of expense, account-book diary or other similar record showing the amount, date, place, business purpose, and business relationship involved. Such documentation shall include receipts for all items of \$75 or more (*a church may set a lower amount*). Appropriate documents, cash receipts, canceled checks, credit card sales slips, and contemporaneous records (for those non-receipt expenses less than \$75), must be attached to each expense report. A log of total miles per day and enumeration of their general purpose shall suffice to substantiate automobile mileage, but under no circumstances will commuting mileage between the pastor's home and Church office be reimbursed. Copies of the documentary evidence and expense report shall be retained by both the pastor/staff person and the Church.

The committee on SPR chairperson (or treasurer) shall be responsible for approving the expense. The committee on SPR chairperson (or treasurer) shall exercise his/her discretion regarding the adequacy of the substantiation and the appropriateness of any reimbursement. Questions arising in these areas will be resolved by the SPR chairperson (or treasurer), subject to the review and approval of the committee on SPR/committee on finance.

3. It is the intention of this policy that reimbursements will be paid after the expense has been incurred by the pastor/staff person. However, should circumstances require payment of an advance for any particular anticipated expense, the pastor/staff person must account for the expense as described above and return any excess reimbursement within 120 days after the expense is paid or incurred. Any excess advance must be returned to the Church before any additional advances are provided to the pastor/staff person.

4. Budgeted amounts not spent must not be paid as a salary bonus or other personal compensation. If such payments are made, the entire amount of the accountable reimbursement policy account will be taxable income to the pastor/staff person. The Church will be required by law to report that amount as part of the pastor's/staff person's compensation. Disposition of any unspent balances remains at the discretion of the committee on finance/the council/charge conference in building the budget for the next Church year.
5. It is understood by the various parties that all elements of this resolution must be carefully followed to prevent the Church from being required by regulation to include all reimbursements as income on the pastor's/staff person's Form W-2. The primary responsibility in this regard is on the pastor/staff person to report and adequately account for his or her expenses to the committee on SPR chairperson, church payroll person, and/or treasurer.

Adopted on _____, 20____, by the Church Council [Charge Conference] of
the _____ United Methodist Church.

Chair, Church Council

SPR/PPR Chairperson/Church Treasurer

Pastor/Staff Person

Secretary

This is a sample of an accountable reimbursement policy. The specifics of each policy should be reviewed by each church and minister considering their specific concerns. If legal or tax advice is required, the services of a competent professional advisor should be sought.

WORKSHEET FOR SETTING A BUDGET FOR AN ACCOUNTABLE REIMBURSEMENT POLICY

The following are suggested items for inclusion in this accountable reimbursement policy. It is only the total listed in Item K which is to be put in the policy itself. This worksheet is for budgeting purposes only and it is permissible for the reimbursed individual to shift items from one area to another.

A.	Automobile (standard federal mileage rate), parking and tolls	\$ _____
B.	Office supplies and postage	\$ _____
C.	Office equipment, computer and software	\$ _____
D.	Books, subscriptions and periodicals such as professional journals	\$ _____
E.	Professional dues	\$ _____
F.	Religious materials, vestments and business gifts	\$ _____
G.	Continuing education and seminars (as approved by the committee on SPR and/or the committee on finance)	\$ _____
H.	Entertainment required for Church business	\$ _____
I.	Travel fares, lodging and meals while on business for the Church	\$ _____
J.	Other	\$ _____
K.	Total*	\$ _____

**The total listed in Item K must be the same as the total reimbursement amount set forth in the first paragraph of the policy. Church council action is required for an increase to Item "K" (Total). To allow for the pastor/staff person's spending discretion, only Item "K" is necessary to be reported as a line item in the charge conference approved budget and in the policy document. Circumstances dictate that the above expenses will vary from church to church and from time to time.*

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(Sample)

Expense Voucher Form

Set forth below is a sample voucher form that can be used to record information relating to business purchases for the church. The form can be used to request payment or reimbursement for church-related items bought by a member of the church, such as paper plates for the church kitchen, cleaning supplies, or a new electrical switch for the parsonage. The form can also be used by a staff person to request payment or reimbursement of expenses pursuant to an accountable reimbursement plan.

Direct Payment Example: The choir director may be requesting direct payment of some continuing education expense that is part of his/her accountable reimbursement plan. The director would complete the form, attach the invoice or bill, preferably the original, obtain the necessary authorization (i.e., signature of person authorized to approve the expense), and submit the completed form to the treasurer for payment. The choir director should keep a copy.

Reimbursement Example: The pastor purchases and pays for a new robe. He/she would complete the form, asking that reimbursement be made to him/her for purchase of vestments and would attach the original or a copy of the receipt. The necessary authorization signature is obtained and the completed form is submitted to the treasurer for payment. The treasurer would remit the amount to the pastor. The pastor should keep a copy.

In each case, it will simplify the treasurer's job if the person submitting the voucher notes the account number or budget line item number.

"CHURCH NAME"	
Expense Voucher	
Date: _____	Amount: \$ _____
Pay To: Name _____	
Address _____	
Description of Expense: _____	
Business Purpose of Expense: _____	
Receipt/Bill: ☐ Attached ☐ No	
Account Number or Budget Line Item Number: _____	
Person Requesting Payment: _____	
Approved By: _____	
Special Instructions: _____	

Q & A

LOCAL TRANSPORTATION EXPENSES

The following questions and answers provide information on church local transportation expenses for clergy and staff. The Q&As assume a local church situation where the staff person's principal place of business is at the church (**not at home**) and the staff person is given a reimbursement rather than deducting the expenses on his/her tax return. At the end of these Q&As, there is a separate discussion dealing with transportation expenses for pastors serving multiple-point charges.

In general, the rules for reimbursable local transportation expenses can be complex and unusual fact situations cannot be dealt with here. (See IRS Publication 463 - Travel, Entertainment, Gift, and Car Expenses, for additional information) As always, you should consult with your own tax advisor when making tax related decisions.

1. What are the general rules for distinguishing between commuter mileage/personal mileage, which is not reimbursable, and business mileage for local transportation, which may be reimbursed to a church staff person?

Business related travel, including local transportation expenses incurred as part of the staff person's work, are reimbursable expenses. Commuter expenses/personal travel between the staff person's home and a regular work location or personal trips are not reimbursable. Commuter expenses occur when a staff person goes from home to the church, which is the regular work location. However, if the staff person goes from the church or home to a special meeting away from the church or on a parishioner call, this is properly a business expense.

Examples of non-reimbursable trips starting at home or at church: Trips to the church, a temporary office within a metropolitan area, for a personal errand, or to an evening meeting at the church.

Examples of reimbursable trips starting at home: A clergyperson who as part of his/her job visits a parishioner at home or at the hospital, a trip to a business meeting away from the church, a meeting with the district superintendent, performing a funeral service, and the like.

2. Is a trip taken for an emergency evening meeting at the church by a staff member a reimbursable business expense or commuter expense? What about a trip home to pick up a draft of my sermon that I was working on at home last night?

All trips that relate to your personal commute from your home to the church are not reimbursable. This includes travel to your regular church work site, home from work, back to the church (where you regularly work) at night, and all personal trips (home or elsewhere).

3. Is travel to a church approved continuing education event reimbursable?

Yes.

4. By the way, what specific expenses are reimbursable?

You can be reimbursed for the actual expenses of operating a vehicle or the standard mileage rate (published annually by the IRS), plus business related tolls and parking. If you receive more than the standard mileage rate, the excess is treated as income; if you receive less, the difference can be treated as a deduction.

5. What kind of records should I be keeping for my transportation expenses?

You should keep a travel log showing the date, place, mileage, and business purpose of all trips.

6. Are there special rules for staff with part-time appointments who have another job?

Yes. If you work at two workplaces in one day, whether or not for the same employer, you can be reimbursed (if the same employer) or deduct the expense of getting from one job to the other.

7. Do these rules change if my office is in my home and this is my principal place of work?

Yes. Be aware that the IRS is very strict about the tests used to determine if your home is indeed your principal place of business. If you are provided a place to work in the church and choose not to use it, the IRS probably will not allow you to treat your home as your principal place of business. If you meet the IRS tests, then you will have business rather than commuter expenses when you travel to other locations for the church.

8. How are “transportation expenses” (discussed here) different from “travel expenses”?

Basically, the IRS defines “travel expenses” as those relating to overnight travel away from home. The rules pertaining to travel expenses are also discussed in IRS Publication 463.

TRANSPORTATION EXPENSES FOR PASTORS SERVING MULTIPLE POINT CHARGES

Listed below are examples of local travel situations that might arise for a pastor serving a multiple point charge.

Example 1

Pastor Smith serves Church A and Church B. Four days a week he spends the morning at Church A and the afternoon at Church B. One day a week he visits parishioners in hospitals, nursing homes, and the homebound. He lives one block away from Church A and often walks to Church A rather than drive. He then walks home for lunch. After lunch, he drives to Church B.

Is the drive from his home to Church B a reimbursable business expense?

No. This is a commute from home to a regular business location (not temporary) and as such it is non-reimbursable commuter mileage.

Example 2

Same as Example 1, except that Pastor Smith walks back to his driveway, does **not** go into the house, gets in the car and drives to Church B.

Is the drive from his home to Church B a reimbursable business expense?

Probably. The IRS allows travel between two work locations as a business expense. Because his car is parked only one block away, this may be treated the same as if he had driven directly from one business location, Church A, to another business location, Church B.

Is the drive from Church B to his home at day's end considered a reimbursable business expense?

No. It is commuter mileage.

Example 3

Pastor Smith starts the day by driving to Church B. At 5:00 PM, he leaves Church B and goes home.

**Is the drive from his home to Church B a reimbursable business expense?
Is the drive from Church B to his home a reimbursable business expense?**

No. Both are non-reimbursable commuter mileage.

Example 4

Pastor Smith starts the day by driving to Church B. He leaves Church B and goes to park his car in his house's driveway. Then, without going into his home, he walks over to Church A for a meeting.

Is the drive from his home to Church B a reimbursable business expense?

No. It is commuter mileage.

Is the drive from Church B to his driveway (but not going into his home) a reimbursable business expense?

Probably, because he went directly (directly being considered within one block of his home and not going into his home) from one business location to another.

Example 5

On Sunday mornings, Pastor Smith walks to Church A. After the worship service, he walks back to his driveway, (but does not go into his home) gets in his car and drives to Church B to hold worship.

Is the drive to Church B considered a business expense?

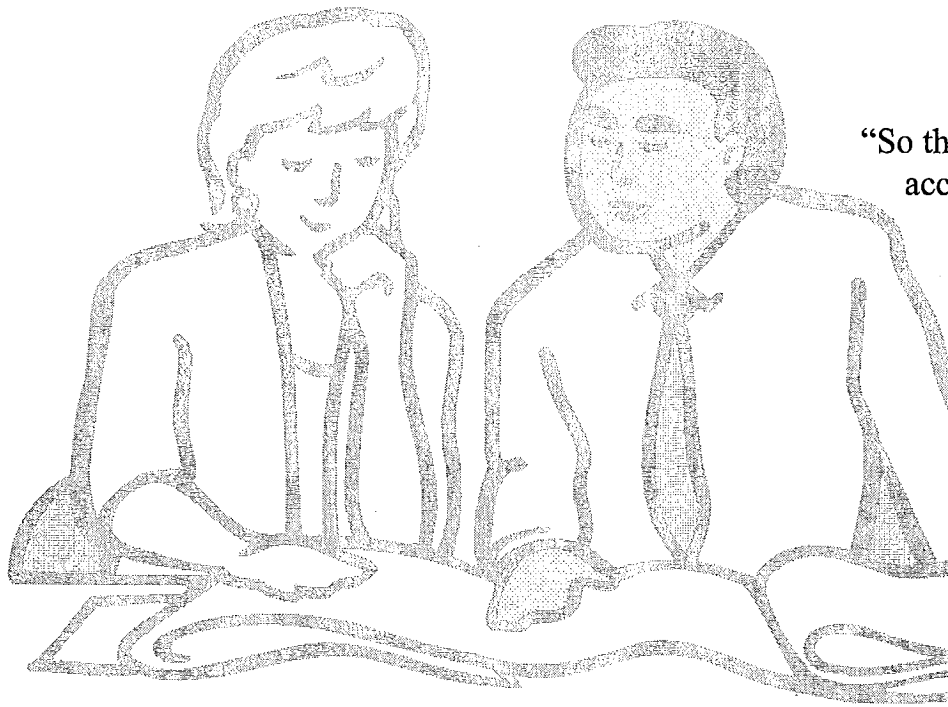
Probably. As in Example 2 above, he is essentially going from one business location to another. Because his car is parked only one block away in his driveway, and he does not go into his house, this could be viewed as direct travel between two work locations.

The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.

AUDIT GUIDE

FOR

LOCAL CHURCH



“So then, each of us will be
accountable to God.”

“We are taking pains to
do what is right, not
only in the eyes of the
Lord, but also in the
eyes of the Church.”

“Who then is the wise and
faithful steward?”

“Turn in the account
of your stewardship.”

THE LOCAL CHURCH AUDIT GUIDE

For
United Methodist Congregations

This booklet is given to you as a service of the Internal Audit Department and the Committee on Audit and Review of the General Council on Finance and Administration of The United Methodist Church. We hope you will find it useful. If you have suggestions for making it better, please telephone, write, fax, or e-mail the Director of the Department, who can be reached at these numbers and addresses:

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Our sincere thanks to the General Secretary of the General Council on Finance and Administration, Sandra Kelley Lackore, for her support and encouragement in the preparation of this second edition of the *Local Church Audit Guide*. We also thank the members of the Board of Directors of the Council and the staff of the Internal Audit Department in Nashville and Evanston, Illinois, for their helpful comments and suggestions. The Committee on Audit and Review and the Department of Internal Audit take full responsibility for any errors that might appear in this booklet.

The Committee on Audit and Review
by Stan Sutton, Chair
Nashville. November, 2001.

The Legal Department tells us we should start with a disclaimer. It is a good lesson to begin this booklet since all organizations within the Church should be attentive to professional advice given to them.

DISCLAIMER

The General Council on Finance and Administration and the Internal Audit Department are not responsible for the conduct of local church audits, nor do they provide legal or financial advice to local churches through this booklet. Local churches should seek assistance and advice from their local advisors when specific issues arise. This booklet is provided to you as a service; it should be used to increase knowledge of auditing principles within your local church, including the understanding of why audits should be conducted and the uses to which they can be applied by local church officials.

LOCAL CHURCH AUDIT GUIDE *Second Edition*

We will use a question and answer format in presenting the information in the following pages. The questions and answers come from the experience of those who have prepared this booklet, who are individuals who serve or have served on local church finance committees and who have been there, done that. Some are professionals in the field of church finance. The questions that follow are questions we ourselves have asked or have been asked by others.

So let's start by learning a little terminology--some definitions. You remember what the Music Man said about being good at selling musical instruments in that musical show named after him: "You gotta know the territory!" Well, let's learn the territory. It's not difficult to explore, and who knows, you might even have some fun getting to know your job better.

Speaking of definitions, just what is an audit?

The *Book of Discipline* does not define what a local church audit is. It does not, for example, say that an audit must be performed by a professional, or that it must conform to generally accepted auditing standards, or that it must be prefaced by the usual representations and caveats that auditing firms incorporate into their audits.

For that reason, we have gone to the *Book of Discipline*, where we found no definition of the term "audit." We then turned to definitions used by professionals and have tempered them by the application of common sense made necessary by the fact that local churches vary so much in their resources and in their budgets. We conclude that an "audit", as the term is used in the Discipline, is meant to be a process that provides reasonable assurance that good stewardship is being used in handling and accounting for the funds and other assets of the local church. To a professional auditor or accountant, how we define an audit may be closer in professional jargon to a "review." However, the Discipline does not call for a "review," and that is why the definition we have chosen and the steps we outline in this booklet may fall somewhere in the middle between a full-blown "audit" and the simpler "review."

Here is our practical, working definition of an audit for the local church:

A local church audit is an independent evaluation of the financial reports and records and the internal controls of the local church by a qualified person or persons for the purpose of reasonably verifying the reliability of financial reporting, determining whether assets are being safeguarded, and whether the law, the Discipline, and policies and procedures are being complied with.

Why in the world would a local church want an audit?

This is a commonly asked question. Believe it or not, there's one set of answers that fits all. And yes, we know that local churches come in all sizes from a handful of members to thousands, with every gradation in between. We know, too, that your locations vary from the heart of the inner city to way out in the countryside. And yes, we've heard all kinds of related questions asked about why a local church should have an audit, Including –

why a small church with a tiny budget?

and why a big church with lots of controls in place and with a full staff of professional administrators?

and then there's this one – why waste the time or the money, or both, when everybody knows the church treasurer is as honest as the day is long?

Well, here's the number one reason why (to paraphrase "Jesus Loves Me"):

"For the Discipline tells me so."

Section 258.4 c) of the 2000 *Book of Discipline* makes it *mandatory* that every local church finance committee "shall make provision for an annual audit of the records of the financial officers of the local church and all its organizations and shall report to the charge conference."

But there are more reasons than that for annual audits. Here are a few:

An annual audit is the best way we (and the General Conference) know of

- ▶ to protect the persons the local church elects to offices of financial responsibility from unwarranted charges of careless or improper handling of funds;
- ▶ to build the trust and confidence of the financial supporters of the church in the way their money is being accounted for (trust and confidence lead to improved patterns of financial support);
- ▶ to set habits of fiscal responsibility to assure that when there is turnover in personnel there will be continuity in accountability and nothing will fall through the cracks;
- ▶ to assure that gifts made to the church with special conditions attached are consistently administered in accordance with the donors' instructions, and thus let donors know their gifts are used as intended;
- ▶ to provide checks and balances for sums received and expended.

Conducting an audit is not a symbol of distrust.

It is a mark of responsibility.

It is good stewardship demonstrated for all to see.

It is a message to local church donors that you care about their gifts.

But don't I have to be a fiscal expert to understand local church auditing?

Not on your life!

Local churches all over the United Methodist world do a great job of filling their responsibilities to make provisions for an annual audit without the benefit of formal training in accounting or fiscal management, whether it's an audit by outside professionals, or whether it's by some person in the congregation with financial knowledge or expertise, or whether it's by the treasurer of a neighboring church.

Like riding a bike, it's a learned skill. And we're here to teach you.

In defining a local church audit, what does "independent" mean?

"Independent" means that the auditor must not be subject to control or influence by anyone who has responsibility for the financial accounts and records of the local church. There should not be even the appearance of a relationship that may dilute the perception of the independence of the auditor.

For example, the treasurer, her husband, or cousin should not conduct the audit. Nor should her best friend. Persons who handle any of the church funds should not perform the audit. Nor should the church's pastor.

To be "qualified" to audit a local church must a person be a CPA?

No. There is no requirement that a CPA or other accounting professional must perform a local church audit. This means that it is not necessary to have an audit signed off by a professional who states that the audit was performed in accordance with professional standards for the performance of audits. The keys are that the audit must be performed by a "qualified" person or persons, and that the auditor must be independent.

Who can perform a local church audit?

Generally, a person who is "qualified" to perform a local church audit will have some experience with accounting principles, such as those gained through bookkeeping, office management, or accounting courses. The person must have the time to devote, have the initiative to follow through on asking banks and donors for information verifying financial data and then to complete the reports identified later in this booklet. Sometimes a small local church will agree with another small local church in the same locale to have the treasurer of each audit the other. Often churches have accounting professionals in their congregations who are not serving that church in any of the financial offices who are willing to perform the audit as a donation of services.

We do have a recommendation about professionals, though. We suggest that churches with annual receipts in excess of about \$300,000 to \$400,000 should seriously consider engaging an outside auditing firm to perform the audit. This is a recommendation and is not binding, but it seems to us to be prudent stewardship since more complexity is involved as receipts and expenditures become larger.

Are there other definitions I should know?

Yes, there are. In particular, persons interested in church finances should know the definitions of "restricted funds" and "designated funds," and how and why each category is accounted for differently in the church's records.

What are restricted funds, anyway, and why should I care?

Restrictions come about when a donor imposes a stipulation on a gift that limits its use to a specified purpose. If a local church accepts a gift which can be used only for a specified purpose, that gift must be accounted for separately from gifts given to the organization in furtherance of its general purposes, such as money dropped in the plate on Sunday morning. The reason why you should care why it is important to account separately for restricted assets is that if they are used for purposes other than the one (or more) specified, the donor (or an heir of a deceased donor) may be entitled by law to ask for return of the gift, even years later.

Can you give me an example of a restricted gift?

You bet. Suppose member Jane Doe gives \$10,000 (hallelujah!) and simultaneously delivers a letter that her gift is to be used to help buy a new piano. If the gift is accepted, the \$10,000 would be a restricted gift to be accounted for in the church's records as a restricted asset. Jane's letter should be kept in the church's financial records and the money spent only to buy a new piano.

Here's a second example. Suppose member Jack Roe gives \$100,000 (thanks, Jack!) and writes to say that his gift is to be invested and the income from it used to buy music for the music program. The \$100,000 is a restricted asset also.

But aren't those two gifts different? One can be spent, the other can't.

Right! While both are restricted assets, the money for the piano is called "temporarily restricted." That means that the donor-imposed stipulation can be fulfilled by the action of the church in deciding to buy that new piano, then doing it. Assets that are "temporarily restricted" can ultimately be spent, though they must be spent for the specified purpose.

The money given by Jack to be *invested* is "permanently restricted," meaning that the full \$100,000 was stipulated by the donor to be held permanently. Note that the income from the gift is to be used only for a specific purpose. To make a fine point, the income is temporarily restricted in that it can be spent by action of the church in deciding to buy music, the gift itself is permanently restricted. These two types of assets should be reported separately.

Sometimes churches do not refine their accounting records to the point of separately reporting temporarily and permanently restricted assets in financial statements because they don't have enough of either to warrant the time. That works if the records are clear enough to be able to distinguish between what can ultimately be spent and what must be held permanently. Remember that when a gift is accepted subject to a stipulation for use in a particular way, the result is a contract to use it only in that way. Keep the donor stipulations permanently so you will know what the church has contracted to do.

There's another point to remember. The local church cannot change any restriction without the specific consent of the donor, which should be written.

So how do restricted assets differ from designated assets?

Designated assets are those assets that have been voted by the local church's governing board, such as its church council or equivalent body, to be used for a particular purpose. For example, suppose the board decides this fall to set aside from money on hand the amount of \$5,000 to send five persons next year to an appropriate seminar on making disciples. Following the vote, the \$5,000 should be reported as a "designated" asset.

Because the stipulation for its particular use was made by the church itself, that stipulation (or designation), can be changed by the action of the body that put it in place. There is no other party involved as in the case of the receipt of restricted gifts. Next year, if the board decides the \$5,000 can be better used for some other purpose, such as to buy a new van, for example, it can vote to apply the money for that purpose.

Can you outline just what an audit does?

For starters, an audit should:

- ✓ Independently verify the reports of the treasurer(s);
- ✓ Follow the money and test how it is treated at different steps;
- ✓ Document that donated and earned funds of the congregation have been used as stipulated by the donors.

In addition to tracking the cash through the system, an auditor typically will evaluate:

- ✓ Accounting controls (systems that reduce the possibility of loss or errors);
- ✓ Segregation of duties (assurances that more than one person is involved in critical steps in handling money so that there can be checks and balances);
- ✓ Reasonableness of systems and procedures in the light of all factors, including the size of the church and its budget;
- ✓ Adequacy of insurance coverage;
- ✓ Systems for retaining and accessing meeting minutes that have financial implications (i.e., Finance Committee, Trustees, Charge Conference); and
- ✓ Records that show donors' stipulations for the use of gifts made to the local church.

A local church's unique circumstances may suggest that additional steps should be taken. It is important to document the financial processes of your particular local church. Additional steps will be discussed as we move on.

In the next few pages we will take you through the documents you need to examine to accomplish the foregoing.

What about auditing money held by groups within the church?

We Methodists are instructed by the Discipline to audit not only the financial officers of the local church, but "all its organizations" That means that the treasuries that are to be audited include:

- ✓ Financial Secretary;
- ✓ Church Treasurer;
- ✓ Trustees Treasurer;
- ✓ Memorial Fund Treasurer (if any);
- ✓ Local Church Foundation or Endowment funds;
- ✓ All other separate treasuries or bank accounts maintained by a group using the same tax identification number as the church, including, for example, United Methodist Men, Pastor's discretionary fund, United Methodist Youth fund, church school, and others.

The only exception is the United Methodist Women, which should be audited but may be audited separately.

What kind of information does an auditor need to look at?

The person(s) or the auditing firm must obtain access to the following information and materials:

- 1 Copies of all church policies and procedures related to finance and treasury functions and copies of minute approving those policies.
- 2 Copies of all the minutes from the finance committee, the trustees, the administrative board, the previous charge conference(s), and any other entity listed on the prior page.
- 3 Listing of all bank and investment accounts, including the person authorized to sign on each, and including any special use accounts under the control of the pastor(s) and in the name of the church.
- 4 All financial statements for each month of the year, plus December of the prior year and January of the subsequent year (a fourteen month period).
- 5 Bank and investment account statements for the same period.
- 6 Bank reconciliations for that same period.
- 7 Original books of entry, which will be the general and subsidiary journals; for those books that are computerized, a print-out of all transactions by account for the entire year.
- 8 All paid invoices, payroll data and files (including 941's, year-end W-2's, 1099's and transmittal forms), income transmittals and deposit records for the fourteen month period.
- 9 The Financial Secretary's records and other income records for the same period.

What about confidential information?

The person(s) conducting the audit may obtain access to confidential information and must treat that information accordingly.

The auditor's work papers may contain confidential information. These work papers as well as all financial records should be retained for **at least seven years** in a secure, limited access, storage area.

How is a local church audit conducted?

After the books are closed for the year but before the audit begins, the auditor should prepare confirmation forms for banks, the annual conference, insurance companies and donors. Those confirmations are essential for providing the auditor with independent verification of bank account balances and authorized signatures, monies sent to the annual conference for benevolence funds and special gifts, the coverage level(s) and related premiums for all insurance policies and, on a test basis, donor contributions.

How does the local church auditor get bank confirmations?

For each bank and investment account, the auditor requests the balance as of December 31, and a list of the person(s) authorized to sign on that account. **Addendum III** is a standard form for obtaining this information.

How can the auditor get Annual Conference confirmations?

The auditor should send a letter or a memorandum to the annual conference treasurer requesting the person to confirm the amounts received from the church for annual conference benevolences and special gifts. We suggest the request should specify a date by which the information should be returned and that a stamped, addressed return envelope be enclosed.

How in the world can donations be confirmed?

The auditor should randomly sample about one percent of the total number of those who give. We suggest that not more than ten givers need be sampled, but they should be selected randomly. The auditor should make the selections and not suggest that the treasurer or other local church finance officer pick the donors to check. **Addendum IV** seeks to confirm the amounts received from the donor and to identify the period for which the donation is to be booked. Copies of year-end giving statements provided by the local church to donors may be used to facilitate this process.

All these confirmations are an essential piece of the auditing process. Second requests may be required if confirmations are not responded to in a timely fashion. The responses should be addressed directly to the auditor, not to the auditor in care of the church.

How will insurance companies confirm coverage?

After the auditor locates all the policies the local church officials have identified as in effect, the auditor will write a letter or memo to the insurance agent or agents. The names and addresses of the agent should be on the policy information provided by the church. The letter should request the confirmation of the policy number identified in the letter, the level of coverage and the anniversary date and premium. As with all inquiries sent, we recommend specifying a date by which the information should be returned and that a return envelope, addressed and stamped, be enclosed.

How does the actual audit process begin?

When the confirmations are all received, the auditor should be ready to dig in and get to work. A good place to start is with looking at the cash.

What's involved in auditing the cash?

Every category of cash and all other invested funds must be audited at year end: bank and savings accounts, CD's held in the name of the church or the church foundation, and any petty cash accounts held in the office of the church or elsewhere. At this time the auditor must have the list of all bank accounts and person(s) authorized to sign on each, a copy of all the financial statements for each month being audited, and the bank account statements and reconciliations for that same period. Then the steps on the next page should be followed, at a minimum:

- ✓ Review the bank confirmations to see that the ending balance as stated by the bank is the same figure used in the December statement, then check to see that the current authorized signers as listed by the bank are the same names listed in church records. If the lists fail to match, inform the treasurer, who should investigate any differences.
- ✓ Review all bank reconciliations to see that the beginning balance of one month is the same as the ending balance of the previous month. Note whether the book balance as listed on the bank reconciliation is the same balance presented on the financial statements.
- ✓ Pick a month and actually perform a bank reconciliation for each account using the original books of entry, the financial secretary's records and any subsidiary journals. If you find a discrepancy between your reconciliation of the month and the reconciliation provided by the treasurer(s), research the discrepancy to find an explanation or an error.
- ✓ The auditor should independently count cash in all petty cash accounts. The count should agree with the books. Review expense types for their appropriate charging to program area or administrative accounts. Ascertain suitableness and adherence to policies.

Now that you have the cash accounted for, we're ready to move on to income and receipts.

What about income and receipts?

Determine if the deposits as listed by the financial secretary and the treasurer match those listed on the bank statement. Verify, on a test basis, the deposits for Sundays during the calendar year using the following procedures:

Test (a random sample, not to exceed 10 times; more if discrepancies are found) the counter's documentation versus the Sunday receipt deposit slips and bank statements. Review original book of entry for correct posting of Sunday deposits.

Using the donor confirmations obtained as outlined above in this booklet, determine whether the amount paid as reported by the donor is the same as recorded and received by the financial secretary. If there is a difference, research for a timing difference, inaccurate recording or some other explanation.

Review the original books of entry to determine if other income has been recorded accurately (i.e., appropriate account, correct amount, unrestricted or designated vs restricted, etc.). Trace the entries to the financial statements.

Are we done yet?

Not yet. Be patient. It won't be long. First we have to talk about disbursements, payroll records, and even more exciting things!

So, are we ready to get into disbursements?

Yes. It is now time to move to examining disbursements. Here's how:

Ask the local church for the minutes you need. They should be keeping copies in their financial records to make it easier at audit time.

- ❖ Review the Finance Committee, the Charge Conference and other committee minutes, as appropriate, for actions concerning disbursements, including apportionment payments. Reconcile those actions with any actual payments made.
- ❖ Test to ensure that all of the disbursements have been properly authorized.
- ❖ Review the original books of entry and disbursements journal to ensure that all disbursements have been recorded appropriately.
- ❖ For the insurance premium disbursements, check to see whether the amount disbursed is the same as that listed by the insurance company as premiums due. Verify that income designated for special mission purposes has been distributed or allocated accordingly.
- ❖ If there is a purchase order system in conjunction with disbursements, note whether the purchase orders have been authorized and approved by the appropriate person(s) and matched against the actual disbursement or invoice.

What should be done with payroll and tax records?

Here are the steps needed to check out payroll and tax records:

Reconcile all payroll with tax records and tax payments made.

Verify that the appropriate amounts have been reported on the 941s, W-2s and 1099s and that the forms have been transmitted to the federal, state and local tax authorities on a timely basis. Also verify the existence of current W-4s and I-9s for all staff.

Remember that the IRS views clergy as an "employee". The church may not do Social Security withholding for clergy but can make voluntary income tax withholding pursuant to a W-4 form, at the pastor's request.

Test that the appropriate amount of taxes has been deducted from the paychecks can be tracked back to the W-4 as submitted by each staff person.

If the church is not using an accountable reimbursement plan for clergy, or other staff, the appropriate allowances need to be recorded on the W-2 form (or 1099 form, if it is still being used) issued by the church to the clergy.

Track the payroll and tax records to the actual disbursements made, and recorded with the original books of entry.

If irregularities are found in any of the above, research to determine the nature of the error or cause.

Speaking of salaries and payroll, how do we verify that amounts paid are accurate?

Hey! Glad to know you're still alert. But then, we knew you'd be.
Here are the steps:

Check staff-parish relations committee and charge conference records versus payroll records to verify that correct salaries or rates have been paid.

If there are tax deferred annuities (TDAs), Section 125 or other salary reduction agreements, verify existence of signed agreements and proper tax withholding applied.

Verify pension contributions with the pension board. If there is a salary reduction agreement, review documents for accuracy and verify that agreements have been approved in Charge Conference or Administrative Board minutes.

Verify that housing allowance resolutions are in place and have been properly applied to reduce clergy's reportable 941 and W-2 income.

Are we ready yet to look at the control system?

Yes. As part of the audit, it is essential that the internal control structure for receipts and disbursements procedures be reviewed regardless of the size of the church. The internal control structure is the process that assures the local church's *operational* efficiency and effectiveness, that its financial reporting is reliable, that it is complying with the Discipline and with laws, and that its assets are safeguarded. The internal control process should be in place not just on paper but in actual operation.

Areas of concern that should be evaluated include:

1 Segregation of duties.

It is important that duties be segregated among two or more persons, if possible. We understand that in very small churches this may be difficult, but it is rarely, if ever, impossible. The effort by small churches is to attain reasonable segregation under all the circumstances. Here are some examples.

The financial secretary and the church treasurer(s) should not be related. These should be separate offices occupied by different individuals, who are not related by blood, marriage or employment relationships.

The person(s) performing the audit should not be related to either the financial secretary or church treasurer. Also note that at least two persons should count the Sunday morning collections and they should not be related to each other nor should either one be the financial secretary or church treasurer.

Receipt and disbursement functions should be performed by different people. (This may not be possible in small churches but is desirable.)

2 Authorizations for disbursements.

The first point is that everyone who approves disbursements must be authorized to do so. The auditor should look for resolutions and action in the minutes of the finance committee and the governing body that address authorizations.

The check signer should not be the authorizer of expenditures or the person who performs bank reconciliations. The auditor should examine the checks to determine who is signing and compare the results found to bank authorizations.

3 Finance reports.

Monthly Finance and Treasurers reports should agree with the general ledger and subsidiary journals. Balances as of the first day of each month should be same as the last day of previous month.

4 Other Areas to Check:

Does the church have fidelity bond coverage for people handling church funds (i.e., counters, financial secretary, treasurer, etc.)? ¶ 258.4b of the *Book of Discipline* requires that church treasurers be adequately bonded.

Have decisions with financial implications made by church committees and the charge conference been appropriately complied with?

Are authorized signatures with banks up to date and complete?

Is the correct church employer identification number (EIN) on all accounts?

Are investments made only by authorized persons?

Are transactions recorded in the correct year?

Are checks and cash stored in the church safe, deposited or placed in a bank night depository, and not taken to private homes or elsewhere until deposited?

Are reports such as Payroll Tax Form 941, W-2s and the like filed with appropriate authorities in a timely manner?

Are payroll taxes being paid on time?

Are computer software and data files backed up on a regular basis, and are back-ups kept off the premises?

Do all appropriate persons have a clear understanding of and is there documentation on church ownership of software and data files?

Is a current list of the contents of all safety deposit boxes maintained, and is a list of persons with authorized access likewise kept? (The auditor should confirm the contents and confirm with the depository institution the persons authorized to access the box.

Are reports from the treasurer, financial secretary and business manager, if any, to the finance committee accurate, timely and complete enough to provide necessary information for the committee to make prudent decisions?

Is the finance committee providing to the church's governing body (church council, administrative board) sufficient information to allow it to exercise its fiduciary duties; are members of the finance committee and the governing body free to express opinions and to question management when appropriate?

Are loan documents being read and complied with?

Is there a current inventory of fixed assets? Is it kept current by entry of purchases and dispositions? Has the auditor verified the list? Is there a process for control for fixed assets?

Is there a policy on records retention, and if so, is it complied with?

For a really useful audit check-off list with items that get to the nitty-gritty, just take a look at Addendum 1. You'll like it!

Once these steps have been taken, the auditor should be ready to write an audit report.

Will you explain the auditor's report?

When the audit is complete, the auditor should deliver a written report to the Finance Committee. The Discipline requires that the report ultimately be delivered to the Charge Conference. A copy of the form for the Annual Audit Report is attached as **Addendum II**.

The report should be written and should include at a minimum:

- 1 Documentation of steps taken;
- 2 Report of the Annual Audit form (**Addendum II**);
- 3 Statement of Financial Position (balance sheet);
- 4 Statement of changes in net assets (statement of activities);
- 5 Statement of cash flows;
- 6 Comments, if any, on the reliability of the treasurer's financial reporting;
- 7 Comments, if any, on insurance policy coverage;
- 8 Comments, if any, on compliance with donor restrictions on gifts;

When all these steps have been completed, the auditor should review the work done with the church treasurer and financial secretary, endeavor to answer any lingering questions, then consider preparation of the report.

How and when is the Audit Report prepared?

When the audit is complete. The audit is complete when the auditor is reasonably assured that the financial records are in order, financial policies have been complied with and any discrepancies have been investigated and controls have been reviewed. With that assurance, the auditor is ready to prepare the Report of the Annual Audit for the committee on finance and the charge conference. **Addendum II**

Finally, the auditor should offer to meet with the finance committee to discuss the audit report, and should assure that the audit report, with any responses the finance committee may choose to add, is delivered to the charge conference.

Is the auditor's work finished yet?

Once the auditor has delivered the audit to the charge conference with responses of the finance committee, the audit process is finished. One final word of caution, though. If the auditor meets with either the finance committee or the charge conference, be aware of ¶ 721 of the *Book of Discipline*. Although church meetings generally must be open to all, discussions with accountants and matters involving personnel issues may be held in closed meetings if confidential information is likely to be disclosed. An example would be if there is suspicion that someone has made off with church assets. Suspensions should not be discussed in open meetings. Closed meetings will include only the members of the group that is meeting, plus any invited guests, such as the auditor or the church's legal advisor. The group should be aware of the manner in which closed meetings must be reported, as set out in ¶721. We suggest you provide the legal advisor with a copy of that paragraph.

And now the audit is finished until the same time next year.

We hope that conducting this local church audit has been a pleasant experience for you and for the local church.

Remember, auditors, you are there to help, just as the Internal Audit Department is available to help you get in a bind while you're doing the audit. Our phone number is on page 1 of this workbook.

Please don't hesitate to use it.

This is the end.

Thanks for sticking with us.

It has been a pleasure to serve you.

CHECK OFF LIST

United Methodist Church

Financial Audit

Date _____

Page 1

Committee Members (Signature)

Date

Completed

Initials

Reconciliation of Bank & Investment Accounts

Operating Bank Account #

Month

Bank Account #

Month

Bank Account #

Month

Are Bank Accounts Balanced Monthly

Verification of Beginning and Ending Year Balance

BANK & INVESTMENT

Verification of account signatories

Verification of telephone or other transfer

Safe deposit box access checked

Account balances confirmed by Bank/Company

Name _____ Confirmation Sent & Returned

Name _____ Confirmation Sent & Returned

Name _____ Confirmation Sent & Returned

Name _____ Confirmation Sent & Returned

INCOME

Two unrelated persons counting

Timely deposit of funds

Transmittals checked against deposits

Transmittals checked against postings to GL

Verification other income processes

Designated funds directed to restricted accounts

Pledges recorded on donor records

Confirmations sent to donors

sent _____ (Keep a list)

returned _____

Differences researched and cleared

Date _____

Date

CompletedInitials

Finance Secretary records reviewed

Finance Secretary records agree with general ledger

DISBURSEMENTS

Invoices properly approved

Check number and date noted

Purchase order system, if applicable, working

Accounts to charge noted on invoice

Any invoices to vendors over 30 days in arrears

Apportionments paid per board direction

Interest & service charges recorded

Verification of checks at random

General Ledger balances equal daily transaction

Are restricted gifts kept in separate account

Procedure in place to distribute gifts on a regular basis

Designated gifts paid out timely

REPORTS

Do reports provide complete picture

Are reports helpful to committee members

Do reports include approved budget

Over budget expenditure approvals in order

Are there controls for over expenditures

Policies for Restricted Funds reviewed

Restricted Funds used according to policy

Regular reports on pledge giving to finance committee and pastor

GENERAL LEDGER

Appropriate separation of restricted funds

Internal controls for receipts reviewed

Internal controls for disbursements reviewed

Other asset accounts reviewed

(equipment, buildings, contracts, etc.)

Accounts Payable reviewed

Accounts Receivable

Prepaid Expense account reviewed

Unearned Income account reviewed

Fund Balance from prior year correct

Correct Fund Balance carried into next year

Date _____

Date
Completed Initials

ADMINISTRATIVE

Church has Employer Identification Number
File for EIN and tax filings safeguarded
Incorporated papers are safeguarded
Deed to church property and/or mortgage are safeguarded
Insurance policies are safeguarded
Prior year insurance policies are safeguarded
Does church have separate bond for persons handling money

Payroll

Personnel files kept by individual
Personnel files safeguarded and confidential
Salaries paid according to approval
Tax forms issued to clergy persons, employed persons and government
Payroll tax deposits made and timely remittances to government
Time sheets filed and approved (not by treasurer)
Employer benefits paid and current
Are there any salary reduction plans in effect
Did proper board/committee approve and is written documentation in file
Verification of amount paid to persons on contract/honorarium
Proper approvals for persons paid on contract/honorarium
1099s filed for over \$600 paid on contract

PROPERTY & EQUIPMENT

List all land, buildings, vehicles, etc that is owned by the church
Locate the title and/or deed to the land, building, and vehicles
Are the title and deeds maintained in a safe place
Is adequate insurance maintained on all applicable property and equipment

Addendum II

Instructions to the Report of the Annual Audit

The auditor needs to prepare this report for the Committee on Finance and the Charge Conference. In addition, the auditor should prepare a report on the church's accounting control system and recommend any improvements to the Committee on Finance. In order to complete this report, the auditor will need last year's completed report (if this form was not used, obtain whatever form/report that was used) and the current year's general ledger(s). This annual report should include all funds maintained by the financial officer(s) of the church.

Instructions for Part I – Receipts, Disbursements and Balances:

Note: All figures are rounded to the nearest dollar.

Column a: Enter ending balances from previous year's report. Remember that last year's ending balances at 12/31/x1 should be the same as the current year's beginning balances at 1/1/x2.

Column b: Enter the cash received and recorded for each of the funds (1/1 – 12/31).

Column c: Enter total disbursements for the period (1/1 – 12/31).

Column d: Enter any transfers made between the funds (example: Board of Trustees fund makes a transfer to the Building Fund of \$1,000...Enter (\$1,000) on the Board of Trustees line and enter \$1,000 on the Building Fund line).

Column e: Enter the sum of column "a", plus column "b", minus column "c", plus or minus column "d", to equal column "e". The figures in this column should tie to the ending balances in the general ledger. If they do not, analyze any differences and make adjustments (journal entries/transfers) accordingly.

Instructions for Part II and III – Exceptions and Recommendations:

Any exceptions or recommendations should be entered in these sections of the report.

Use additional forms if necessary. When complete, the auditor or Audit Committee Chair needs to sign and date the form.

Copies of this report should be filed with the recording secretary, pastor, district superintendent, conference treasurer, and chairperson, committee on finance.

THE UNITED METHODIST CHURCH

COMMITTEE ON FINANCE and CHARGE CONFERENCE



Fund Balance Report

The Committee on Finance is required to make provision for an annual audit of the records of all the financial officers (including the financial secretary or church business manager and treasurers) of the church and all its organizations and shall report to the Charge Conference. Guidelines for handling of an accountability for funds can be found in the *Local Church Financial Records Handbook* and in *Guidelines for Leading Your Congregation: FINANCE*, and *The Local Church Audit Guide*, available at www.gcfa.org.

Church
District

Charge
Conference

For the period beginning

, and ending December 31,

I. RECEIPTS, DISBURSEMENTS, AND BALANCES (Round to the nearest dollar.)

LOCAL CHURCH FUNDS (Use those applicable to your church.)	(a) Balance at Beginning of Period	(b) Cash Received and Recorded	(c) Total Disburse- ments for Period (-)	(d) Transfers + (-)	(e) Balance End Of Period
General Fund					0.00
Benevolence Fund					0.00
Building or Improvement Fund					0.00
Board of Trustees' Fund					0.00
United Methodist Women					0.00
United Methodist Youth Ministries					0.00
United Methodist Men					0.00
Church School					0.00
Other Organizations or Funds:					
Name:					0.00
Name:					0.00
Name:					0.00
Name:					0.00
Name:					0.00
Name:					0.00
Name:					0.00
Name:					0.00
Total amount of cash in all treasuries of the church					0.00

*Note: Column (c) must be entered as a negative number. Example: -50

Column (d) may be entered as either a positive or negative number, for all transfers out, please use a minus sign.

FUND BALANCE REPORT, CONTINUED

II. RECOMMENDATIONS

III. The Auditors ☐ **Auditing Committee** ☐ (check one box) has examined the accounts listed on the front side; reviewed procedures of counting and accounting under the current *Book of Discipline*; has reconciled receipts and disbursements with bank deposits and bank balances; and has found the balances displayed to be correct, procedures proper, and records properly kept, except as noted below.

Signed: _____
Auditor or Auditing Committee Chair

Date _____

Prepared and edited by the General Council on Finance and Administration and authorized as the official form for this purpose.

Balance Report 2005-2008

Fund

Standard Form to Confirm Account Balance Information with Financial Institutions

Original

To be mailed to accountant

Customer Name

Financial Institution:

[_____]

We have provided to our accountants the following information as of the close of business on _____, _____ regarding our deposit and loan balances. Please confirm the accuracy of the information, noting any exceptions to the information provided. If the balances have been left blank, please complete this form by furnishing the balances in the appropriate space below. Although we do not request nor expect you to conduct a comprehensive, detailed search of your records, if during the process of completing this confirmation additional information about other deposit and loan accounts we may have with you comes to your attention, please include such information below. Please use the enclosed envelope to return the form directly to our accountants.

[_____]

1. At the close of business on the date listed above, our records indicated the following deposit account balance(s):

Account Name	Account Number	Interest Rate	Balance

2. We were directly liable to the financial institution for loans at the close of business on the date listed above as follows:

Account Number/ Description	Balance	Date Due	Interest Rate	Date Through Which Interest is Paid	Description of Collateral

Customer Name

Date

The information presented above by the customer is in agreement with our records. Although we have not conducted a comprehensive, detailed search of our records, no other deposit or loan accounts have come to our attention except as noted below:

Financial Institution Authorized Signature

Date

Title

Exceptions and/or Comments

Please return this form directly to our accountants:

[_____]

[_____]

(Organization's Letterhead)

January 14, 2006

William Jones
123 Main Street
Nashville, TN 37203

Dear Mr. Jones:

In connection with an examination of our accounts, [either outside firm or auditor's name] desire confirmation of your donation to [insert recipient organization's name] as of December 31, 2005.

Donation in the Amount of \$ _____ intended for use in [insert appropriate fiscal year] not restricted [or restricted, if appropriate] as to use.

If the above information is consistent with your records, please sign the confirmation below and return it directly to [Audit firm's address or auditor's address, not to the church]. If your records do not confirm the above information, please note your exceptions below. A business reply envelope is enclosed for your convenience in replying.

Thank you.

Karen Taylor
[Title]

Name

Date

Exceptions, if any:

CHURCH

STEEPLE

RENTAL

ARNOLD & PORTER

February 23, 2001

Mary K. Logan, Esq.
General Counsel
General Council on Finance and Administration
The United Methodist Church
1200 Davis Street
Evanston, IL 60201-4193

Re: **Rental of Church Steeples**

Dear Mary:

In a memorandum to you dated February 16, 2000, we provided an analysis of certain federal income tax consequences arising from the rental of church steeples by local United Methodist churches to cellular telephone companies. One conclusion was that rents received by a church from a lease of its steeple and other real property to a cellular phone company should not be taxable as long as the leased property was not "debt-financed property" under section 514 of the Internal Revenue Code. The basis for this conclusion was that the church steeple (and other property leased to the phone company) would constitute "real property," rather than personal property or other tangible property used as an integral part of furnishing communication services ("special use property"). As you know, rents from real property—but not other property—generally are excludible from unrelated business income.

The analysis of this issue included a discussion of Private Letter Ruling 98-16-107 (Jan. 20, 1998), in which the Internal Revenue Service ("IRS") concluded that the leasing of space by a university to a paging service company on a separate antenna tower located on the university's property qualified for the exclusion for rents from real property. The IRS reasoned that, since the tower was permanently affixed to the real estate on which it was located, the rental payments received by the university were rents from real property. We noted that the ruling did not consider whether the tower should be classified as special use property.

The IRS, in Private Letter Ruling 200104031 (published Jan. 26, 2001), has now revoked the 1998 ruling and ruled instead that the tower is indeed special use property, rather than real property; therefore, receipts attributable solely to the rental of the broadcasting tower constitute unrelated business taxable income.

The definition of special use property was described in our memorandum (at pages 4-5) as follows:

Special use property, in the context of providing communications services, includes broadcasting towers and telephone poles, as well as other depreciable tangible property used as an integral part of providing communications services, but excludes buildings and structural components. Treas. Reg. §§ 1.1245-3(c)(1), 1.48-1(d). A "building" does not include a structure which houses special use property if the use of the structure is so closely related to the use of the special use property that the structure can be expected to be replaced when the property it initially houses is replaced. Factors indicating that a structure is closely related to the use of the special use property that it houses include (1) the fact that the structure is specifically designed to provide for the stress and other demands of the special use property and (2) the fact that the structure could not be economically used for other purposes. Treas. Reg. § 1.48-1(e)(1).

Unlike the separate antenna tower involved in the IRS rulings, a church steeple normally is not a freestanding broadcasting tower that is constructed solely or even primarily for use in providing communication services. Rather, as indicated in our memorandum (at page 5), it may be viewed as a building (or a component of the overall church structure) that encloses a space within its walls, has uses other than for telecommunications, will not be replaced or removed when the communications property inside the steeple is replaced or removed, and is not specifically designed to provide for the stress and demands of the communications property (except perhaps in cases where a new steeple is constructed with funding from a phone company).

In our memorandum (at page 5), we stated that the 1998 IRS letter ruling was "helpful in suggesting that typical church leases to cellular phone companies would not produce taxable income to the church." Obviously, the revocation of that ruling and the new contrary ruling are not helpful to churches on this issue. While, as indicated above, they have still good arguments for treating the steeples as real property and the rental income therefrom as excludible from unrelated business income, the recent IRS ruling increases the chances that the issue could be raised if a church with such income were audited.

Please call if you have any questions or would like to discuss any additional followup on this issue.

Warmest regards,

Michael A. Lee

Memorandum

To: Mary K. Logan, Esq.
General Counsel
General Council on Finance and Administration
The United Methodist Church

From: Michael A. Lee

Date: February 16, 2000

Re: Rental of Church Steeples to Cellular Phone Companies-Tax Consideration

This memorandum is in response to your request for an analysis of certain federal income tax consequences arising from the rental of church steeples by local United Methodist churches to cellular telephone companies. In particular, we have reviewed two issues: (1) whether such rentals generate unrelated business taxable income to a church that engages in this activity; and (2) whether such activity may jeopardize the federal income tax exemption of such a church if it generates more than half of the church's income. While we provide a general analysis of these issues below, this analysis is not intended to constitute a formal legal opinion, which could be provided only with reference to the particular facts and circumstances of a specific transaction or series of transactions.

I. CONCLUSIONS

Under the assumed facts described in Part II below:

- Rents received by a church from a lease of its steeple and other real property to a cellular phone company should be excludible from unrelated business income as long as the leased property is not "debt-financed property" (as defined at pages 3-4 below); and
- The rental activity should not jeopardize a typical church's tax exemption even if the rental income received by the church constitutes more than half of its total income.

II. ASSUMED FACTS

We understand that, in recent years, a growing number of United Methodist churches have entered into agreements allowing cellular telephone companies to use church steeples as antennae in providing cellular phone service to their customers. This has occurred as the phone companies have encountered difficulties in finding sites or obtaining permits for the construction of towers in some localities. In some cases, churches have leased their steeples to more than one phone company.

You have indicated that the typical agreement is structured as a long-term lease to the phone company (*e.g.*, 10 years with a number of five-year renewal options). The rent payable by the phone company is a flat amount, with periodic increases to reflect inflation, and is not contingent upon the revenues of the phone company from its use of the church property.

The lessee is permitted to use the leased premises only for the purpose of constructing, installing, maintaining and operating a communications facility, including antenna equipment, cable wiring, backup power sources (including generators and fuel storage tanks) and related fixtures. The lessee must avoid interfering with use of the steeple by other phone companies. The lease may include not only part of the church steeple, but also a small amount of space in the church building and an area on the site for placement of an emergency generator. In addition, the church may grant the phone company an easement for the installation and maintenance of wires, cables, conduits and pipes running across church property.

The phone company is responsible for providing all equipment needed for its operation and for building out any space needed to house the equipment. The church provides no personal property and no services to the lessee. The phone company is required to maintain the leased premises, to pay for all utility services that it uses, to insure its equipment and other property placed in the leased space, and to pay any real property taxes that may be imposed because of the phone company's use of the property. The church is required to maintain and insure only the church buildings and the steeple itself. Upon termination of the lease, the phone company is required to remove its equipment, personal property and all readily removable fixtures from the leased premises.

III. UNRELATED BUSINESS INCOME

While a church is generally exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code" or "I.R.C."), the church is subject to the unrelated business income tax ("UBIT") imposed by section 511.¹ For this purpose, an exempt organization's "unrelated trade or business" is any trade or business that is regularly carried on if the conduct of the business is not substantially related to the organization's exempt purposes. I.R.C. § 513(a). For UBIT purposes, the

¹ All section references are to the Code unless otherwise indicated.

organization's need for money or the use it makes of the profits derived from the business will not make the business activity related to exempt purposes.

Although the leasing of real property by an exempt organization to unrelated parties normally is viewed as an unrelated trade or business activity, pursuant to a statutory exemption the rents derived from such leases are not subject to tax under most circumstances. I.R.C. § 512(b)(3). However, this favorable exclusion is not available (and the rents become taxable in whole or in part) in the following situations:

- If more than 50 percent of the total rent received or accrued under the lease is attributable to personal property, rather than real property;²
- If the determination of the amount of rent depends in whole or in part on the income or profits derived by any person from the property leased;³
- If the lessor provides services to the occupant of the real property that are primarily for the occupant's convenience and go beyond the services customarily rendered in connection with the rental of space for occupancy only;⁴
- If the rent is received from an organization that is considered "controlled" by the lessor under Code section 512(b)(13); or
- If the leased property is "debt-financed property," which is property held to produce income and with respect to which there is "acquisition indebtedness."⁵ I.R.C. §§ 512(b)(4), 514(b)(1). If substantially all⁶ of the use of property is

² Rent from personal property itself is excluded from taxation if the personal property is leased with the real property and the rents attributable to the personal property are an incidental amount (not more than 10 percent) of the total rents received or accrued under the lease, determined at the time the personal property is placed in service. I.R.C. § 512(b)(3)(A)(ii); Treas. Reg. § 1.512(b)-1(c)(2)(ii)(b).

³ The rent may, however, be based on a fixed percentage of receipts or sales, as opposed to income or profits. I.R.C. § 512(b)(3)(B)(ii).

⁴ Permissible services include furnishing heat and light, cleaning common areas and collecting trash. Treas. Reg. § 1.512(b)-1(c)(5).

⁵ "Acquisition indebtedness" is the unpaid amount of (A) debt incurred by an exempt organization in acquiring or improving property; (B) debt incurred before the acquisition or improvement of property if the debt would not have been incurred but for the acquisition or improvement; and (C) debt incurred after the acquisition or improvement of the property if the debt would not have been incurred but for such acquisition or improvement and incurring the debt was reasonably foreseeable at the time of the acquisition or improvement. I.R.C. § 514(c)(1).

⁶ In general, this "substantially all" test is met if at least 85 percent of the use of the property is devoted to the organization's exempt purposes. The extent to which property is used for a particular purpose is determined based on all the facts and circumstances, including (where appropriate) (a) a comparison of the portion of *time* the property is used for exempt purposes with the total time such property is used, (b) a comparison of the portion of *space* that is used for exempt purposes with the portion of such property that is used for all purposes, or (c) both of these comparisons. Treas. Reg. § 1.514(b)-1(b)(1)(ii).

substantially related to the performance of the organization's exempt purposes or functions, the property is not treated as debt-financed property even if debt is incurred to acquire or improve such property. I.R.C. § 514(b)(1)(A)(i).

Under the assumed facts described in Part II above, the rent charged for use of the steeple and other church property does not depend on the phone company's income or profits; the church does not provide non-customary services to the lessee; and the lease is not to an organization controlled by the church. If the leased property is not "debt-financed property," then the church should be able to avoid tax on the rental income if the steeple and other leased property are considered real property under applicable Code sections and Treasury Regulations (the "Regulations").

For this purpose, "real property" includes land, buildings and structural components, and excludes (a) personal property and (b) other tangible property used as an integral part of furnishing certain kinds of services, including communications services (hereafter called "special use property"). I.R.C. §§ 512(b)(3)(A), 1250(c), 1245(a)(3)(B); Treas. Reg. §§ 1.1250-1(e)(3), 1.1245-3(b). Each of these categories is defined further as follows:

- A "building" generally means any structure or edifice enclosing a space within its walls and usually covered by a roof. Treas. Reg. §§ 1.1250-1(e)(3), 1.1245-3(c)(2), 1.48-1(e).
- "Structural components" include such parts of buildings as walls, partitions, floors and ceilings, as well any permanent coverings therefor; windows and doors; heating and air conditioning components; plumbing and plumbing fixtures; electric wiring and lighting fixtures; chimneys; stairs, escalators and elevators; sprinkler systems; fire escapes; and other components relating to the operation or maintenance of a building. *Id.*
- "Personal property" includes both tangible and intangible personal property, and "tangible personal property" means any tangible property except land and improvements thereto (such as buildings, other inherently permanent structures and structural components of such buildings and structures). Tangible personal property includes all property (other than structural components) which is contained in or attached to a building. Treas. Reg. §§ 1.1245-3(b), 1.48-1(c).
- Special use property, in the context of providing communications services, includes broadcasting towers and telephone poles, as well as other depreciable tangible property used as an integral part of providing communications services, but excludes buildings and structural components. Treas. Reg. §§ 1.1245-3(c)(1), 1.48-1(d).
- A "building" does not include a structure which houses special use property if the use of the structure is so closely related to the use of the special use property that the structure clearly can be expected to be replaced when the

property it initially houses is replaced. Factors indicating that a structure is closely related to the use of the special use property that it houses include (1) the fact that the structure is specifically designed to provide for the stress and other demands of the special use property and (2) the fact that the structure could not be economically used for other purposes. Treas. Reg. § 1.48-1(e)(1).

Under these definitions, the church steeple (and other property leased to the phone company) should qualify as real property, rather than personal property or special use property. The steeple is not a freestanding broadcasting tower that is constructed solely for use in providing communications services. Rather, it should be viewed as a building (or portion of the overall church structure) that encloses a space within its walls, has uses other than for telecommunications, will not be replaced or removed when the phone company's communications property inside the steeple is replaced or removed, and is not specifically designed to provide for the stress and demands of the communications property (except perhaps in cases where a new steeple is constructed with funding from a phone company).

In Private Letter Ruling 98-16-017 (Jan. 20, 1998), the Internal Revenue Service concluded that the leasing of space by a university to a paging service company on a separate antenna tower located on the university's property qualified for the exclusion for rents from real property. The tower was used to hold broadcast antennae, dishes and similar communications equipment used in the operation of the university's own radio station and had capacity to house additional antennae for radio signal transmission. The lease to the paging company included space on the antenna tower and a right of way on the tower premises for the installation, operation and maintenance of the lessee's equipment. Equipment was also installed in the broadcast station building owned by the university. The rent was for a monthly fee, adjusted for inflation. The tower lease agreement contained the usual provisions of a real estate lease, including the obligation to utilize space without interference with other tenants on the tower. The IRS reasoned that, since the transmission tower was permanently affixed to the real estate on which it was located, the rental payments received by the university were rents from real property and thus were not taxable.

The facts described in Part II above regarding typical church leases are similar in many respects to those in the above ruling.⁷ Although IRS private letter rulings do not constitute precedent that may be relied upon by anyone other than the party to whom it is addressed, the ruling discussed above is helpful in suggesting that typical church leases to cellular phone companies would not produce taxable income to the church.

Accordingly, based on the foregoing analysis, rents received by a church from a lease to a cellular phone company under the assumed facts described in Part II should be

⁷ In one respect, the facts in the IRS ruling were less favorable, since the leased property there was a separate antenna tower that might have been classified as special use property, rather than real property, for purpose of the rental exclusion from UBIT. The IRS ruling did not address that issue.

excludible from unrelated business income as long as the leased property is not “debt-financed property” (as defined on pages 3-4 above).

IV. TAX-EXEMPT STATUS

In some cases, the rental of a church’s steeple to one or more cellular phone companies could generate more than half of that church’s total income for one or more years of the lease term. You have asked us to consider whether a church’s tax-exempt status may be jeopardized in such circumstances.

The issue of how much unrelated business activity may be conducted by a section 501(c)(3) organization has generated much uncertainty and confusion. Although many practitioners have advised charitable organizations not to derive more than half of their revenue from unrelated business activities, such a limitation may be unduly restrictive, at least in some circumstances. As discussed below, the amount of income earned from an activity, by itself, is not dispositive. Other key factors also must be considered, including (1) the purpose of the activity, (2) the magnitude of the activity in relation to exempt activities of the organization and (3) the nature of the activity — *e.g.*, whether it involves the active conduct of a commercial business enterprise involving the production of goods or performance of services or merely a passive investment or rental activity.

A. Legal Framework

To qualify under section 501(c)(3), an organization must be organized and operated exclusively for charitable, religious, educational or certain other exempt purposes. The Regulations provide that an organization will be regarded as “operated exclusively” for one or more exempt purposes only if it engages “primarily” in activities that accomplish one or more of such exempt purposes specified in section 501(c)(3), and that an organization will not be so regarded if more than an “insubstantial part” of its activities is not in furtherance of an exempt purpose. Treas. Reg. § 1.501(c)(3)-1(c). The Regulations also state:

An organization may meet the requirements of section 501(c)(3) although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization’s exempt purpose or purposes and if the organization is not organized or operated for the primary purpose of carrying on an unrelated trade or business, as defined in section 513. In determining the existence or nonexistence of such primary purpose, all the circumstances must be considered, including the size and extent of the trade or business and the size and extent of the activities which are in furtherance of one or more exempt purposes. Treas. Reg. § 1.501(c)(3)-1(e)(1).

These two regulations may appear to be inconsistent. Regulation section 1.501(c)(3)-1(c) could be construed to prohibit any substantial nonexempt activity, while section 1.501(c)(3)-1(e) permits the operation of a trade or business as a substantial part of an organization's activities (or possibly even its primary activity) so long as the operation of such activities is in furtherance of an exempt purpose. Treas. Reg. § 1.501(c)(3)-1(e)(1).

B. Purposes vs. Activities

To resolve the ambiguity in the regulations, it is necessary to distinguish between the purpose of an activity and the activity itself. The Supreme Court has stated that the presence of a single nonexempt purpose, if substantial in nature, will destroy exemption regardless of the number or importance of truly exempt purposes. Better Business Bureau v. United States, 326 U.S. 279, 283, 66 S. Ct. 112, 114 (1945). The Court did not say a single substantial nonexempt activity will destroy exempt status. Moreover, the Tax Court has stated that a single activity may further both exempt and nonexempt purposes. B.S.W. Group, Inc. v. Commissioner, 70 T.C. 352 (1978).

According to the IRS and a number of court cases, an unrelated business activity may serve exempt purposes if the income from such activity is used for exempt purposes. Thus, the IRS has stated in its internal training materials that the intent behind Regulations section 1.501(c)(3)-1(e) "was to permit charities to carry on substantial unrelated businesses so long as such businesses are in furtherance of exempt purposes. The latter purpose is accomplished by using the profits from the businesses for charitable purposes." IRS Exempt Organizations CPE for 1983, at 90.

The IRS employed this approach, which we refer to as the "destination rule," in Revenue Ruling 64-182, 1964-1 C.B. 186, in which a section 501(c)(3) organization's principal source of income was the rental of space in a commercial office building owned and operated by the organization. The rental income was used to support grants to other charitable organizations. The IRS ruled that the organization met the primary purpose test of Regulations section 1.501(c)(3)-1(e)(1) and qualified for exemption where it carried on a "charitable program commensurate in scope with its financial resources through the grants to other charitable organizations."⁸

Revenue Ruling 64-182 did not limit the amount of rental activity or the income that could be derived from it as long as the commensurate test was met. The absence of any such limits was confirmed in General Counsel Memorandum 34,682 (Nov. 17, 1971).

The IRS has continued to rely on or acknowledge the position stated in Revenue Ruling 64-182. See, e.g., Rev. Rul. 73-128, 1973-1 C.B. 222; Gen. Couns. Mem. 38,742

⁸ This revenue ruling was based on General Counsel Memorandum 32,689 (April 27, 1964), which concluded that the primary purpose of an organization engaged in trade or business activities would be considered charitable where the organization carried on a charitable program reasonably commensurate with its resources.

(June 3, 1981); Tech. Adv. Mem. 91-32-005 (May 3, 1991); Tech. Adv. Mem. 94-17-003 (Dec. 1, 1993). More recently, in Technical Advice Memorandum 95-21-004 (Feb. 16, 1995), the IRS stated:

[An organization's] exemption is not jeopardized merely because it conducts an unrelated business as a substantial part of its total activities, as section 1.501(c)(3)-1(e)(1) of the regulations indicates. The key issues are the reason why the business is carried on and the organization's primary purpose. A purpose to raise funds to support the organization's exempt functions is a legitimate reason for an organization to conduct a business, although it would have to pay tax on any unrelated business taxable income derived from a business not otherwise substantially related to its performance of its exempt purposes. As long as the conduct of such business is not the organization's primary purpose, as determined by the facts and circumstances, the organization may conduct such business consistent with section 501(c)(3).

Use of the "destination rule" to determine exempt status has been supported by court decisions since 1924.⁹ That rule "states that where the only objective of an organization is charitable, a tax exemption will not be denied because an organization raises money for that objective by commercial activity." Ohio Teamsters Educational & Safety Training Trust Fund v. Commissioner, 692 F.2d 432, 436 (6th Cir. 1982), *aff'g*, 77 T.C. 189 (1981). The rule was first articulated by the Supreme Court in Trinidad v. Sagrada Orden de Predicadores, 263 U.S. 578, 44 S.Ct. 204 (1924), when the Court stated that the predecessor of section 501(c)(3) "says nothing about the source of the income, but makes the destination the ultimate test of exemption." 263 U.S. at 581. The Court explained:

[Exempt] activities cannot be carried on without money; and it is common knowledge that they are largely carried on with income received from properties dedicated to their pursuit. This is particularly true of many charitable, scientific and educational corporations and is measurably true of some religious corporations. Making such properties productive to the end that the income may be thus used does not alter or enlarge the purposes for which the corporation is created and conducted. *Id.*

⁹ For UBIT purposes, the destination rule does not apply. Code § 513(a) defines an "unrelated trade or business" as "any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its [exempt purpose or function]."

More modern cases following the destination rule include Scripture Press Foundation v. United States,¹⁰ 285 F.2d 800 (Ct. Cl. 1961), and Aid to Artisans, Inc. v. Commissioner,¹¹ 71 T.C. 202 (1978).

C. Magnitude of Nonexempt Activities

Notwithstanding the foregoing authority for the destination rule, the IRS occasionally focuses on the magnitude of an organization's nonexempt activity rather than the purpose of such activity or the use of funds therefrom for exempt purposes. Even in these cases, however, the receipt of large amounts of income from nonexempt activities, in itself, normally does not cause an organization to lose its tax exemption.

For example, in Technical Advice Memorandum 95-21-004 (Feb. 16, 1995), the Service ruled that an organization that operated a nonexempt travel agency business would not lose its tax exemption even though the business provided roughly one-half of the organization's gross receipts, since most of the time spent by the organization's employees was devoted to exempt activities. In Technical Advice Memorandum 95-50-001 (Aug. 23, 1995), which involved a section 501(c)(6) organization, the IRS looked at net revenues and functional expenses, in addition to time spent on nonexempt activities, in determining that the magnitude of such activities did not warrant revocation of the organization's exemption.

In Technical Advice Memorandum 97-11-003 (Nov. 8, 1995), an organization was able to retain its tax exemption even though 98 percent of its gross income came from a bingo operation and one-half or more of the organization's time and resources were devoted to that operation. In Private Letter Ruling 98-09-062 (Dec. 5, 1997), the Service ruled that, although an organization received large amounts of income from various unrelated business activities, the extent of those activities was insubstantial when compared to exempt activities. The IRS stated that, while close scrutiny is required to ensure that nonexempt activities are not more than an insubstantial part of the organization's overall activities, "the amount of income received does not per se establish that an organization is operating to carry on nonexempt activities to more than an insubstantial degree."

¹⁰ In Scripture Press the court ruled that an organization was not exempt because of the large gap between the amounts it spent to support religious educational programs and the amount of capital and surplus accumulated from its business of selling religious literature. 285 F.2d at 804-805.

¹¹ In Aid to Artisans, the Tax Court stated:

In the instant case, petitioner's primary activities are the purchase, import, and sale of handicrafts. All profit generated by the operations is earmarked for specific purposes; no profit earned by Aid to Artisans is to be retained. If we find that the purposes for which petitioner is to use the profit are exempt purposes, then we will be convinced that petitioner's commercial activities are not an end unto themselves. 71 T.C. at 212.

One court case departed from the destination rule and found that the magnitude of an organization's nonexempt business activities was sufficient to defeat its exemption. In Orange County Agricultural Society, Inc. v. Commissioner, 55 T.C.M. (CCH) 1602 (1988), *aff'd*, 893 F.2d 529, 532 (2d Cir. 1990), the Tax Court dealt with a section 501(c)(3) organization that had the stated exempt purpose of promoting agriculture and horticulture. One of its substantial activities was involvement in the operation of a related organization's speedway. The organization eventually received all of the racing and concession revenues, which constituted 29 to 35 percent of its total revenues. The court held that the organization's operation of the raceway through an alter ego was not in furtherance of its exempt purposes and constituted more than an insubstantial part of the organization's total activity, causing loss of tax exemption.¹² When the organization made an argument based on the destination rule, the Tax Court responded:

The Society further argues that the money that it received from the racing activities as 'rent' constitutes a 'vital part of its cash flow,' and if it did not receive such funds it could not continue to function. Again, these arguments miss the point. The fact that the racing activities provide the Society with substantial income does not make the racing activities substantially related to the Society's exempt educational purpose.¹³ 55 T.C.M. at 1605.

While it did not address expressly the destination rule, the Second Circuit affirmed the Tax Court's finding that the organization's "involvement in the automobile racing activities exceeded the benchmark of insubstantiality." 893 F.2d at 533. The Second Circuit relied on an earlier Tax Court case involving the "revocation of tax exemption [of a section 501(c)(6) organization] where approximately 30 percent of revenues derived from non-exempt activity." *Id.* at 533, *citing* Associated Master Barbers & Beauticians of America, Inc. v. Commissioner, 69 T.C. 53, 68-69 (1977).¹⁴

D. Nature of Nonexempt Activity

In addition to the purpose and magnitude of an organization's nonexempt activity, the nature of such activity may influence its potential effect on the organization's tax exemption. A very substantial nonexempt activity involving the production of goods or the performance of services—especially if the activity competes with for-profit companies—is more likely to cause a problem than a substantial passive activity that

¹² The court also found that the organization conferred impermissible private benefit on parties who received interest-free loans. This provided a separate and sufficient ground for loss of exemption, which could have allowed the court to avoid its troublesome and misplaced reliance on the magnitude of the organization's nonexempt activities.

¹³ The court thus erroneously applied the UBIT test to the issue of entitlement to tax exemption.

¹⁴ In that case, the measurement of nonexempt activity was based on time spent, revenue received and disbursements.

produces only rental or investment income. I am aware of no case or ruling that has revoked the tax exemption of a section 501(c)(3) organization because it earned too much rental income from real property (or too much interest, dividend or royalty income). If there were a percentage limit on the amount of passive income that could be earned by a section 501(c)(3) organization, it would affect not only churches wishing to rent their steeples to cellular phone companies, but also organizations such as large universities and private foundations that rely on investment income from large endowments. It also would make little sense to exclude real property rents, royalties, interest and dividend income from UBIT but then limit the amount of such income that may be earned by an organization without jeopardizing its tax exemption.

E. Conclusion on Tax-Exempt Status

Under all of the approaches discussed above, the rental of a church steeple to cellular telephone companies under the facts assumed in Part II logically should not jeopardize a church's tax exemption even if the rental income accounts for more than half of the church's total income:

- Under the destination rule, the church's primary purposes should continue to be considered religious and charitable as long as rental income is used for the church's exempt purposes and the church carries on a program of exempt activities reasonably commensurate with its financial resources;
- Because the rental activity should require only nominal expenditures of time and money by the church, the magnitude of the rental activity should be considered insubstantial in relation to a typical church's exempt programs and activities; and
- The nature of the activity is passive, does not require the sale of goods or the performance of substantial services, and produces only a type of income (real property rents) that is excludible from UBIT.

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NON-TAX LEGAL ISSUES ASSOCIATED WITH THE PLACEMENT OF WIRELESS COMMUNICATIONS EQUIPMENT ON CHURCH PROPERTY

With the exploding growth of the wireless communication industry, many congregations are being courted by wireless service providers ("providers") to allow the placement of base stations and antennae on church premises. For the church, the chief benefit of entering into such an arrangement is obvious – it promises to supply a steady stream of income to the church, at minimal effort and cost to the church. There are, however, some serious risks and potential complications that need to be confronted and addressed by any congregation that is considering such a project. The purpose of this memorandum is to highlight those issues.

Two caveats are in order. First, this memorandum does not address the *tax* ramifications that may flow from receiving income from the placement or use of wireless communications equipment on church property. That issue is the subject of another memorandum that will be circulated by the General Council on Finance and Administration of The United Methodist Church. Second, no representation is made that this memorandum identifies all conceivable non-tax legal concerns associated with entering into contracts with the providers. The intent was to identify what seem to be the key areas of concern – to spot the kinds of issues that need to be addressed, without necessarily exhausting them all or treating each one comprehensively. In all cases, a congregation that is contemplating such an arrangement should retain experienced counsel to identify all legal issues that are pertinent to that congregation's situation and to negotiate the best possible agreement with the provider.

Indemnity & Insurance

Indemnity and Insurance. Perhaps the most important thing is to ensure that the provider bears all, or nearly all, of the risks associated with the placement and use of the provider's equipment on the church property. The provider should bear sole responsibility for securing all of the necessary insurance (*e.g., casualty, fire, etc.*) and should name the church as an additional insured on each policy. Thereafter, the congregation should be vigilant to ensure that the insurance remains in force by, among other things, annually requiring the provider to supply the congregation with a certificate of renewal of the policy for the upcoming period. (The adequacy of fire insurance should be examined closely, particularly if a structure higher than any that previously existed is erected to hold the antenna, since that might increase the risk of fire attributable to lightning.)

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In addition, even if seemingly adequate insurance is secured, the church should require the provider to expressly indemnify the church from liability for all claims, losses, costs and damages (including defense costs and attorneys' fees) associated with the construction, maintenance and operation of the project. The scope of risks covered should be comprehensive. At a minimum, the indemnity should cover the following:

- *Personal injury or bodily injury.* This should cover *anyone*, including parishioners, the provider's employees, contractor employees, neighbors, church employees and anyone else that may use the premises. Please be aware that there is much being written and said about the possibility of adverse health effects being associated with microwave transmissions. Although many believe that exposure levels due to radio frequency emissions from transmitter facilities are well below the levels considered to be safe, the congregation needs to conduct its own inquiry into this issue, to be sure it is aware of all the risks. Whatever the outcome of that assessment, however, it would be advisable to have the indemnity extend not merely to *actual* bodily injury, but also to claims for *increased risk* of disease and to any alleged emotional distress that might accompany such risk. Furthermore, the agreement should make clear that the indemnity extends beyond the life of the agreement, covering both claims and injuries that may arise or surface after the arrangement expires.
- *Property damage.* This should cover the church's own property, of course, but also all property belonging to the provider, any contractors, parishioners, neighbors, or anyone else. Coverage should also apply without regard to the cause of the damage or when it occurred (whether during construction, installation, operation, maintenance, dismantling of the equipment).
- *Damage arising even from the church's own negligence.* Ideally, the indemnity should exclude only damages arising from the church's own gross negligence or intentional misconduct.
- *Failure to obtain permits or licenses, or otherwise to comply with laws or regulations.* The provider must bear all costs arising out of any claimed failure to comply with relevant laws and regulations, including, but not limited to, zoning ordinances, construction permit requirements, and regulations promulgated by the Federal Communications Commission ("FCC").
- *Claims/liens by contractors.* Obviously, the provider should be responsible for paying all contractors hired in connection with installing, maintaining or operating the equipment, and the provider should be required to cure any damage or loss the church may sustain if a contractor claims not to have been paid and asserts claims or liens against the church or its property.

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- *Casualty loss.* This would cover any claims or losses associated with any failures or shutdowns of the provider's equipment for any reason, as well as for any other casualty loss, such as those that may be caused by frequency interference or power outages allegedly attributable to the operation of equipment.

Responsibility for Compliance with Laws and Regulations

As suggested by the indemnity discussion, the agreement between the church and provider should firmly place upon the provider the obligation to obtain all permits and licenses that may be needed to construct and operate the equipment, and to ensure that the entire operation otherwise complies with all relevant laws and regulations. In addition, the provider should expressly warrant that the structure will at all times be in full compliance with all applicable laws and regulations and that the provider has obtained all necessary clearances, certificates, and permits.

While obtaining these assurances provides protection for the congregation, government agencies may still consider it to be the church's obligation to fulfill certain requirements. For example, the FCC distinguishes between "owners" and "licensees" of antennas and imposes distinct requirements on each. *See Summary of FCC Requirements*, below. Although the cost and labor associated with meeting those requirements should be transferred to the provider by agreement, the church may well remain exposed as far as the government is concerned, so the church and its counsel need to monitor the situation to ensure that all requirements are, in fact, satisfied.

Summary of FCC Requirements

The FCC regulates wireless antenna structures pursuant to the federal Telecommunications Act of 1996. The requirements imposed by the Act and by FCC regulations are diverse and should be reviewed closely with counsel at the time any arrangement with a provider is being considered. The requirements include, among other things, the following:

- *Registration.* Subject to certain exemptions, the "owner" of an antenna structure (as distinct from the "licensee"/provider who is *using* the structure) may be required to register the structure with the FCC if the highest point of the structure is more than 200 feet above ground level, or even if the structure is not that high but is close to an airport. The regulations governing registration are complex and need to be examined closely during the design process. The owner is also responsible for amending the registration data as necessary (e.g., if the structure's height is modified), and for displaying the registration number in a conspicuous place so that it is readily visible near the base of the antenna structure.
- The owner is responsible for maintaining the structure in accordance with any specifications and conditions found in the registration (such as painting or lighting requirements imposed to ensure visibility by aircraft pilots).

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- The structure must comply with federal regulations governing the environmental and health effects of radio frequency emissions, which can be found at 47 CFR §§ 1.307, 1.310 and 2.1093.
- The structure must comply with FCC rules (found generally at 47 CFR § 1.301 *et seq.*) implementing the National Environmental Policy Act of 1969, which require the preparation of an environmental assessment in certain cases, and which are of particular relevance to any structure located in a flood plain, or on or within an area or building that is listed or eligible for listing in the National Register of Historic Places.

There is a wealth of information available from the FCC regarding these issues. A good starting point is to visit the FCC's web site at www.fcc.gov/wtb.

Other Potential Restrictions

Zoning. Although the Telecommunications Act of 1996 places some important constraints on the jurisdiction of local zoning authorities over such matters, local authorities generally retain the right to regulate the construction, modification and placement of wireless communications equipment.¹ The church's counsel should review the local zoning ordinances and any other applicable regulations (*e.g.*, neighborhood land use agreements or restrictions) to ensure that the specific structure proposed would comply with them.

Charter or Deed Restrictions. There may be language in the church's charter documents, organizational statutes, or property deed that restricts or prohibits it from putting such structures in place. These documents must be referenced to ensure that the placement of and use of income from these structures will not violate any of the restrictions they contain.

Property Tax Issues. Counsel for the church should also consider whether the placement of the equipment on the property, or the receipt of income from the arrangement, may effect the church's status with property taxing authorities.

Responsibility for Costs and Added Expenses

The agreement between the church and the provider should also state that the provider shall bear all out-of-pocket costs associated with the project. Take care that this obligation is stated in comprehensive terms, to make clear that it extends to costs associated with every stage of the venture, including the initial construction/installation phase, maintenance and repair costs, whatever costs may be

¹ The Telecommunications Act precludes local authorities from enforcing regulations that (1) discriminate among providers of functionally equivalent services, (2) prohibit or have the effect of prohibiting wireless services altogether, or (3) impose restrictions based on environmental effects of radio frequency emissions that are more strict than those imposed by comparable federal regulations. 47 U.S.C. § 322(c)(7)(B)(i), (iv).

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associated with actually operating the equipment, and any costs incurred if and when the equipment is removed or dismantled.

Utility costs will be a significant operating expense. To limit any squabbles over this issue, the church should insist that the provider install a separate electric meter dedicated to measuring the electricity consumed by the provider's operations.

Coordination Issues

Problems will undoubtedly be minimized if the congregation and the provider take pains to account for issues that, without planning, might prove divisive, disruptive and costly. The key is to anticipate how each party's operations might impact the other, and seek to identify ways in which problems can be avoided or resolved through coordination. Issues that might need this kind of attention include the following:

Installation. The installation of the structure could potentially disrupt church services or other church activities and may require additions or modifications to the existing building. The church should ensure that the structure will be installed at a time and in a manner that is acceptable to the church. To do so, the church may wish to secure an agreement in advance that covers the exact time and manner in which the equipment will be installed. This agreement could outline the location and properties (*i.e.*, size, related-noises, whether it requires use of the church's electricity, potential health hazards, etc.) of all on-site equipment (including machinery and other equipment used during construction), the construction design (including any plans for rewiring or altering existing structures in any way), and the time and manner of construction (*i.e.*, whether services will be affected, whether equipment will be stored on church property, etc.).

Type/Design of structure. While the provider should be solely responsible for the design and installation of the structure and for ensuring that the structure complies with all applicable laws and regulations, the church will want to conduct its own appraisal to ensure that equipment and its placement is minimally intrusive and aesthetically appropriate and safe, and that it poses no threat to the soundness of the existing structures. To do this, the church should seek detailed plans and specifications from the provider, and condition commencement of installation on approval from the church's own architect and/or engineer. It would also be a good idea for the church to conduct periodic inspections (once a year, at a minimum) to ensure that the structure and equipment have not damaged or compromised the building over time.

Access rights. The church should make itself aware of any rights to access that the service provider would require to install, operate, inspect or otherwise maintain the equipment. If the provider's presence on the property would disrupt church services or other church activities, then the church may seek to limit the provider's access rights during those periods. In addition, the church should be aware of any other access rights that may correspond with the agreement, such as a public utility easement (*e.g.*, where a utility has a legal or contractual right to read an electrical meter or inspect the equipment) or governmental right of

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access (e.g., where a government agency requires access to the structure in order to determine if it complies with the applicable regulations).

Maintenance and repairs. Although the agreement should require the provider to maintain the structure in good condition, the church should seek to include provisions that allow it to compel the provider to make any necessary repairs or modifications to the structure or equipment if necessary. The agreement should include a manner in which the church will notify the provider should repairs become necessary, the length of time in which the provider is required to respond, and the consequences if the provider fails to respond or refuses to make the necessary repairs.

Burdens on the Church's use or development of the property. The church and the provider need to be very clear on the extent to which any church activities may be limited by the arrangement. The provider may seek to limit or prohibit church personnel from accessing the area in which the equipment is located. The church will need to consider whether any such restrictions will compromise its ability to maintain the property or fulfill any of its functions or missions. The agreement should also address procedures for dealing with situations in which making repairs or improvements to the property impacts the operation of the provider's equipment. For example, will the agreement allow the church to remodel or expand if doing so would require the equipment to be moved or temporarily shutdown? If so, which party bears the costs associated with moving or shutting down the equipment?

Removal of Equipment Upon Termination. The agreement should clearly provide for the disposition of the structure and equipment upon termination of the agreement. The agreement should either expressly require the provider to remove the equipment, or cut-off the provider's rights to the equipment upon termination, so that the church can make any appropriate disposition of the equipment on its own. If the burden of removal is placed on the provider, the agreement should specify the length of time that the provider has to remove the equipment, the consequences if the provider fails to comply, and an indemnification provision that requires the provider to bear all costs and risks associated with removal.

Form, Terms and Duration of Agreement

Form. Agreements between churches and providers typically take the form of a lease. The church's counsel may consider whether some other form has any particular advantage (e.g., a license, which is a privilege to go on another's real property for a particular purpose, but does not confer any title, interest or estate in the property), but the lease form is so commonly used that one might expect providers to be reluctant to adopt a different format.

Compensation. There are several mechanisms by which the church may be compensated under an agreement with a provider, including lump sums and monthly or yearly payments, among other arrangements. While the church can boost its cash flow with a lump sum or one-time payment, doing so may cause the church to forgo potentially greater revenue in the future, should the value of the arrangement increase (e.g., due to increased property values). Compensation arrangements can provide for increasing

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payments over time and should cover any instance in which the agreement terminates before the end of a pay period. To ensure that the congregation's compensation is competitive, an effort should be made to determine the structure and amount of payments that others are receiving from providers in the same area.

Payment arrangements can be creative. For example, we are aware of an instance in which a church without a steeple had one erected at the provider's expense, in exchange for which the church agreed to receive lower fees than it might have if the steeple had already been in place. Another congregation might compromise on compensation in exchange for the provider bearing the expense of making other improvements that increase the value of the property as a whole.

Duration. The church will have to establish the duration of its agreement with the provider, as well any options to extend the agreement. In all likelihood, there will be a minimum period (i.e., a period before which *the church* will be unable to terminate the agreement), calculated by the provider to ensure a reasonable return in light of the capital outlay required to install the equipment. After negotiating that period, the agreement may allow for one or more optional or automatic extensions of shorter duration, and for early termination of any of those periods.

Transferability. If the provider has the right to assign its lease to another provider, the church may be required to do business with a company that it would otherwise wish to avoid. If the church wishes to deal solely with the original provider, then its agreement with the provider should expressly provide that the provider's interest is non-transferrable. Alternatively, the church may wish to reserve a right to transfer its interest in the lease should the church ever decide to sell all or part of its property. Indeed, the provider itself may well want to ensure that result, by insisting that any sale or transfer of the property be subject to lease.

Compliance with the *Book of Discipline*

Insofar as the agreement with the provider will constitute an agreement respecting the church's interest in real property, the congregation must also ensure that it complies with the local church property provisions of THE BOOK OF DISCIPLINE OF THE UNITED METHODIST CHURCH, which are set forth at ¶¶ 2524-2552. Special attention should be paid to ¶ 2540, which lists the steps that must be followed when any real property owned by the church is sold, mortgaged *or leased* – including obtaining approval by the charge conference at a duly-noticed meeting, obtaining the written consent of the district superintendent, and involving the district board of church location and building.

Property Issues

Ownership of the structure and equipment. The agreement should clearly specify who owns what. The church will, undoubtedly, wish to retain title to the steeple or any other pre-existing structure on which an antenna is placed, and to the area on which any of the provider's other equipment may be placed or constructed. But the agreement should also clarify who holds title to any structure or other improvement

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that is built or made to accommodate or support the equipment. In any case, the agreement should clearly establish the ownership of all property associated with the arrangement, including all pre-existing structures, any improvements and the equipment itself.

Subordination Agreement. The church may wish to include a provision in its agreement which requires or allows (at the church's option) the agreement to be subordinated to any subsequent mortgage. Providers have agreed to such provisions, but sometimes on the condition that the mortgage recognize the validity of the agreement and the provider's right to use the property after any foreclosure.

Burden on Title. Providers typically seek agreements that account for the possibility that the church may be sold to another congregation before the agreement expires. They will want the agreement to state that any such sale of the property shall be subject to the provider's rights under the agreement. The church needs to consider, then, whether the arrangement will restrict the church's ability to sell, transfer or encumber the property as it sees fit. Conversely, if the provider insists that the obligations of the agreement survive any sale of the church property, the congregation might insist that the obligations *stay* with the land – that is, that the congregation will have no further obligations under the agreement once it vacates the premises after selling the property.

Sharing Tower Space, or "Collocation"

The church may wish to bargain for the right to enter into similar agreements with other providers as a source of additional revenue. This option – sometimes called "collocation" – would allow other providers to make use of the structures already in place, provided that such would not interfere with any provider's use of or access to the structure. There are limits to how many transmitters a single tower can hold and different tower structures have different limits. In addition, the providers are competitors and some may be unwilling to participate in such sharing arrangements. Other providers, however, may be inclined to allow for collocation from the outset, perhaps as a means of increasing the likelihood of obtaining zoning approval and spreading costs. One must also factor in the effect the additional equipment may have on compliance with radio frequency emission requirements or other potential environmental concerns. In all events, the sharing option should at least be considered.

Again, the foregoing is a summary of issues that need to be considered by a local church when it is considering leasing its premises to a wireless communications service provider. There are undoubtedly other issues that need to be addressed, and the ones discussed above need to be considered in light of the particular situation and any developments in the law. The legal ramifications are diverse and complex, acting with the advice of counsel is essential.

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EMPLOYEE

OR

INDEPENDENT
CONTRACTOR

Employee or Independent Contractor?

Introduction

An important question arises when a church hires, retains or selects a new person to perform a particular job for the church - is the person an employee or independent contractor? Serious tax and other financial consequences may result if a person is misclassified. Most persons retained to do the day-to-day work of any organization, including a church, are considered employees. The Internal Revenue Service and courts have determined that United Methodist clergy at the local church are to be classified as employees for income tax purposes and are not self employed.¹ This analysis will not revisit the issue of clergy self-employment but is limited to looking at hiring or contracting with lay persons for work. The IRS may view independent contractor arrangements with suspicion and scrutiny, because of previous abuses and an underlying viewpoint that persons who are working for an organization should be considered employees for income tax purposes. Therefore it is crucial to carefully review the hiring and contracting classification process.

20 Factor IRS Test

The IRS uses a 20-factor test to determine whether a person is an employee. In connection with this test, the IRS has stated the following:

. . . 20 factors have been identified that indicate whether sufficient control is present to establish an employer-employee relationship. The degree of importance of each factor varies depending upon the occupation and the context in which the services are performed. It does not matter that the employer allows the employee freedom of action, so long as the employer has the right to control both the method and the result of the services . . . (Business Reporting, I.R.S. Publication 937).

¹ Weber v. Commissioner, 60 F.3d 1104 (4th Cir. 1995). However, Church polity is clear that clergy are not employees, *Book of Discipline* ¶ 141.

The 20 common law factors are:

- 1) **Instructions.** An employee must comply with instructions about when, where, and how to work. Even if no instructions are actually given, the control factor is present if the employer has the right to give instructions. Independent contractors direct themselves as to when, where and how to do their work.
- 2) **Training.** An employee is trained to perform services in a particular manner. Independent contractors ordinarily use their own methods and receive no training from the purchasers of their services.
- 3) **Integration.** An employee's services are integrated into the business operations because the services are important to the success or continuation of the business. This shows that the employee is subject to direction and control.
- 4) **Services rendered personally.** An employee renders services personally. This shows that the employer is interested in the methods as well as the results. Independent contractors are generally free to hire assistants or to sub-contract their work, since they are directing their own operations and making their own decisions about how to get the job done.
- 5) **Hiring, supervising and paying assistants.** An employee works for an employer who hires, supervises, and pays assistants under a contract that requires him or her to provide materials and labor and to be responsible only for the result.
- 6) **Continuing relationship.** An employee has a continuing relationship with an employer. A continuing relationship may exist where work is performed at frequently recurring although irregular intervals. An independent contractor ordinarily is hired to do a particular job and then moves on to do work elsewhere for another organization.
- 7) **Set hours of work.** An employee has set hours of work established by an employer. An independent contractor is the master of his or her own time.
- 8) **Full-time work.** An employee normally works full-time for an employer. An independent contractor can work when and for whom he or she chooses.
- 9) **Work done on employer's premises.** An employee works on the premises of an employer, or works on a route or at a location designated by an employer. An independent contractor ordinarily sets his/her own place of work.

- 10) **Order or sequence set.** An individual who must perform services in the order or sequence set by an employer looks like an employee, subject to direction and control.
- 11) **Oral or written reports.** A person who regularly submits reports to a supervisor looks like an employee, who must account to the employer for his or her actions.
- 12) **Payments.** An employee is paid by the hour, week, or month. An independent contractor is paid by the job or on a straight commission.
- 13) **Expenses.** An employee's business expenses are customarily paid by an employer. This shows that the employee is subject to regulation and control. An independent contractor ordinarily pays for his/her own business expenses.
- 14) **Tools and materials.** An employee is furnished significant tools, materials, and other equipment by an employer (examples in a church: computer, books, music, uniforms).
- 15) **Investment.** An independent contractor has a significant investment in the facilities he or she uses in performing services for someone else.
- 16) **Profit or loss.** An independent contractor can make a financial profit or suffer a financial loss, whereas an employee ordinarily does not suffer any financial losses associated with his/her work.
- 17) **Works for more than one person or firm.** An independent contractor offers and ordinarily gives his or her services to two or more unrelated persons or firms at the same time (example: an outside snow removal or lawn service used by a church would do the same work for a number of clients and would be considered an independent contractor; a facilities maintenance person who does full time work for the church that includes snow removal and lawn service and does not have a snow removal/lawn service business for other clients probably would be considered an employee, absent other unique circumstances).
- 18) **Offers services to general public.** An independent contractor makes his or her services available to the general public.
- 19) **Right to Fire.** An employer can fire an employee. An independent contractor typically cannot be terminated so long as he or she produces a result that meets the specifications of the contract for the services.

20) **Right to quit.** An employee can quit his or her job at any time without incurring liability. An independent contractor usually agrees to complete a specific job and is responsible for its satisfactory completion, or is legally obligated to make good for failure to complete it.

The IRS has attempted to streamline these questions and considerations. For example, see IRS Publication 15-A, "Employer Supplemental Tax Guide." In this Publication the IRS sets forth the employee versus independent contractor analysis by grouping concerns and questions into three categories, Behavioral Control, Financial Control, and Type of Relationship. The Publication also notes that an individual may request a specific determination from the IRS by filing Form SS-8.

Examples in a Church Setting

- A church organist/music director who holds the position of Minister of Music, who works 35 hours a week and who works under the direction of the church, **probably is an employee.**
- An organist who works for six area churches when their regular organist is sick or on vacation (and offers his/her services to other churches) **probably is an independent contractor.**
- A maintenance person who works 20 hours a week for the church on evenings, weekends (and after weddings and funerals) and who has a regular day job elsewhere but does not have a facilities maintenance business **probably would be viewed by the IRS as an employee of the church**, absent other facts.
- A maintenance person who works for ABC Maintenance Company and is sent to different job locations, including the church, depending on the work schedule set by ABC, would be an employee of ABC Maintenance Company. ABC Maintenance Company **would be an independent contractor** in its relationship with the church.
- A painter who walks in off the street and offers to spend the next four weeks painting the church for a flat fee **is probably an independent contractor.** S/he will do the assigned painting tasks and then go on to paint other churches, businesses or homes.

Problems With Improper Classification

Typically churches will attempt to classify a worker as an independent contractor to avoid the paperwork and expense of a new employee. Churches are well aware of the many reporting, withholding and payment obligations that exist if an individual is classified as a lay employee. To name a few, the church must complete an I-9 form for immigration purposes; begin social security and income tax withholding; report the hiring of the employee on state or federal informational forms; issue a W-2; possibly enroll the person in state unemployment compensation programs (many states exempt churches); enroll the employee in worker's compensation; possibly enroll the person in insurance, medical or pension plans; and create an employee personnel folder. If a church considers a person as a self-employed independent contractor, generally none of the above need be done. However, if the church is held to have *improperly* classified that person as an independent contractor, then the church will be responsible for back taxes, withholding, interest, possibly tax penalties, back insurance premiums, etc.² That is why it is so crucial that a church make the right decision when deciding how to classify a new person.

What A Church Can Do To Protect Itself

There are different steps that a church can take to protect itself.

Complete Review and Written Opinion. Each church organization needs to do its own analysis, in close consultation with legal and/or tax counsel, for any "job" that is in a gray area if the church wants to classify the person as an independent contractor. The church needs to explain the complete fact scenario, provide a job description, and review the above 20 factors with its outside consultant. Where there might be disagreement with classification as an independent contractor, it is advisable to have the outside attorney or qualified tax professional put their opinion in writing to demonstrate the church's good faith effort to comply with the law.

² In a well-publicized recent case, Microsoft was sued by "permanent temporary" workers that Microsoft treated as independent contractors. Some of these individuals worked at Microsoft for over a year. The court found in that case the differences between employees and these "independent contractors" were

Uniform Application. Make sure that you treat people the same way, by consistently applying the rules. Make sure independent contractors receive 1099s (for payments exceeding \$600.00).

Written Contracts. It is also very useful to have a written agreement with the hired individual stating that he or she understands and agrees that the work being performed is done as an independent contractor. While such an agreement will not in and of itself convince the IRS of independent contractor status, it can help clarify what work is being done, how and where it is to be done, the time frame for completion and the person's understanding and agreement that s/he is self employed. This will also confirm that the church is not doing any tax withholding for the person, not paying any insurance or pension benefits, not responsible for unemployment compensation or worker's compensation, etc. Any contract should be reviewed by legal counsel to comply with your specific needs.

Remember the Job is Being Performed by an "Independent" Contractor. Try not to manage or control how the contractor performs the job. The more day-to-day oversight that is exerted, the more it will look like supervising an "employee."

The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.

**GOOD SAMARITAN
BENEVOLENT FUND
POLICY**

Good Samaritan/Benevolence Fund Policy

***Take care of him, and when I come back, I will repay you whatever more you spend. . . .
Jesus said, "Go and do likewise." Luke 10:35-37***

Many churches seek to provide funds to help needy persons. If funds are raised on a case-by-case basis, it is likely that any donations made will not be tax deductible. The better way to handle the desire to help those in need is for the church to adopt a Good Samaritan/Benevolence Fund policy, such as the sample policy below. A Good Samaritan/Benevolence committee should be set up or, in the alternative, the function of selecting needy donees can be assigned to another existing committee of the church. It is important that all of the decisions be made totally independently of donor's suggestions and on the basis of need and other objective criteria. (See also IRS Publication 526 - Charitable Contributions)

(Sample)

Benevolence Fund Policy

_____ United Methodist Church, in keeping with its Biblical and charitable goals, has established a Good Samaritan/Benevolence Fund ("Fund") to assist persons in our community in financial need. Donors may suggest beneficiaries of the Fund. However, such suggestions shall be deemed advisory rather than mandatory in nature. The administration of the Fund, including all disbursements, is subject to the exclusive control and discretion of the Church. All gifts to the fund are gifts to the Church and while the committee may consider suggested designations, in no event is it bound to follow them.

Checks should be made payable to the Church, with a notation that the funds are to be placed in the Church's Good Samaritan/Benevolence Fund.

HOUSING ALLOWANCE

Q & A's

HOUSING ALLOWANCE Q&As (FOR UNITED METHODIST CLERGY)

1. **What is the housing allowance?** When reporting gross income for federal income tax purposes, clergy can exclude a portion of their income designated by their church or salary paying unit as a "housing allowance" under Section 107 of the Internal Revenue Code (IRC). To be excludible, amounts designated as a housing allowance must be used to provide housing. In addition, there are limits on the amount that can be excluded. Note that a portion of the income of virtually all wage earners is used to pay for housing. What makes the housing allowance unique is that some of the income used to provide housing can be excluded from gross income for federal income tax purposes.

Also, clergy who live in a parsonage provided by the church do not have to report the fair rental value of the parsonage as income. (Note this "free" housing provided to clergy generally would be taxable compensation for lay employees.)

The housing allowance is sometimes called a "parsonage allowance" for clergy who are provided with a parsonage and a "rental allowance" for clergy who rent their home.

Example: A church pays its pastor an annual salary of \$35,000. In addition, she is provided the rent-free use of a furnished home owned by the church. The parsonage's annual fair rental value is \$10,000. The church and pastor do not have to report the \$10,000 fair rental value as income for federal income tax purposes.

2. **Is the housing allowance a deduction or exclusion from income?** The housing allowance is an exclusion from income, not a deduction. This means it is not reported as part of gross income for federal income tax purposes. (It is never deducted because it is not reported as income in the first place.)

Example: In the example above, the pastor reports \$35,000 as income (on IRS Form W-2, box 1). She takes no deduction for the \$10,000 fair rental value of the home that is provided to her because that \$10,000 is never reported as income for federal income tax purposes.

3. **What is the impact of the "Clergy Housing Allowance Clarification Act of 2002"?** The Clergy Housing Allowance Clarification Act of 2002 ("Act") prospectively codifies the fair rental value limitation on the amount of a designated housing allowance that can be excluded from gross income for federal income tax purposes. That law amended Section 107 of the IRC to now read:

Sec. 107. Rental value of parsonages

In the case of a minister of the gospel, gross income does not include –

(1) the rental value of a home furnished to him as part of his compensation; or

(2) the rental allowance paid to him as part of his compensation, to the extent used by him to rent or provide a home *and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities.*

(The new language added by the Act is shown in italics.)

This change is a statutory codification of the IRS's previous position on this issue and therefore, for most clergy, this is nothing new or different from the way the housing allowance has worked in the past. (The full text of the Clergy Housing Allowance Clarification Act of 2002 is included in the tax packet.)

The following question explains in more detail the three limitations on the housing allowance exclusion.

4. **Can clergy exclude from gross income for federal income tax purposes the entire cost of owning, renting, and/or furnishing a home?** It depends. The amount that can be excluded is the *lesser* of:

- (a) the amount designated as the housing allowance
- (b) the amount of actual housing expenses, or
- (c) the fair rental value of the property (furnished, plus utilities).

Example: A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$10,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and pastor do not have to report the \$10,000 housing allowance as income for federal income tax purposes. (The church reports \$35,000 as salary on the pastor's Form W-2, box 1.)

Example: A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns her own home and the fair rental value of her home is \$10,000 per year. The actual expenses of operating her home are \$8,000 per year. The church and pastor do not have to report \$8,000 (out of the \$10,000 housing allowance) as income for federal income tax purposes. However, the "unused" \$2,000 of the housing allowance must be included in the pastor's gross income. This is because the pastor cannot exclude more than her actual housing expenses, regardless of the amount her church designates as a housing allowance or the fair rental value of the home.

Example: A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$12,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and pastor do not have to report the \$10,000 housing allowance for federal income tax purposes. The pastor cannot claim a housing allowance exclusion for the entire fair rental value

of the home because his designated housing allowance and actual housing expenses are less than the fair rental value. He can only exclude from income the lesser of the fair rental value, designated housing allowance, or actual housing expenses, in this case, \$10,000.

Example: A church pays its pastor annual compensation of \$45,000, of which \$11,000 is designated as a housing allowance. The pastor purchased her own home and the fair rental value of her home is \$10,000 per year. The actual expenses of operating her home in this first year of purchase are \$30,000 which includes a \$20,000 down payment. The pastor can exclude a total of \$10,000 from income for federal income tax purposes. She cannot claim a housing allowance exclusion for all her actual housing expenses because the exclusion cannot exceed the fair rental value of the home, in this case, \$10,000.

Example: A church pays its pastor annual compensation of \$45,000, of which \$8,000 is designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$10,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and pastor do not have to report the \$8,000 housing allowance as income for federal income tax purposes. The pastor cannot claim a housing allowance exclusion for the entire amount of his expenses or for the entire fair rental value of the home, because the exclusion cannot exceed the designated housing allowance, in this case, \$8,000.

5. **How do you determine the fair rental value of the parsonage or pastor's home?** In general, the fair rental value of the property is a question of facts and circumstances based on the local real estate market. If the pastor rents his home, the amount of the rent would be presumptive evidence of the fair rental value (assuming the rental agreement was an "arm's-length" transaction). Other methods of substantiating the fair rental value might include calculations and written documentation drawn from listings with local realtors of similar properties, verification of rent paid for comparable housing in the neighborhood, or a review of newspaper advertisements for rents of similar housing in the community. Perhaps the best substantiation would be a letter estimating the fair rental value of the property written by a realtor who is familiar with your property and other rental property in your community.
6. **What is the status of the litigation, *Warren v. Commissioner of Internal Revenue*, which challenged the fair rental value test and raised issues regarding the constitutionality of Section 107?** After passage of the Clergy Housing Allowance Clarification Act of 2002, the IRS agreed to dismiss its appeal of the case and the federal appeals court subsequently dismissed the case without ruling on any of the substantive issues raised.
7. **How should a pastor and church determine the amount of the housing allowance?** Past experience is the best test. If this is a "first time" situation, the Housing Allowance Estimate Worksheet, Attachment C to this document, could be helpful. In addition, this worksheet can assist clergy in planning for out-of-the-ordinary housing expenditures in the upcoming year.

8. **Does the housing allowance cost the church more money?** To the extent the church designates as a housing allowance a portion of the annual compensation it would otherwise pay to its pastor, designating the housing allowance results in no additional cost to the church. Regardless, it is important to remember it is the *Disciplinary* obligation of every United Methodist church to provide housing for its pastor(s). This obligation can be fulfilled either by providing a parsonage or a housing allowance for the pastor(s).
9. **How is the housing allowance set up?** A pastor may not claim a housing allowance exclusion for federal income tax purposes unless his local church (or other salary paying unit) has first established or designated a housing allowance for him. The preferred way to do this is for the church council or charge conference to adopt a housing allowance resolution prior to each calendar year (or prior to the arrival of a new pastor) and record the resolution in the minutes of the meeting. However, to ensure that a housing allowance will always be in place for each calendar year, it is a good idea to have language in each resolution providing that the housing allowance will remain in effect in future years unless otherwise modified.

In determining the amount of the designated housing allowance, it can be very helpful if the pastor completes a form estimating his anticipated housing expenses for the coming year. (See Attachment C for a sample form.) This is important because, as seen in some of the examples above, any "mismatch" between actual housing expenses and the designated housing allowance could have tax consequences (specifically, either the pastor may not be able to exclude from his income as much as he otherwise could or he has to report additional income on his personal tax return).

In general, churches should avoid designating a set percentage of compensation as a housing allowance. The better approach is to estimate the anticipated expenses for the coming year and set the housing allowance accordingly. This approach minimizes the unfavorable tax consequences discussed above.

If the church provides the pastor with a parsonage, the church should annually (or prior to the arrival of a new pastor) adopt a resolution stating that it provides its pastor rent-free use of a church-owned parsonage and also designate the amount of the parsonage allowance (if any).

*See Attachments A and B
For a Sample Housing Allowance Resolution
and Notification*

10. **What types of housing related expenses can be included in the housing allowance?** Most reasonable household expenses can be included in the housing allowance, for example: down payment on a home, mortgage payments (including both interest and principal), home equity loan payments (assuming the loan proceeds are used for housing-related expenses), real estate taxes, property insurance, utilities, furnishings and appliances (including repairs), structural repairs, remodeling, yard maintenance and improvements, pest control,

snow removal, maintenance items, and trash pickup. (Also see Attachment C.) Note that the cost of food and servants may not be included in the housing allowance. Also, housing-related expenses can only be included in the housing allowance for the year in which they are incurred. (See the following example.)

Example: In anticipation of needing to put a new roof on his house, a pastor requests, and the charge conference approves, an additional \$3,500 as part of the pastor's designated housing allowance for the upcoming year. The pastor, however, waits until it is too late for the work to begin during that year. In that case, it is possible the pastor will not be able to exclude this additional \$3,500 from his income even though it was included as part of his housing allowance for the year. In short, the pastor can only exclude expenses in the same year they are incurred. The best the pastor can do in this situation is to ask the church to again designate an additional \$3,500 as part of his housing allowance for the following year and try to get the work done in that year.

11. **What type of housing expense records should clergy be keeping?** Clergy need to keep careful housing expense records to determine whether any part of the designated housing allowance is unexcludible and hence, must be reported as gross income. Records are also important for estimating a reasonable housing allowance for the next year. Original receipts, invoices, canceled checks, charge card records, etc. are all essential. Clergy may find it helpful to have one charge card dedicated solely to household expenses, to use the "shoe box" method of collecting all receipts in one handy place, and/or to have a dedicated bank account for this purpose. Clergy may also wish to create a contemporaneous log of expenses in the event some of the receipts or back up data are misplaced or difficult to interpret later.
12. **What happens if the pastor doesn't spend all of the designated housing allowance on housing expenses?** As noted above, the exclusion from gross income cannot exceed the lesser of the designated housing allowance, the actual housing expenses, or the fair rental value of the property. In particular, the exclusion from gross income can never exceed the actual housing expenses. Therefore, any "unused" portion of the designated housing allowance must be included in the pastor's gross income.

In general, any portion of the designated housing allowance that is not excludible because it is in excess of either the actual housing expenses or the fair rental value of the property, must be included in the pastor's gross income.

Example: A church pays its pastor annual compensation of \$40,000, of which \$12,000 is designated as a housing allowance. The pastor owns his own home and the fair rental value of his home is \$12,000 per year. The actual expenses of operating his home are \$10,000 per year. The church and the pastor do not have to report \$10,000 (out of the \$12,000 housing allowance) as income for federal income tax purposes. However, the \$2,000 "unused" portion of the housing allowance must be included in the pastor's gross income.

13. **If the designated housing allowance is greater than the amount that can be excluded under Section 107 of the IRC, how does the church (and pastor) report the difference as gross income for federal income tax purposes?**

There are two methods for reporting this income:

(A) The Church Determination Method: Under this method, it is customary for the pastor, in mid-January, to provide the local church treasurer with documentation of all housing related expenses and the fair rental value of the property for the prior year. The treasurer uses this information to calculate the portion of the housing allowance that can be excluded by applying the three-part test discussed above. The church treasurer then reports the unexcludible portion of the housing allowance on the pastor's Form W-2 (box 1) together with the pastor's other salary or compensation.

Example: A church pays its pastor annual compensation of \$45,000, of which \$12,000 is designated as a housing allowance. She owns her own home and the fair rental value of the home is \$12,000 per year. Under the church determination method, the pastor informs the church treasurer in mid-January that she had only \$11,500 in housing expenses in the prior year. The treasurer will then include the "excess" \$500 in the pastor's gross income for the prior year by reporting \$33,500 on the pastor's Form W-2 (box 1). The pastor does not separately report this \$500 on her Form 1040.

(B) Estimated Exclusion Method: Under this method, the local church treasurer reports on the pastor's Form W-2 (box 1) the total amount of compensation paid to the pastor during the year less the entire amount designated as a housing allowance. If the amount designated as a housing allowance is greater than the actual housing expenses or the fair rental value of the home, then it is the pastor's responsibility to report the difference as "other income" on the pastor's IRS Form 1040, line 21.

Example: A church pays its pastor annual compensation of \$45,000, of which \$12,000 is designated as a housing allowance. He owns his own home and the fair rental value of the home is \$12,000 per year. The pastor had only \$11,500 of housing-related expenses in the prior year. Under the estimated exclusion method, the church treasurer reports \$33,000 on the pastor's Form W-2, box 1 and the pastor reports the "excess" \$500 as income on his Form 1040.

Although both methods are appropriate, it is interesting to note that the second method is the one illustrated in IRS Publication 517. The second method has the advantage that it imposes less of an administrative burden on the local church treasurer, who is often a volunteer. However, if the second method is used by the church, it should probably incorporate in its housing allowance notification to the pastor a statement to the effect that the pastor (not the church) is responsible for properly computing and reporting any unexcludible portion of the housing allowance. (See Attachment B). Conversely, the advantage of the first method is that it helps insure that the pastor doesn't unknowingly forget to report taxable income. If the first method is chosen by the church, it should probably incorporate in its annual housing allowance resolution a statement that it is adopting this method.

Also note that the church may, but is not required to, report in box 14 of Form W-2 the amount of the designated housing allowance it did not include in the pastor's gross income. If the church does not fill in box 14 of Form W-2, it should independently inform the pastor of this amount. As discussed above, it is essential for the pastor to know this amount when computing his federal income taxes under the estimated exclusion method and also when computing his self-employment taxes (see below).

14. **What type of records should the church be keeping regarding the pastor's housing allowance?** The church (or other salary-paying unit) should maintain copies of the documents pertaining to the designation of the housing allowance, for example, the minutes of the meeting during which the housing allowance resolution was adopted. It is advisable for the church to maintain a separate housing allowance file with copies of these minutes, the annual housing expense estimate that some pastors provide to their churches, and any other related documentation. If the church determination method (see above) is used, the church should keep copies of the pastor's housing expense information. If the estimated exclusion method (see above) is used, the church does not need to request or maintain the actual housing expense records because it is not responsible for determining or verifying whether the pastor is correctly reporting the housing allowance exclusion on his or her own individual tax return.

15. **Can the housing allowance resolution be adopted or amended mid-year?** Yes. The housing allowance resolution can be adopted or amended at any time. However, it can only be applied prospectively. That is why it is important for the housing allowance resolution to be adopted by the church council or annual charge conference prior to each new calendar year (or prior to the arrival of a new pastor) and for pastors to accurately estimate their housing expenses in advance.

Example: A local church waits until June 30 to establish its calendar year housing allowance of \$10,000. In that case, at most \$5,000 of the \$10,000 housing allowance can be excluded from the pastor's gross income in that calendar year.

Example: A pastor realizes in March that she has significantly underestimated her housing expenses for the year. There is still "room" under the fair rental value test to exclude her anticipated housing expenses but she is limited by the amount of her designated housing allowance. Therefore, at her request, the church council adopts a resolution, effective April 1, increasing the pastor's housing allowance from \$10,000 to \$12,400. However, the pastor may only exclude from gross income 3/4, or \$1,800, of the extra \$2,400 added to her housing allowance (that is, her maximum excludible housing allowance for the year is \$11,800). She cannot exclude 1/4, or \$600, of the extra amount because 1/4 of the year (January, February and March) has already passed before the amended housing allowance resolution was adopted by the church council.

16. **Is the housing allowance also excluded from earnings subject to social security taxes?** No. The housing allowance exclusion only applies for federal income tax purposes. Like most everyone else, clergy must pay both federal income taxes and social security taxes. Employees pay social security taxes through the Federal Insurance Contributions Act ("FICA") system and self-employed individuals pay social security taxes through the Self-Employment Contributions Act ("SECA") system. By law, clergy are considered self-employed for the purposes of paying social security taxes (more commonly referred to as self-employment taxes) and the housing allowance is subject to self-employment taxes. Also, the fair rental value of a parsonage provided to a pastor (including the cost of any utilities and furnishings provided) must be included as self-employment earnings subject to the self-employment tax. (See IRS Publication 517).

Example: A church pays its pastor an annual salary of \$35,000 and provides her with the use of a church-owned parsonage. The church pays for all expenses of maintaining the home. The fair rental value of the parsonage (furnished, plus utilities) is \$10,000 per year. The pastor's gross income for federal income tax purposes is \$35,000, but for self-employment tax purposes her gross earnings are \$45,000 (\$35,000 salary + \$10,000 fair rental value of the parsonage).

Example: A church pays its pastor an annual salary of \$35,000 and provides him with the use of a church-owned parsonage. The church pays for all expenses of maintaining the home. The church serves an affluent community where the average price of a home is \$500,000. Hence, the fair rental value of the parsonage (furnished, plus utilities) is quite high, in this case, \$30,000 per year. While the pastor will not have to report the fair rental value of the parsonage as income for federal income tax purposes, he will have to include the \$30,000 fair rental value of the parsonage as gross earnings for self-employment (social security) tax purposes, inflating his reportable earnings to \$65,000.

This often seems unfair to pastors, who in this type of situation are required to come up with a sizeable amount of money to pay the self-employment tax. However, it is important to keep in mind that the pastor is still receiving a significant income tax "break," because he received a \$30,000 benefit (i.e., free housing) that is not reported as income for federal income tax purposes. But some churches do establish a (taxable) "social security allowance," increasing the cash compensation of the pastor to help defray the extra cost of the self-employment tax in this type of situation.

Example: A church pays its pastor annual compensation of \$45,000, of which \$10,000 is designated as a housing allowance. The pastor owns her own home and the fair rental value of her home is \$10,000 per year. The actual expenses of operating her home are \$10,000 per year. The church and the pastor report \$35,000 as income for federal income tax purposes (the \$10,000 housing allowance is not reported). However, the pastor must report the entire amount of her compensation, \$45,000, as gross earnings for self-employment (social security) tax purposes.

17. **How is the housing allowance reported for social security purposes?** It is reported by the pastor on Schedule SE of Form 1040, line 2, together with salary. It is important to note that when the local church completes the annual W-2 Form for clergy, Box 3 should be left blank (for clergy only). Box 3 on the W-2 Form is used only to report FICA wages, not SECA wages (clergy wages are considered SECA wages for purposes of social security). See above and the example W-2 for further information. IRS Publications 517 and 525 are also useful on these points.
18. **What is the Deason rule?** It is an interpretation of the Internal Revenue Code followed by the IRS based on a tax case going back to 1964 and reaffirmed by the U.S. Tax Court in a subsequent decision in 1988, and in a tax court decision in 1992 (see Deason v. Commissioner, 41 T.C. 465 (1964); Dalan v. Commissioner, T.C. Memo. 1988-106; and McFarland v. Commissioner, T.C. Memo. 1992-440). The rule applies only to clergy who are able to take a business expense deduction for unreimbursed business expenses, which is becoming more and more uncommon for United Methodist clergy. The rule provides that a clergy person who claims an exclusion from gross income for the housing allowance must reduce their business expense deduction by the percentage of income that is excluded from income tax reporting for the housing allowance.

Example: A clergy person receives a salary of \$36,000, plus a housing allowance of \$18,000. He has unreimbursed business expenses of \$6,000, which, for purposes of this example, are assumed to be deductible. His total "ministry" income is \$54,000 (\$36,000 plus \$18,000 housing allowance). The exempt portion of his income (the \$18,000 housing allowance) is 33.33% of the total. Thus, he is only able to deduct 66.66% of the \$6,000 in deductible business expenses (\$4,000).

19. **Our church provides our pastor with a parsonage, fully furnished, all utilities paid. He requests a \$12,000 housing allowance each year. We do not think this is right. What can/should we do?** The church PPR/SPRC chair and/or the treasurer should sit down with the pastor to discuss what items and expenses are part of the \$12,000 housing allowance request. Attachment C, the Housing Cost Estimate Worksheet, may be helpful. The church should also be familiar with the fair rental value of a fully furnished (with all utilities paid) comparable house in the area. With this factual information as background, the church can then evaluate whether the \$12,000 request is truly a problem. If it is, then the church treasurer and chair of the staff pastor/parish relations committee should discuss with the pastor the church's concerns, reviewing the estimated expenses the pastor will be making and the IRS rules regarding the fair rental value and other limitations on what can be excluded from gross income as a housing allowance. The pastor may have misunderstood the IRS rules or may have a logical explanation and reporting position for the housing allowance. If, after this meeting, the church is still concerned and the matter has not been resolved, then the chair of the SPRC and treasurer may want to involve the district superintendent in a follow-up meeting. Ultimately, it is up to the charge conference to approve the housing allowance resolution each year, and the church is certainly not required to approve a resolution in the amount requested

by the pastor, if it believes in good conscience based on accurate factual information that the amount requested by the pastor is significantly too high.

20. **How does the housing allowance work for clergy couples?** Each clergy person can claim a housing allowance exclusion (assuming the appropriate steps have been taken with a housing allowance resolution), but the combined total amount of the exclusion may not exceed the fair rental value of their home or the actual expenses, whichever is less. In some circumstances, because of the nature of the United Methodist polity on itinerancy, each of the two clergy persons may live in separate homes and be provided with separate housing allowances (for example: appointments in two different locations, each with a parsonage, and with each salary paying unit requesting that the clergy person live in the parsonage). In these situations, the clergy couple should have a solid reporting position that the two housing allowances may be excluded from gross income for federal income tax purposes. The reporting position will be more tenable if the clergy couple has good documentation of the reasons for and professional necessity of maintaining two separate homes, and if the amounts claimed on their face for each home are reasonable.

21. **Can clergy take housing expenses on two homes at the same time?**
No. The housing allowance exclusion is limited to one home at a time. (Except possibly for the clergy couple exception discussed above)

Example: If the clergy person is building or has acquired a retirement home or vacation home, and still lives in the parsonage as his or her main home, then none of the expenses of the second home are includable for housing allowance purposes.

22. **Can retired clergy receive their retirement benefits as a tax-free housing allowance?** Yes, subject to the three limitations set forth above. Each year the annual conference (or general agency or other United Methodist entity) needs to adopt a housing allowance resolution stating that all of the pension payments received by the clergy person from the General Board of Pension and Health Benefits qualify as a housing allowance for retired clergy. Retired clergy can receive up to 100% of their official United Methodist retirement benefits from the General Board of Pension & Health Benefits as a tax-free housing allowance (subject to the limitations set forth above).

23. **Can all church employees have a tax-free housing allowance?** No. Section 107 of the IRC allows only a "minister of the gospel" to have a housing allowance. Thus, only taxpayers who are serving as clergy under IRS rules for tax purposes are eligible for a housing allowance. For example, a church custodian or secretary cannot have a housing allowance. (Of course such staff as lay employees do get the benefit of having the church pay one half their social security) United Methodist elders in full connection appointed to serve at the local church are "ministers of the gospel" and are eligible for a housing allowance, as are appointed local pastors. Many deacons appointed to the local church also will be eligible for a housing allowance (see the separate Q&As on the clergy status of United Methodist deacons elsewhere in this tax packet).

24. Does my housing allowance impact on the amount of contributions made to my 403(b) pension plan?

Yes, there could be an impact since the income designated as a housing allowance is **not** part of the "includible compensation" for certain contribution limitations established by IRS rules. Therefore, while the new tax law changes generally increase previous limitations, clergy still need to be mindful of 403(b) contribution rules when part of their salary is designated as housing allowance.

The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.

Attachment A

(SAMPLE) HOUSING ALLOWANCE RESOLUTION

(To be inserted in the minutes of the meeting)

The chairperson informed the meeting that under the tax law, a minister of the gospel is allowed to exclude from gross income: (1) the rental value of a home furnished to him or her as part of his or her compensation; or (2) a housing allowance paid to him or her as part of his or her compensation, to the extent used by him or her to rent or provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities.

The (charge conference or church council) on the ____ day of _____, after discussing the amount to be paid to Rev. _____ as a housing allowance, on motion duly made and seconded, adopted the following resolution:

Rev. _____ shall receive salary of \$ _____ for the year. Rev. _____ shall also receive a housing allowance of \$ _____ for the year _____ and all future years unless otherwise provided.

(If the clergy person is to have rent-free use of a home, also state:

"Rev. _____ shall also have rent-free use of the home located at _____ for the year _____ and for every year thereafter so long as he/she is minister of the _____ United Methodist Church unless otherwise provided.")

The housing allowance (and/or rent-free use of a home) shall be so designated in the official church records.

Attachment B

(SAMPLE)

HOUSING ALLOWANCE NOTIFICATION BY THE CHURCH

Date _____

Dear _____:

This is to notify you of the action taken establishing your housing allowance at a meeting held on _____. A copy of the Resolution is attached.

Under Section 107 of the Internal Revenue Code, a minister of the gospel is allowed to exclude from gross income (1) the rental value of a home furnished to him or her as part of his or her compensation; or (2) a housing allowance paid to him or her as part of his or her compensation, to the extent used by him or her to rent or provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities.

You should keep an accurate record of your expenditures to rent or provide a home in order to be able to substantiate any amounts excluded from gross income when filing your federal income tax return. In the event of an audit, clergy receiving a housing allowance will have the responsibility of substantiating the use of such funds. Also, remember that the housing allowance (including the fair rental value of a provided parsonage) must be included as part of your earnings for self-employment tax purposes.

Sincerely yours,

Title

Attachment

Attachment C

HOUSING ALLOWANCE ESTIMATE WORKSHEET

<u>EXPENSE ITEM</u>	<u>ESTIMATE</u>
• utilities (electricity, heat, water, trash pickup, and local telephone)	\$ _____
• furniture and appliances (purchases and repair)	_____
• building repairs and remodeling	_____
• property insurance	_____
• yard maintenance, landscaping and improvements	_____
• maintenance items (cleaning and maintenance supplies, electrical supplies)	_____
• miscellaneous	_____
FOR OWNERS	
• real estate taxes	_____
• mortgage payments/down payment	_____
• improvements	_____
•	_____
FOR RENTERS	
• rent payments	_____
TOTAL	\$ _____

Clergy Housing Allowance Clarification Act of 2002

(This is the text of the Clergy Housing Allowance Clarification Act of 2002 ("Act") which amended the housing allowance exclusion in Section 107 of the Internal Revenue Code.)

H.R. 4156

One Hundred Seventh Congress of the United States of America

AT THE SECOND SESSION

Begun and held at the City of Washington on Wednesday, the twenty-third day of January, two thousand and two

An Act

To amend the Internal Revenue Code of 1986 to clarify that the parsonage allowance exclusion is limited to the fair rental value of the property.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Clergy Housing Allowance Clarification Act of 2002".

SEC. 2. CLARIFICATION OF PARSONAGE ALLOWANCE EXCLUSION.

(a) IN GENERAL - Section 107 of the Internal Revenue Code of 1986 is amended by inserting before the period at the end of paragraph (2) "and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities".

(b) EFFECTIVE DATE -

(1) IN GENERAL - The amendment made by this section shall apply to taxable years beginning after December 31, 2001.

(2) RETURNS POSITIONS - The amendment made by this section also shall apply to any taxable year beginning before January 1, 2002, for which the taxpayer -

(A) on a return filed before April 17, 2002, limited the exclusion under section 107 of the Internal Revenue Code of 1986 as provided in such amendment, or

(B) filed a return after April 16, 2002.

(3) OTHER YEARS BEFORE 2002 - Except as provided in paragraph (2), notwithstanding any prior regulation, revenue ruling, or other guidance issued by the Internal Revenue Service, no person shall be subject to the limitations added to section 107 of such Code by this Act for any taxable year beginning before January 1, 2002.

Text of Section 107 Before and After the Act

Text of §107 of the Internal Revenue Code prior to the Act:

Sec. 107. Rental value of parsonages

In the case of a minister of the gospel, gross income does not include –

(1) the rental value of a home furnished to him as part of his compensation;
or

(2) the rental allowance paid to him as part of his compensation, to the extent used by him to rent or provide a home.

Text of §107 of the Internal Revenue Code as amended by the Act:

Sec. 107. Rental value of parsonages

In the case of a minister of the gospel, gross income does not include –

(1) the rental value of a home furnished to him as part of his compensation;
or

(2) the rental allowance paid to him as part of his compensation, to the extent used by him to rent or provide a home and to the extent such allowance does not exceed the fair rental value of the home, including furnishings and appurtenances such as a garage, plus the cost of utilities.

IRS

IRS Publications and Materials

The following IRS Publications may be helpful:¹

Publication 15 – Circular E, Employer's Tax Guide

Publication 15-A – Employer's Supplemental Tax Guide

Publication 463 – Travel, Entertainment, Gift, and Car Expenses

Publication 517 – Social Security and Other Information for Members of the Clergy and Religious Workers

Publication 521 – Moving Expenses

Publication 525 – Taxable and Nontaxable Income

Publication 526 – Charitable Contributions

Publication 533 – Self-Employment Tax

Publication 535 – Business Expenses

Publication 557 – Tax-Exempt Status for Your Organization

Publication 1771 – Charitable Contributions (Substantiation and Disclosure Requirements)

Publication 1828 – Tax Guide for Churches and Religious Organizations

Publication 3833 – Disaster Relief (Providing assistance through charitable organizations)

¹ See the document in this tax packet on "Obtaining IRS Forms and Publications".

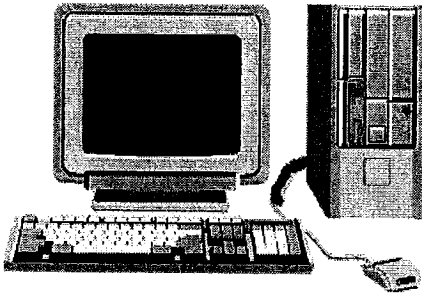
OBTAINING IRS FORMS & PUBLICATIONS

Pick-up or Order by Telephone



IRS forms and publications can be obtained from your local IRS office or by contacting the IRS at **1-800-829-3676 (1-800-TAX-FORM)** and asking that your order be mailed to you. (Many public libraries and post offices also have some forms available.)

Internet



IRS forms and publications are available for downloading on the IRS website: www.irs.gov. (On the IRS website, use either the search function or click on "Forms and Publications".)

Fax



The most frequently requested tax forms are available from the IRS by fax. Dial the IRS fax number (**703-368-9694**) from your fax machine and follow the voice prompts.

Other Resources

Richard R. Hammar, *Church & Clergy Tax Guide*, (Published annually by Christian Ministry Resources)

B.J. Worth, *Worth's Income Tax Guide for Ministers*, (Published annually by Evangel Publishing House)

Internal Revenue Service

Tax Exempt and Government Entities

Exempt Organizations

tax guide for

Churches and Religious Organizations

*benefits and responsibilities
under the federal tax law*

Congress has enacted special tax laws applicable to churches, religious organizations, and ministers in recognition of their unique status in American society and of their rights guaranteed by the First Amendment of the Constitution of the United States. Churches and religious organizations are generally exempt from income tax and receive other favorable treatment under the tax law; however, certain income of a church or religious organization may be subject to tax, such as income from an unrelated business.

The Internal Revenue Service (IRS) offers this quick reference guide of federal tax law and procedures for churches and religious organizations to help them voluntarily comply with tax rules. The contents of this publication reflect the IRS interpretation of tax laws enacted by Congress, Treasury regulations, and court decisions. The information given is not comprehensive, however, and does not cover every situation. Thus, it is not intended to replace the law or be the sole source of information. The resolution of any particular issue may depend on the specific facts and circumstances of a given taxpayer. In addition, this publication covers subjects on which a court may have made a decision more favorable to taxpayers than the interpretation by the IRS. Until these differing interpretations are resolved by higher court decisions, or in some other way, this publication will present the interpretation of the IRS.

For more detailed tax information, the IRS has assistance programs and tax information products for churches and religious organizations, as noted in the back of this publication. Most IRS publications and forms can be downloaded from the IRS Web site at www.irs.gov, or ordered by calling toll-free (800) 829-3676. Specialized information can be accessed through the Exempt Organizations (EO) Web site under the IRS Tax Exempt and Government Entities division via www.irs.gov/eo or by calling EO Customer Account Services toll-free at (877) 829-5500.

The IRS considers this publication a living document, one that will be revised to take into account future developments and feedback. Comments on the publication may be submitted to the IRS at the following address:

*Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224
Attn: T:EO:CE&O*

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Introduction

This publication explains the benefits and the responsibilities under the federal tax system for churches and religious organizations. The term church is found, but not specifically defined, in the Internal Revenue Code (IRC). The term is not used by all faiths; however, in an attempt to make this publication easy to read, we use it in its generic sense as a place of worship including, for example, mosques and synagogues. With the exception of the special rules for church audits, the use of the term church throughout this publication also includes conventions and associations of churches as well as integrated auxiliaries of a church.

Because special tax rules apply to churches, it is important to distinguish churches from other religious organizations. Therefore, when this publication uses the term “religious organizations,” it is not referring to churches or integrated auxiliaries. Religious organizations that are not churches typically include non-denominational ministries, interdenominational and ecumenical organizations, and other entities whose principal purpose is the study or advancement of religion.

Churches and religious organizations may be legally organized in a variety of ways under state law, such as unincorporated associations, nonprofit corporations, corporations sole, and charitable trusts.

Certain terms used throughout this publication—church, integrated auxiliary of a church, minister, and IRC section 501(c)(3)—are defined in the Glossary on page 27.

Tax-Exempt Status

Churches and religious organizations, like many other charitable organizations, qualify for exemption from federal income tax under IRC section 501(c)(3) and are generally eligible to receive tax-deductible contributions. To qualify for tax-exempt status, such an organization must meet the following requirements (covered in greater detail throughout this publication):

- the organization must be organized and operated exclusively for religious, educational, scientific, or other charitable purposes,
- net earnings may not inure to the benefit of any private individual or shareholder,
- no substantial part of its activity may be attempting to influence legislation,
- the organization may not intervene in political campaigns, and
- the organization's purposes and activities may not be illegal or violate fundamental public policy.

Recognition of Tax-Exempt Status

Automatic Exemption for Churches

Churches that meet the requirements of IRC section 501(c)(3) are automatically considered tax exempt and are not required to apply for and obtain recognition of tax-exempt status from the IRS.

Although there is no requirement to do so, many churches seek recognition of tax-exempt status from the IRS because such recognition assures church leaders, members, and contributors that the church is recognized as exempt and qualifies for related tax benefits. For example, contributors to a church that has been recognized as tax exempt would know that their contributions generally are tax-deductible.

Church Exemption Through a Central/Parent Organization

A church with a parent organization may wish to contact the parent to see if it has a *group ruling*. If the parent holds a group ruling, then the IRS may already recognize the church as tax exempt. Under the group exemption process, the parent organization becomes the holder of a group ruling that identifies other affiliated churches or other affiliated organizations. A church is recognized as tax exempt if it is included in a list provided by the parent organization. The parent is then required to submit an annual group exemption update to the IRS in which it provides additions, deletions, and changes within the group. If the church or other affiliated organization is included on such a list, it does not need to take further action to obtain recognition of tax-exempt status.

An organization that is not covered under a group ruling should contact its parent organization to see if it is eligible to be included in the parent's application for the group ruling. For general information on the group exemption process, see Revenue Procedure 80-27, 1980-1 C.B. 677.

Religious Organizations

Unlike churches, religious organizations that wish to be tax exempt generally must apply to the IRS for tax-exempt status unless their gross receipts do not normally exceed \$5,000 annually.

Applying for Tax-Exempt Status

Employer Identification Number (EIN)

Every tax-exempt organization, including a church, should have an employer identification number (EIN), whether or not the organization has any employees. There are many instances in which an EIN is necessary. For example, a church needs an EIN when it opens a bank account, in order to be listed as a subordinate in a group ruling, or if it files returns with the IRS (e.g., Forms W-2, 1099, 990-T).

An organization may obtain an EIN by filing Form SS-4, *Application for Employer Identification Number*, in accordance with the instructions.

Application Form

Organizations, including churches and religious organizations, that wish to be recognized as tax exempt under IRC section 501(c)(3) must use Form 1023.

A religious organization must submit its application within 27 months from the end of the month in which the organization is formed in order to be considered tax exempt and qualified to receive deductible contributions as of the date the organization was formed. On the other hand, a church may obtain recognition of exemption for time periods prior to the date of its request for tax-exempt status, even if it does not submit its application within 27 months of formation.

Cost for applying for exemption. The IRS is required to collect a non-refundable fee from any organization seeking a determination of tax-exempt status under IRC section 501(c)(3). Although churches are not required by law to file an application for exemption, if they choose to do so voluntarily, they are required to pay the fee for determination.

The fee must be submitted with Form 1023; otherwise, the application will be returned to the submitter. Fees change periodically. The most recent user fee can be found at the Exempt Organizations (EO) Web site under the IRS Tax Exempt and Government Entities division via www.irs.gov/eo or by calling EO Customer Account Services toll-free at (877) 829-5500.

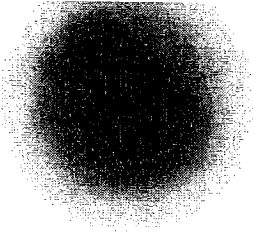
IRS Approval of Exemption Application

If the application for tax-exempt status is approved, the IRS will notify the organization of its status, any requirement to file an annual information return, and its eligibility to receive deductible contributions. The IRS does not assign a special number or other identification as evidence of an organization's tax-exempt status.

Public Listing of Tax-Exempt Organizations

The IRS lists organizations that are qualified to receive tax-deductible contributions in IRS Publication 78, *Cumulative List of Organizations Described in Section 170(c) of the Internal Revenue Code of 1986*. This publication is sold to the public through the Superintendent of Documents, U.S. Government Printing Office, Washington, DC. Publication 78 can also be downloaded from the IRS Web site at www.irs.gov. Note that not every organization that is eligible to receive tax-deductible contributions is listed in Publication 78. For example, churches that have not applied for recognition of tax-exempt status are not included in the publication. Only the parent organization in a group ruling is included by name in Publication 78.

If you have questions about listing an organization, correcting an erroneous entry, or deleting a listing in Publication 78, contact EO Customer Account Services toll-free at (877) 829-5500.



Jeopardizing Tax-Exempt Status

All IRC section 501(c)(3) organizations, including churches and religious organizations, must abide by certain rules:

- their net earnings may not inure to any private shareholder or individual,
- they must not provide a substantial benefit to private interests,
- they must not devote a substantial part of their activities to attempting to influence legislation,
- they must not participate in, or intervene in, any political campaign on behalf of (or in opposition to) any candidate for public office, and
- the organization's purposes and activities may not be illegal or violate fundamental public policy.

Inurement and Private Benefit

Inurement to Insiders

Churches and religious organizations, like all exempt organizations under IRC section 501(c)(3), are prohibited from engaging in activities that result in inurement of the church's or organization's income or assets to insiders (i.e., persons having a personal and private interest in the activities of the organization). *Insiders* could include the minister, church board members, officers, and in certain circumstances, employees. Examples of prohibited inurement include the payment of dividends, the payment of unreasonable compensation to insiders, and transferring property to insiders for less than fair market value. The prohibition against inurement to insiders is absolute; therefore, any amount of inurement is, potentially, grounds for loss of tax-exempt status. In addition, the insider involved may be subject to excise tax. See the following section on *Excess benefit transactions*. Note that prohibited inurement does not include reasonable payments for services rendered, payments that further tax-exempt purposes, or payments made for the fair market value of real or personal property.

Excess benefit transactions. In cases where an IRC section 501(c)(3) organization provides an excess economic benefit to an insider, both the organization and the insider have engaged in an *excess benefit transaction*. The IRS may impose an excise tax on any insider who improperly benefits from an excess benefit transaction, as well as on organization managers who participate in such a transaction knowing that it is improper. An insider who benefits from an excess benefit transaction is also required to return the excess benefits to the organization. Detailed rules on excess benefit transactions are contained in the Code of Federal Regulations, Title 26, sections 53.4958-0 through 53.4958-8.

Private Benefit

An IRC section 501(c)(3) organization's activities must be directed exclusively toward charitable, educational, religious, or other exempt purposes. Such an organization's activities may not serve the private interests of any individual or organization. Rather, beneficiaries of an organization's activities must be recognized objects of charity (such as the poor or the distressed) or the community at large (for example, through the conduct of religious services or the promotion of religion). Private benefit is different from inurement to insiders. Private benefit may occur even if the persons benefited are not insiders. Also, private benefit must be substantial in order to jeopardize tax-exempt status.

Substantial Lobbying Activity

In general, no organization, including a church, may qualify for IRC section 501(c)(3) status if a substantial part of its activities is attempting to influence legislation (commonly known as lobbying). An IRC section 501(c)(3) organization may engage in some lobbying, but too much lobbying activity risks loss of tax-exempt status.

Legislation includes action by Congress, any state legislature, any local council, or similar governing body, with respect to acts, bills, resolutions, or similar items (such as legislative confirmation of appointive offices), or by the public in a referendum, ballot initiative, constitutional amendment, or similar procedure. It does not include actions by executive, judicial, or administrative bodies.

A church or religious organization will be regarded as *attempting to influence legislation* if it contacts, or urges the public to contact, members or employees of a legislative body for the purpose of proposing, supporting, or opposing legislation, or if the organization advocates the adoption or rejection of legislation.

Churches and religious organizations may, however, involve themselves in issues of public policy without the activity being considered as lobbying. For example, churches may conduct educational meetings, prepare and distribute educational materials, or otherwise consider public policy issues in an educational manner without jeopardizing their tax-exempt status.

Measuring Lobbying Activity

Substantial part test. Whether a church's or religious organization's attempts to influence legislation constitute a substantial part of its overall activities is determined on the basis of all the pertinent facts and circumstances in each case. The IRS considers a variety of factors, including the time devoted (by both compensated and volunteer workers) and the expenditures devoted by the organization to the activity, when determining whether the lobbying activity is substantial. Churches must use the substantial part test since they are not eligible to use the expenditure test described in the next section.

Consequences of excessive lobbying activity. Under the *substantial part test*, a church or religious organization that conducts excessive lobbying activity in any taxable year may lose its tax-exempt status, resulting in all of its income being subject to tax. In addition, a

religious organization is subject to an excise tax equal to five percent of its lobbying expenditures for the year in which it ceases to qualify for exemption. Further, a tax equal to five percent of the lobbying expenditures for the year may be imposed against organization managers, jointly and severally, who agree to the making of such expenditures knowing that the expenditures would likely result in loss of tax-exempt status.

Expenditure test. Although churches are not eligible, religious organizations may elect the expenditure test under IRC section 501(h) as an alternative method for measuring lobbying activity. Under the expenditure test, the extent of an organization's lobbying activity will not jeopardize its tax-exempt status, provided its expenditures, related to such activity, do not normally exceed an amount specified in IRC section 4911. This limit is generally based upon the size of the organization and may not exceed \$1,000,000.

Religious organizations electing to use the expenditure test must file IRS Form 5768, *Election/Revocation of Election by an Eligible IRC Section 501(c)(3) Organization To Make Expenditures To Influence Legislation*, at any time during the tax year for which it is to be effective. The election remains in effect for succeeding years unless it is revoked by the organization. Revocation of the election is effective beginning with the year following the year in which the revocation is filed. Religious organizations may wish to consult their tax advisors to determine their eligibility for, and the advisability of, electing the expenditure test.

Consequences of excessive lobbying activity. Under the *expenditure test*, a religious organization that engages in excessive lobbying activity over a four-year period may lose its tax-exempt status, making all of its income for that period subject to tax. Should the organization exceed its lobbying expenditure dollar limit in a particular year, it must pay an excise tax equal to 25 percent of the excess.

Political Campaign Activity

Under the Internal Revenue Code, all IRC section 501(c)(3) organizations, including churches and religious organizations, are absolutely prohibited from directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office. Contributions to political campaign funds or public statements of position (verbal or written) made by or on behalf of the organization in favor of or in opposition to any candidate for public office clearly violate the prohibition against political campaign activity. Violation of this prohibition may result in denial or revocation of tax-exempt status and the imposition of certain excise tax.

Certain activities or expenditures may not be prohibited depending on the facts and circumstances. For example, certain voter education activities (including the presentation of public forums and the publication of voter education guides) conducted in a non-partisan manner do not constitute prohibited political campaign activity. In addition, other activities intended to encourage people to participate in the electoral process, such as voter registration and get-out-the-vote drives, would not constitute prohibited political campaign activity if conducted in a non-partisan manner. On the other hand, voter education or registration activities with evidence of bias that: (a) would favor one candidate over another; (b) oppose a candidate in some manner; or (c) have the effect of favoring a candidate or group of candidates, will constitute prohibited participation or intervention.

Individual Activity by Religious Leaders

The political campaign activity prohibition is not intended to restrict free expression on political matters by leaders of churches or religious organizations speaking for themselves, as *individuals*. Nor are leaders prohibited from speaking about important issues of public

policy. However, for their organizations to remain tax exempt under IRC section 501(c)(3), religious leaders cannot make partisan comments in official organization publications or at official church functions. To avoid potential attribution of their comments outside of church functions and publications, religious leaders who speak or write in their individual capacity are encouraged to clearly indicate that their comments are personal and not intended to represent the views of the organization. The following are examples of situations involving endorsements by religious leaders.

Example 1: Minister A is the minister of Church J, a section 501(c)(3) organization, and is well known in the community. With their permission, Candidate T publishes a full-page ad in the local newspaper listing five prominent ministers who have personally endorsed Candidate T, including Minister A. Minister A is identified in the ad as the minister of Church J. The ad states, "Titles and affiliations of each individual are provided for identification purposes only." The ad is paid for by Candidate T's campaign committee. Since the ad was not paid for by Church J, the ad is not otherwise in an official publication of Church J, and the endorsement is made by Minister A in a personal capacity, the ad does not constitute campaign intervention by Church J.

Example 2: Minister B is the minister of Church K, a section 501(c)(3) organization, and is well known in the community. Three weeks before the election, he attends a press conference at Candidate V's campaign headquarters and states that Candidate V should be reelected. Minister B does not say he is speaking on behalf of Church K. His endorsement is reported on the front page of the local newspaper and he is identified in the article as the minister of Church K. Because Minister B did not make the endorsement at an official church function, in an official church publication or otherwise use the church's assets, and did not state that he was speaking as a representative of Church K, his actions do not constitute campaign intervention by Church K.

Example 3: Minister C is the minister of Church I, a section 501(c)(3) organization. Church I publishes a monthly church newsletter that is distributed to all church members. In each issue, Minister C has a column titled “My Views.” The month before the election, Minister C states in the “My Views” column, “It is my personal opinion that Candidate U should be reelected.” For that one issue, Minister C pays from his personal funds the portion of the cost of the newsletter attributable to the “My Views” column. Even though he paid part of the cost of the newsletter, the newsletter is an official publication of the church. Because the endorsement appeared in an official publication of Church I, it constitutes campaign intervention attributed to Church I.

Example 4: Minister D is the minister of Church M, a section 501(c)(3) organization. During regular services of Church M shortly before the election, Minister D preached on a number of issues, including the importance of voting in the upcoming election, and concluded by stating, “It is important that you all do your duty in the election and vote for Candidate W.” Because Minister D’s remarks indicating support for Candidate W were made during an official church service, they constitute political campaign intervention by to Church M.

Issue Advocacy vs. Political Campaign Intervention

Like other section 501(c)(3) organizations, some churches and religious organizations take positions on public policy issues, including issues that divide candidates in an election for public office. However, section 501(c)(3) organizations must avoid any issue advocacy that functions as political campaign intervention. Even if a statement does not expressly tell an audience to vote for or against a specific candidate, an organization delivering the statement is at risk of violating the political campaign intervention prohibition if there is any message favoring or opposing a candidate. A statement can identify a candidate not only by stating the candidate’s name but also by other means such as showing a picture of the candidate, referring to political party affiliations, or other distinctive features of a candidate’s platform or biography. All the facts and circumstances need to be considered to determine if the advocacy is political campaign intervention.

Key factors in determining whether a communication results in political campaign intervention include the following:

- whether the statement identifies one or more candidates for a given public office,
- whether the statement expresses approval or disapproval for one or more candidates’ positions and/or actions,
- whether the statement is delivered close in time to the election,
- whether the statement makes reference to voting or an election,
- whether the issue addressed in the communication has been raised as an issue distinguishing candidates for a given office,
- whether the communication is part of an ongoing series of communications by the organization on the same issue that are made independent of the timing of any election, and
- whether the timing of the communication and identification of the candidate are related to a non-electoral event such as a scheduled vote on specific legislation by an officeholder who also happens to be a candidate for public office.

A communication is particularly at risk of political campaign intervention when it makes reference to candidates or voting in a specific upcoming election. Nevertheless, the communication must still be considered in context before arriving at any conclusions.

Example 1: Church O, a section 501(c)(3) organization, prepares and finances a full page newspaper advertisement that is published in several large circulation newspapers in State V shortly before an election in which Senator C is a candidate for nomination in a party primary. Senator C is the incumbent candidate in a party primary. The advertisement states that a pending bill in the United States Senate would provide additional opportunities for State V residents to participate in faith-based programs by providing funding to such church-affiliated programs. The advertisement ends with the statement “Call or write Senator C to tell him to vote for this

bill, despite his opposition in the past.” Funding for faith-based programs has not been raised as an issue distinguishing Senator C from any opponent. The bill is scheduled for a vote before the election. The advertisement identifies Senator C’s position as contrary to O’s position. Church O has not violated the political campaign intervention prohibition: The advertisement does not mention the election or the candidacy of Senator C or distinguish Senator C from any opponent. The timing of the advertising and the identification of Senator C are directly related to a vote on the identified legislation. The candidate identified, Senator C, is an officeholder who is in a position to vote on the legislation.

Example 2: Church R, a section 501(c)(3) organization, prepares and finances a radio advertisement urging an increase in state funding for faith-based education in State X, which requires a legislative appropriation. Governor E is the governor of State X. The radio advertisement is first broadcast on several radio stations in State X beginning shortly before an election in which Governor E is a candidate for re-election. The advertisement is not part of an ongoing series of substantially similar advocacy communications by Church R on the same issue. The advertisement cites numerous statistics indicating that faith-based education in State X is underfunded. Although the advertisement does not say anything about Governor E’s position on funding for faith-based education, it ends with “Tell Governor E what you think about our under-funded schools.” In public appearances and campaign literature, Governor E’s opponent has made funding of faith-based education an issue in the campaign by focusing on Governor E’s veto of an income tax increase to increase funding for faith-based education. At the time the advertisement is broadcast, no legislative vote or other major legislative activity is scheduled in the State X legislature on state funding of faith-based education. Church R has violated the political campaign prohibition: The advertisement identifies Governor E, appears shortly before an election in which Governor E is a candidate, is not part of an ongoing series of substantially similar advocacy communications by Church R on the same issue, is not timed to coincide with a non-election event such as a legislative vote or other major legislative action on that issue, and takes a position on an issue that the opponent has used to distinguish himself from Governor E.

Example 3: Candidate A and Candidate B are candidates for the state senate in District W of State X. The issue of State X funding for a faith-based indigent hospital care in District W is a prominent issue in the campaign. Both candidates have spoken out on the issue. Candidate A supports funding such care; Candidate B opposes the project and supports increasing State X funding for public hospitals instead. P is the head of the board of elders at Church C, a section 501(c)(3) organization located in District W. At C’s annual fundraising dinner in District W, which takes place in the month before the election, P gives a long speech about health care issues, including the issue of funding for faith-based programs. P does not mention the name of any candidate or any political party. However, at the end of the speech, P makes the following statement, “For those of you who care about quality of life in District W and the desire of our community for health care responsive to their faith, there is a very important choice coming up next month. We need more funding for health care. Increased public hospital funding will not make a difference. You have the power to respond to the needs of this community. Use that power when you go to the polls and cast your vote in the election for your state senator.” C has violated the political campaign intervention prohibition as a result of P’s remarks at C’s official function shortly before the election, in which P referred to the upcoming election after stating a position on an issue that is a prominent issue in a campaign that distinguishes the candidates.

Inviting a Candidate to Speak

Depending on the facts and circumstances, a church or religious organization may invite political candidates to speak at its events without jeopardizing its tax-exempt status. Political candidates may be invited in their capacity as candidates, or individually (not as a candidate). Candidates may also appear without an invitation at organization events that are open to the public.

Speaking as a candidate. Like any other IRC section 501(c)(3) organization, when a candidate is invited to speak at a church or religious organization event as a political candidate, factors in determining whether the organization participated or intervened in a political campaign include the following:

- whether the church provides an equal opportunity to the political candidates seeking the same office,
- whether the church indicates any support of or opposition to the candidate. (This should be stated explicitly when the candidate is introduced and in communications concerning the candidate's appearance.)
- whether any political fundraising occurs,
- whether the individual is chosen to speak solely for reasons other than candidacy for public office,
- whether the organization maintains a nonpartisan atmosphere on the premises or at the event where the candidate is present, and
- whether the organization clearly indicates the capacity in which the candidate is appearing and does not mention the individual's political candidacy or the upcoming election in the communications announcing the candidate's attendance at the event.

Equal opportunity to participate. Like any other IRC section 501(c)(3) organization, in determining whether candidates are given an equal opportunity to participate, a church or religious organization should consider the nature of the event to which each candidate is invited, in addition to the manner of presentation. For example, a church or religious organization that invites one candidate to speak at its well attended annual banquet, but invites the opposing candidate to speak at a sparsely attended general meeting, will likely be found to have violated the political campaign prohibition, even if the manner of presentation for both speakers is otherwise neutral.

Public forum. Sometimes a church or religious organization invites several candidates to speak at a public forum. A public forum involving several candi-

dates for public office may qualify as an exempt educational activity. However, if the forum is operated to show a bias for or against any candidate, then the forum would be prohibited campaign activity, as it would be considered intervention or participation in a political campaign. When an organization invites several candidates to speak at a forum, it should consider the following factors:

- whether questions for the candidate are prepared and presented by an independent nonpartisan panel,
- whether the topics discussed by the candidates cover a broad range of issues that the candidates would address if elected to the office sought and are of interest to the public,
- whether each candidate is given an equal opportunity to present his or her views on the issues discussed,
- whether the candidates are asked to agree or disagree with positions, agendas, platforms or statements of the organization, and
- whether a moderator comments on the questions or otherwise implies approval or disapproval of the candidates.

A candidate may seek to reassure the organization that it is permissible for the organization to do certain things in connection with the candidate's appearance. An organization in this position should keep in mind that the candidate may not be familiar with the organization's tax-exempt status and that the candidate may be focused on compliance with the election laws that apply to the candidate's campaign rather than the federal tax law that applies to the organization. The organization will be in the best position to ensure compliance with the prohibition on political campaign intervention if it makes its own independent conclusion about its compliance with federal tax law.

The following are examples of situations where a church or religious organization invites a candidate(s) to speak before the congregation.

Example 1: Minister E is the minister of Church N, a section 501(c)(3) organization. In the month prior to the election, Minister E invited the three Congressional candidates for the district in which Church N is located to address the congregation, one each on three successive Sundays, as part of regular worship services. Each candidate was given an equal opportunity to address and field questions on a wide variety of topics from the congregation. Minister E's introduction of each candidate included no comments on their qualifications or any indication of a preference for any candidate. The actions do not constitute political campaign intervention by Church N.

Example 2: The facts are the same as in the preceding example except that there are four candidates in the race rather than three, and one of the candidates declines the invitation to speak. In the publicity announcing the dates for each of the candidate's speeches, Church N includes a statement that the order of the speakers was determined at random and the fourth candidate declined the church's invitation to speak. Minister E makes the same statement in his opening remarks at each of the meetings where one of the candidates is speaking. Church N's actions do not constitute political campaign intervention.

Example 3: Minister F is the minister of Church O, a section 501(c)(3) organization. The Sunday before the November election, Minister F invited Senate Candidate X to preach to her congregation during worship services. During his remarks, Candidate X stated, "I am asking not only for your votes, but for your enthusiasm and dedication, for your willingness to go the extra mile to get a very large turnout on Tuesday." Minister F invited no other candidate to address her congregation during the Senatorial campaign. Because these activities took place during official church services, they are attributed to Church O. By selectively providing church facilities to allow Candidate X to speak in support of his campaign, Church O's actions constitute political campaign intervention.

Speaking as a non-candidate. Like any other IRC section 501(c)(3) organization, a church or religious organization may invite political candidates (including church members) to speak in a non-candidate capacity.

For instance, a political candidate may be a public figure because he or she: (a) currently holds, or formerly held, public office; (b) is considered an expert in a non-political field; or (c) is a celebrity or has led a distinguished military, legal, or public service career. A candidate may choose to attend an event that is open to the public, such as a lecture, concert or worship service. The candidate's presence at a church-sponsored event does not, by itself, cause the organization to be involved in political campaign intervention. However, if the candidate is publicly recognized by the organization, or if the candidate is invited to speak, factors in determining whether the candidate's appearance results in political campaign intervention include the following:

- whether the individual speaks only in a non-candidate capacity,
- whether either the individual nor any representative of the church makes any mention of his or her candidacy or the election,
- whether any campaign activity occurs in connection with the candidate's attendance.
- whether the individual is chosen to speak solely for reasons other than candidacy for public office,
- whether the organization maintains a nonpartisan atmosphere on the premises or at the event where the candidate is present, and
- whether the organization clearly indicates the capacity in which the candidate is appearing and does not mention the individual's political candidacy or the upcoming election in the communications announcing the candidate's attendance at the event.

In addition, the church or religious organization should clearly indicate the capacity in which the candidate is appearing and should not mention the individual's political candidacy or the upcoming election in the communications announcing the candidate's attendance at the event.

Below are examples of situations where a public official appears at a church or religious organization in an official capacity, and not as a candidate.

Example 1: Church P, a section 501(c)(3) organization, is located in the state capital. Minister G customarily acknowledges the presence of any public officials present during services. During the state gubernatorial race, Lieutenant Governor Y, a candidate, attended a Wednesday evening prayer service in the church. Minister G acknowledged the Lieutenant Governor's presence in his customary manner, saying, "We are happy to have worshipping with us this evening Lieutenant Governor Y." Minister G made no reference in his welcome to the Lieutenant Governor's candidacy or the election. Minister G's actions do not constitute political campaign intervention by Church P.

Example 2: Minister H is the minister of Church Q, a section 501(c)(3) organization. Church Q is building a community center. Minister H invites Congressman Z, the representative for the district containing Church Q, to attend the groundbreaking ceremony for the community center. Congressman Z is running for reelection at the time. Minister H makes no reference in her introduction to Congressman Z's candidacy or the election. Congressman Z also makes no reference to his candidacy or the election and does not do any fundraising while at Church Q. Church Q has not intervened in a political campaign.

Example 3: Church X is a section 501(c)(3) organization. X publishes a member newsletter on a regular basis. Individual church members are invited to send in updates about their activities which are printed in each edition of the newsletter. After receiving an update letter from Member Q, X prints the following: "Member Q is running for city council in Metropolis." The newsletter does not contain any reference to this election or to Member Q's candidacy other than this statement of fact. Church X has not intervened in a political campaign.

Example 4: Mayor G attends a concert performed by a choir of Church S, a section 501(c)(3) organization, in City Park. The concert is free and open to the public. Mayor G is a candidate for reelection, and the concert takes place after the primary and before

the general election. During the concert, S's minister addresses the crowd and says, "I am pleased to see Mayor G here tonight. Without his support, these free concerts in City Park would not be possible. We will need his help if we want these concerts to continue next year so please support Mayor G in November as he has supported us." As a result of these remarks, Church S has engaged in political campaign intervention.

Voter Education, Voter Registration and Get-Out-the-Vote Drives

Section 501(c)(3) organizations are permitted to conduct certain voter education activities (including the presentation of public forums and the publication of voter education guides) if they are carried out in a non-partisan manner. In addition, section 501(c)(3) organizations may encourage people to participate in the electoral process through voter registration and get-out-the-vote drives, conducted in a non-partisan manner. On the other hand, voter education or registration activities conducted in a biased manner that favors (or opposes) one or more candidates is prohibited.

Like other IRC section 501(c)(3) organizations, some churches and religious organizations undertake voter education activities by distributing *voter guides*. Voter guides, generally, are distributed during an election campaign and provide information on how all candidates stand on various issues. These guides may be distributed with the purpose of educating voters; however, they may not be used to attempt to favor or oppose candidates for public elected office.

A careful review of the following facts and circumstances may help determine whether or not a church or religious organization's publication or distribution of voter guides constitutes prohibited political campaign activity:

- whether the candidates' positions are compared to the organization's position,
- whether the guide includes a broad range of issues that the candidates would address if elected to the office sought,
- whether the description of issues is neutral,

- whether all candidates for an office are included, and
- whether the descriptions of candidates' positions are either:
 - the candidates' own words in response to questions, or
 - a neutral, unbiased and complete compilation of all candidates' positions.

The following are examples of church voter education and voter registration activities.

Example 1: Church R, a section 501(c)(3) organization, distributes a voter guide prior to elections. The voter guide consists of a brief statement from the candidates on each issue made in response to a questionnaire sent to all candidates for governor of State I. The issues on the questionnaire cover a wide variety of topics and were selected by Church R based solely on their importance and interest to the electorate as a whole. Neither the questionnaire nor the voter guide, through their content or structure, indicate a bias or preference for any candidate or group of candidates. Church R is not participating or intervening in a political campaign.

Example 2: Church S, a section 501(c)(3) organization, distributes a voter guide during an election campaign. The voter guide is prepared using the responses of candidates to a questionnaire sent to candidates for major public offices. Although the questionnaire covers a wide range of topics, the wording of the questions evidences a bias on certain issues. By using a questionnaire structured in this way, Church S is participating or intervening in a political campaign.

Example 3: Church T, a section 501(c)(3) organization, sets up a booth at the state fair where citizens can register to vote. The signs and banners in and around the booth give only the name of the church, the date of the next upcoming statewide election, and notice of the opportunity to register. No reference to any candidate or political party is made by volunteers staffing the booth or in the materials available in the booth, other than the official voter registration forms which allow registrants to select a party affiliation. Church T is not engaged in political campaign intervention when it operates this voter registration booth.

Example 4: Church C is a section 501(c)(3) organization. C's activities include educating its members on family issues involving moral values. Candidate G is running for state legislature and an important element of her platform is challenging the incumbent's position on family issues. Shortly before the election, C sets up a telephone bank to call registered voters in the district in which Candidate G is seeking election. In the phone conversations, C's representative tells the voter about the moral importance of family issues and asks questions about the voter's views on these issues. If the voter appears to agree with the incumbent's position, C's representative thanks the voter and ends the call. If the voter appears to agree with Candidate G's position, C's representative reminds the voter about the upcoming election, stresses the importance of voting in the election and offers to provide transportation to the polls. C is engaged in political campaign intervention when it conducts this get-out-the-vote drive.

Business Activity

The question of whether an activity constitutes participation or intervention in a political campaign may also arise in the context of a business activity of the church or religious organization, such as the selling or renting of mailing lists, the leasing of office space, or the acceptance of paid political advertising. (The tax treatment of income from such unrelated business activities follows.) In this context, some of the factors to be considered in determining whether the church or religious organization has engaged in prohibited political campaign activity include the following:

- whether the good, service, or facility is available to the candidates on an equal basis,
- whether the good, service, or facility is available only to candidates and not to the general public,
- whether the fees charged are at the organization's customary and usual rates, and
- whether the activity is an ongoing activity of the organization or whether it is conducted only for the candidate.

Example 1: Church K is a section 501(c)(3) organization. It owns a building that has a large basement hall suitable for hosting dinners and receptions. For several years, Church K has made the hall available for rent to members of the public. It has standard fees for renting the hall based on the number of people in attendance, and a number of different organizations have rented the hall. Church K rents the hall on a first come, first served basis. Candidate P's campaign pays the standard fee for the dinner. Church K is not involved in political campaign intervention as a result of renting the hall to Candidate P for use as the site of a campaign fundraising dinner.

Example 2: Church L is a section 501(c)(3) organization. It maintains a mailing list of all of its members. Church L has never rented the mailing list to a third party. The campaign committee of Candidate Q, who supports funding for faith-based programs, approaches Church L. Candidate A's campaign committee offers to rent Church L's mailing list for a fee that is comparable to fees charged by other similar organizations. Church L rents the list to Candidate A's campaign committee, but declines similar requests from campaign committees of other candidates. Church L has intervened in a political campaign.

Web Sites: The Internet has become a widely used communications tool. Section 501(c)(3) organizations use their own web sites to disseminate statements and information. They also routinely link their web sites to web sites maintained by other organizations as a way of providing additional information that the organizations believe is useful or relevant to the public.

A web site is a form of communication. If an organization posts something on its web site that favors or opposes a candidate for public office, the organization will be treated the same as if it distributed printed material, oral statements or broadcasts that favored or opposed a candidate.

An organization has control over whether it establishes a link to another site. When an organization establishes a link to another web site, the organization is responsible for the consequences of establishing and maintaining that link, even if the organization does not have control

over the content of the linked site. Because the linked content may change over time, an organization may reduce the risk of political campaign intervention by monitoring the linked content and adjusting the links accordingly.

Links to candidate-related material, by themselves, do not necessarily constitute political campaign intervention. All the facts and circumstances must be taken into account when assessing whether a link produces that result. The facts and circumstances to be considered include, but are not limited to, the context for the link on the organization's web site, whether all candidates are represented, any exempt purpose served by offering the link, and the directness of the links between the organization's web site and the web page that contains material favoring or opposing a candidate for public office.

Example 1. Church P, a section 501(c)(3) organization, maintains a web site that includes such information as biographies of its ministers, times of services, details of community outreach programs, and activities of members of its congregation. B, a member of the congregation of Church P, is running for a seat on the town council. Shortly before the election, Church P posts the following message on its web site, "Lend your support to B, your fellow parishioner, in Tuesday's election for town council." Church P has intervened in a political campaign on behalf of B.

Example 2. Church N, a section 501(c)(3) organization, maintains a web site that includes such information as staff listings, directions to the church, and descriptions of its community outreach programs, schedules of services, and school activities. On one page of the web site, Church N describes a particular type of treatment program for homeless veterans. This section includes a link to an article on the web site of O, a major national newspaper, praising Church N's treatment program for homeless veterans. The page containing the article on O's web site does not refer to any candidate or election and has no direct links to candidate or election information. Elsewhere on O's web site, there is a page displaying editorials that O has published. Several of the editorials endorse candidates in an election that has not yet occurred. Church N has not intervened in a political campaign by maintaining a link on O's

web site because the link is provided for the exempt purpose of educating the public about its programs; the context for the link, the relationship between Church N and O, and the arrangement of the links going from Church N's web site to the endorsement on O's web site, do not indicate that Church N was favoring or opposing any candidate.

Example 3: Church M, a section 501(c)(3) organization, maintains a web site and posts an unbiased, nonpartisan voter guide that is prepared in accordance with the principles discussed on pages 12 and 13 of this publication. For each candidate covered in the voter guide, M includes a link to that candidate's official campaign web site. The links to the candidate web sites are presented on a consistent, neutral basis for each candidate, with text saying "For more information on Candidate X, you may consult [URL]." M has not intervened in a political campaign because the links are provided for the exempt purpose of educating voters and are presented in a neutral, unbiased manner that includes all candidates for a particular office.

Consequences of Political Campaign Activity

When it participates in political campaign activity, a church or religious organization jeopardizes both its tax-exempt status under IRC section 501(c)(3) and its eligibility to receive tax-deductible contributions. In addition, it may become subject to an excise tax on its political expenditures. This *excise tax* may be imposed in addition to revocation, or it may be imposed instead of revocation. Also, the church or religious organization should correct the violation.

Excise tax. An initial tax is imposed on an organization at the rate of 10 percent of the political expenditures. Also, a tax at the rate of 2.5 percent of the expenditures is imposed against the organization managers (jointly and severally) who, without reasonable cause, agreed to the expenditures knowing they were political expenditures. The tax on management may not exceed \$5,000 with

respect to any one expenditure.

In any case in which an initial tax is imposed against an organization, and the expenditures are not corrected within the period allowed by law, an additional tax equal to 100 percent of the expenditures is imposed against the organization. In that case, an additional tax is also imposed against the organization managers (jointly and severally) who refused to agree to make the correction. The additional tax on management is equal to 50 percent of the expenditures and may not exceed \$10,000 with respect to any one expenditure.

Correction. Correction of a political expenditure requires the recovery of the expenditure, to the extent possible, and establishment of safeguards to prevent future political expenditures.

Please note that a church or religious organization that engages in any political campaign activity also needs to determine whether it is in compliance with the appropriate federal, state or local election laws, as these may differ from the requirements under IRC section 501(c)(3).

Unrelated Business Income Tax (UBIT)

Net Income Subject to the UBIT

Churches and religious organizations, like other tax-exempt organizations, may engage in income-producing activities unrelated to their tax-exempt purposes, as long as the unrelated activities are not a substantial part of the organization's activities. However, the net income from such activities will be subject to the UBIT if the following three conditions are met:

- the activity constitutes a trade or business,
- the trade or business is regularly carried on, and
- the trade or business is not substantially related to the organization's exempt purpose. (The fact that the organization uses the income to further its charitable or religious purposes does not make the activity substantially related to its exempt purposes.)

Exceptions to UBIT

Even if an activity meets the above three criteria, the income may not be subject to tax if it meets one of the following exceptions: (a) substantially all of the work in operating the trade or business is performed by volunteers; (b) the activity is conducted by the organization primarily for the convenience of its members; or (c) the trade or business involves the selling of merchandise substantially all of which was donated.

In general, rents from real property, royalties, capital gains, and interest and dividends are not subject to the unrelated business income tax unless financed with borrowed money.

Examples of Unrelated Trade or Business Activities

Unrelated trade or business activities vary depending on types of activities, as shown below.

Advertising

Many tax-exempt organizations sell advertising in their publications or other forms of public communication. Generally, income from the sale of advertising is unrelated trade or business income. This may include the sale of advertising space in weekly bulletins, magazines or journals, or on church or religious organization Web sites.

Gaming

Most forms of gaming, if regularly carried on, may be considered the conduct of an unrelated trade or business. This can include the sale of pull-tabs and raffles. Income derived from bingo games may be eligible for a special tax exception (in addition to the exception regarding uncompensated volunteer labor covered above), if the following conditions are met: (a) the bingo game is the traditional type of bingo (as opposed to instant bingo, a variation of pull-tabs); (b) the conduct of the bingo game is not an activity carried out by for-profit organizations in the local area; and (c) the operation of the bingo game does not violate any state or local law.

Sale of merchandise and publications

The sale of merchandise and publications (including the actual publication of materials) can be considered the conduct of an unrelated trade or business if the items involved do not have a substantial relationship to the exempt purposes of the organization.

Rental income

Generally, income derived from the rental of real property and incidental personal property is excluded from unrelated business income. However, there are certain situations in which rental income may be unrelated business taxable income:

- if a church rents out property on which there is debt outstanding (for example, a mortgage note), the rental income may constitute unrelated debt-financed income subject to UBIT. (However, if a church or convention or association of churches acquires debt-financed land for use in its exempt purposes within 15 years of the time of acquisition, then income from the rental of the land may not constitute unrelated business income.),
- if personal services are rendered in connection with the rental, then the income may be unrelated business taxable income, or
- if a church charges for the use of the parking lot, the income may be unrelated business taxable income.

Parking lots

If a church owns a parking lot that is used by church members and visitors while attending church services, any parking fee paid to the church would not be subject to UBIT. However, if a church operates a parking lot that is used by members of the general public, parking fees would be taxable, as this activity would not be substantially related to the church's exempt purpose, and parking fees are not treated as rent from real property. If the church enters into a lease with a third party who operates the church's parking lot and pays rent to the church, such payments would not be subject to tax, as they would constitute rent from real property.

Whether an income-producing activity is an unrelated trade or business activity depends on all the facts and circumstances. For more information, see IRS Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*.

Tax on Income-Producing Activities

If a church, or other exempt organization, has gross income of \$1,000 or more for any taxable year from the conduct of any unrelated trade or business, it is required to file IRS Form 990-T, *Exempt Organization Business Income Tax Return*, for that year. If the church is part of a larger entity (such as a diocese), it must file a separate Form 990-T if it has a separate EIN. Form 990-T is due the 15th day of the 5th month following the end of the church's tax year. (IRC section 512(b)(12) provides a special rule for parishes and similar local units of a church. A specific deduction is provided, which is equal to the lower of \$1,000 or the gross income derived from any unrelated trade or business regularly carried on by such parish or local unit of a church.) See Filing Requirements on page 19.

*Download IRS
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(800) 829-3676.*

Employment Tax

Generally, churches and religious organizations are required to withhold, report, and pay income and Federal Insurance Contributions Act (FICA) taxes for their employees. Employment tax includes income tax withheld and paid for an employee and FICA taxes withheld and paid on behalf of an employee. Substantial penalties may be imposed against an organization that fails to withhold and pay the proper employment tax. Whether a church or religious organization must withhold and pay employment tax depends upon whether the church's workers are employees. *Determination of worker status* is important. Several facts determine whether a worker is an employee. For an in-depth explanation and examples of the common law employer-employee relationship, see IRS Publication 15-A, *Employer's Supplemental Tax Guide*. If a church or a worker wants the IRS to determine whether the worker is an employee, the church or worker should file IRS Form SS-8, *Determination of Employee Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding*, with the IRS.

Social Security and Medicare Taxes — Federal Insurance Contributions Act (FICA)

FICA taxes consist of Social Security and Medicare taxes. Wages paid to employees of churches or religious organizations are subject to FICA taxes unless *one* of the following exceptions applies:

- wages are paid for services performed by a duly ordained, commissioned, or licensed minister of a church in the exercise of his or her ministry, or by a member of a religious order in the exercise of duties required by such order,

- the church or religious organization pays the employee wages of less than \$108.28 in a calendar year, or
- a church that is opposed to the payment of Social Security and Medicare taxes for religious reasons files IRS Form 8274, *Certification by Churches and Qualified Church Controlled Organizations Electing Exemption From Employer Social Security and Medicare Taxes*. Very specific timing rules apply to filing Form 8274. It must be filed before the *first* date on which the electing entity is required to file its first quarterly employment tax return. This election does not relieve the organization of its obligation to withhold income tax on wages paid to its employees. In addition, if such an election is made, affected employees must pay Self-Employment Contributions Act (SECA) tax. For further information, see Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*.

Withheld employee income tax and FICA taxes are reported on IRS Form 941, *Employer's Quarterly Federal Tax Return*. Some small employers are eligible to file an annual Form 944 instead of quarterly returns. See the instructions to Form 944 for more information. For more information about employment tax, see IRS Publication 15, *Circular E, Employer's Tax Guide*, and IRS Publication 15-A, *Employer's Supplemental Tax Guide*. See also, IRS Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*.

Federal Unemployment Tax Act (FUTA)

Churches and religious organizations are not liable for FUTA tax. For further information on FUTA, see IRS Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*.

Special Rules for Compensation of Ministers

Withholding Income Tax for Ministers

Unlike other exempt organizations or businesses, a church is not required to withhold income tax from the compensation that it pays to its duly ordained, commissioned, or licensed ministers for performing services in the exercise of their ministry. An employee minister may, however, enter into a voluntary withholding agreement with the church by completing IRS Form W-4, *Employee's Withholding Allowance Certificate*. A church should report compensation paid to a minister on Form W-2, *Wage and Tax Statement*, if the minister is an employee, or on IRS Form 1099-MISC, *Miscellaneous Income*, if the minister is an independent contractor.

Parsonage or Housing Allowances

Generally, a minister's gross income does not include the fair rental value of a home (parsonage) provided, or a housing allowance paid, as part of the minister's compensation for services performed that are ordinarily the duties of a minister.

A minister who is furnished a *parsonage* may exclude from income the fair rental value of the parsonage, including utilities. However, the amount excluded cannot be more than the reasonable pay for the minister's services.

A minister who receives a *housing allowance* may exclude the allowance from gross income to the extent it is used to pay expenses in providing a home. Generally, those expenses include rent, mortgage payments, utilities, repairs, and other expenses directly relating to providing a home. If a minister owns a home, the amount excluded from the minister's gross income as a housing allowance is limited to the least of the following: (a) the amount actually used to provide a home; (b) the amount officially designated as a housing allowance; or (c) the fair rental value of the home. The minister's church or other qualified organization must designate the housing allowance pursuant to official action taken *in advance* of the payment. If a minister is employed and paid by a local congregation, a designation by a national church

agency will not be effective. The local congregation must make the designation. A national church agency may make an effective designation for ministers it directly employs. If none of the minister's salary has been officially designated as a housing allowance, the full salary must be included in gross income.

The fair rental value of a parsonage or housing allowance is excludable from income only for income tax purposes. These amounts are *not* excluded in determining the minister's net earnings from self-employment for Self-Employment Contributions Act (SECA) tax purposes. Retired ministers who receive either a parsonage or housing allowance are not required to include such amounts for SECA tax purposes.

As mentioned above, a minister who receives a parsonage or rental allowance excludes that amount from his income. The portion of expenses allocable to the excludable amount is not deductible. This limitation, however, does not apply to interest on a home mortgage or real estate taxes, nor to the calculation of net earnings from self-employment for SECA tax purposes.

IRS Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*, has a detailed example of the tax treatment for a housing allowance and the related limitations on deductions. IRS Publication 525, *Taxable and Nontaxable Income*, has information on particular types of income for ministers.

Social Security and Medicare Taxes — Federal Insurance Contributions Act (FICA) vs. Self-Employment Contributions Act (SECA)

The compensation that a church or religious organization pays to its ministers for performing services in the exercise of ministry is not subject to FICA taxes. However, income that a minister earns in performing services in the exercise of his ministry is subject to SECA tax, unless the minister has timely applied for and received an exemption from SECA tax.

Payment of Employee Business Expenses

A church or religious organization is treated like any other employer as far as the tax rules regarding employee business expenses. The rules differ depending upon whether the expenses are paid through an accountable or non-accountable plan, and these plans determine whether the payment for these expenses is included in the employee's income.

Accountable Reimbursement Plan

An arrangement that an employer establishes to reimburse or advance employee business expenses will be an accountable plan if it meets three requirements: (1) involves a business connection; (2) requires the employee to substantiate expenses incurred; and (3) requires the employee to return any excess amounts.

Employees must provide the organization with sufficient information to identify the specific business nature of each expense and to substantiate each element of an expenditure. It is not sufficient for an employee to aggregate expenses into broad categories such as travel or to report expenses through the use of non-descriptive terms such as *miscellaneous business expenses*. Both the substantiation and the return of excess amounts must occur within a reasonable period of time.

Employee business expenses reimbursed under an accountable plan are: (a) excluded from an employee's gross income; (b) not required to be reported on the employee's IRS Form W-2, *Wage and Tax Statement*; and (c) exempt from the withholding and payment of wages subject to FICA taxes and income tax withholdings.

Non-accountable Reimbursement Plan

If the church or religious organization reimburses or advances the employee for business expenses, but the arrangement does not satisfy the three requirements of an accountable plan, the amounts paid to the employees are considered wages subject to FICA taxes and income tax withholding, if applicable, and are reportable on Form W-2. (Amounts paid to employee ministers are

treated as wages reportable on Form W-2, but are not subject to FICA taxes or income tax withholding.)

For example, if a church or religious organization pays its secretary a \$200 per month allowance to reimburse monthly business expenses the secretary incurs while conducting church or religious organization business, and the secretary is not required to substantiate the expenses or return any excess, then the entire \$200 must be reported on Form W-2 as wages subject to FICA taxes and income tax withholding. In the same situation involving an employee-minister, the allowance must be reported on the minister's Form W-2, but no FICA or income tax withholding is required. For further information see IRS Publication 463, *Travel, Entertainment, Gift and Car Expenses*.

One common business expense reimbursement is for *automobile mileage*. If a church or religious organization pays a mileage allowance at a rate that is less than or equal to the federal standard rate, the amount of the expense is deemed substantiated. (Each year, the federal government establishes a standard mileage reimbursement rate.) There are no income or employment tax consequences to the reimbursed individual provided that the employee substantiates the time, place, and business purposes of the automobile mileage for which reimbursement is sought. Of course, reimbursement for automobile mileage incurred for personal purposes is includible in the individual's income.

If a church or religious organization reimburses automobile mileage at a rate exceeding the standard mileage rate, the excess is treated as paid under a non-accountable plan. This means that the excess is includible in the individual's income and is subject to the withholding and payment of income and employment taxes, if applicable.

In addition, any mileage reimbursement that is paid without requiring the individual to substantiate the time, place, and business purposes of each trip is included in the individual's income, regardless of the rate of reimbursement.

No income is attributed to an employee or a volunteer who uses an automobile owned by the church or religious organization to perform church-related work.

Recordkeeping Requirements

Books of Accounting and Other Types of Records

All tax-exempt organizations, including churches and religious organizations (regardless of whether tax-exempt status has been officially recognized by the IRS), are required to maintain books of accounting and other records necessary to justify their claim for exemption in the event of an audit. See Special Rules Limiting IRS Authority to Audit a Church on page 22. Tax-exempt organizations are also required to maintain books and records that are necessary to accurately file any federal tax and information returns that may be required.

There is no specific format for keeping records. However, the types of required records frequently include organizing documents (charter, constitution, articles of incorporation) and bylaws, minute books, property records, general ledgers, receipts and disbursements journals, payroll records, banking records, and invoices. The extent of the records necessary generally varies according to the type, size, and complexity of the organization's activities.

Length of Time to Retain Records

The law does not specify a *length of time* that records must be retained; however, the following guidelines should be applied in the event that the records may be material to the administration of any federal tax law.

<i>Type of Record</i>	<i>Length of Time to Retain</i>
Records of revenue and expenses, including payroll records.	Retain for at least four years after filing the return(s) to which they relate.
Records relating to acquisition and disposition of property (real and personal, including investments).	Retain for at least four years after the filing of the return for the year in which disposition occurs.

Filing Requirements

Information and Tax Returns — Forms to File and Due Dates

Churches or religious organizations may be required to report certain payments to the IRS. The following is a list of the most frequently required returns, who should use them, how they are used, and when they should be filed.

Returns	Who Should Use Them	How They are Used	When to File
Form W-2 Wage and Tax Statement Form W-3 Transmittal of Wage and Tax Statement	Organizations with employees.		Furnish each employee with a completed Form W-2 by January 31; and file all Forms W-2 and Form W-3 with the Social Security Administration (SSA) by the last day of February.
Form W-2G Certain Gaming Winnings For more information on reporting requirements for gaming activities, see IRS Publication 3079, <i>Gaming Publication for Tax-Exempt Organizations</i>.	Any charitable or religious organization, including a church, that sponsors a gaming event (raffles, bingo) must file Form W-2G when a participant wins a prize over a specific value amount.	The requirements for reporting and withholding depend on the type of gaming, the amount of winnings, and the ratio of winnings to the wager.	For each winner meeting the filing requirement, the church or religious organization must furnish each winner Form W-2G by January 31; and file Copy A of Form W-2G with the IRS by February 28.
Form 941 Employer's Quarterly Federal Tax Return or Form 944, Employer's Annual Federal Tax Return	Small employers that have been notified by the IRS to file Form 944 (see form instructions) may use that form; other employers required to file must use Form 941	Use Form 941 or 944 to report Social Security and Medicare taxes and income taxes withheld by the organization, and Social Security and Medicare taxes paid by the organization.	See form instructions for due dates.
Form 945 Annual Return of Withheld Federal Income Tax		If a church or religious organization withholds income tax, including backup withholding, from non-payroll payments, it must file Form 945.	File Form 945 by January 31. This form is not required for those years in which there is no non-payroll tax liability.
Form 990 Return of Organization Exempt from Income Tax Form 990-EZ Short Form Return of Organization Exempt From Income Tax Form 990-N (electronic postcard), Electronic Notice for Tax Exempt Organizations Not Required to File Form 990 or 990-EZ.	Generally, all religious organizations (See exception to file 990 below) must file Form 990, Form 990-EZ or Form 990-N. <i>Exceptions to file Form 990, 990-EZ and 990-N</i> The following is a list of some of the organizations that are not required to file Form 990, 990-EZ or 990-N. ■ Churches (as opposed to "religious organizations," defined earlier) ■ Inter-church organizations of local units of a church ■ Mission societies sponsored by or affiliated with one or more churches or church denomination, if more than half of the activities are conducted in, or directed at, persons in foreign countries ■ An exclusively religious activity of any religious order See the form instructions for a list of other organizations that are not required to file.	For tax years 2008 through 2010, the thresholds for determining whether an organization should file Form 990, 990-EZ or 990-N will vary. See www.irs.gov/efo for the specific thresholds.	Form 990, 990-EZ or 990-N must be filed on or before the 15th day of the 5th month following the end of the organization's tax year. Form 990-N must be electronically filed.

Returns	Who Should Use Them	How They are Used	When to File
Form 990-T Exempt Organization Business Income Tax Return For more information on unrelated business income, see Unrelated Business Income Tax (UBIT) on page 12.	Churches and religious organizations.	Churches and religious organizations must file Form 990-T if they generate gross income from an unrelated business of \$1,000 or more for a taxable year.	Form 990-T must be filed by the 15th day of the 5th month after the organization's accounting period ends (May 15 for a calendar year accounting period).
Form 990-W Estimated Tax on Unrelated Business Taxable Income for Tax-Exempt Organizations	Churches and religious organizations.	If the tax on unrelated business income is expected to be \$500 or more, the church or religious organization must make estimated tax payments. Use Form 990-W to compute the estimated tax liability.	
Form 1096 Annual Summary and Transmittal of U.S. Information Returns	Churches and religious organizations.	Use Form 1096 to transmit Forms 1099-MISC, W-2G, and certain other forms to the IRS.	Form 1096 must be filed by February 28 in the year following the calendar year in which the payments were made.
Form 1099 Miscellaneous Income See the Instructions for Form 1099-MISC for details.	Churches and religious organizations.	A church or religious organization must use Form 1099-MISC if it pays an unincorporated individual or an entity \$600 or more in any calendar year for one of the following payments: gross rents; commissions, fees, or other compensation paid to non-employees; prizes and awards; or other fixed and determinable income.	Churches or religious organizations must furnish each payee with a copy of Form 1099-MISC by January 31; and file Copy A of Form 1099-MISC with the IRS by February 28.
Form 5578 Annual Certification of Racial Nondiscrimination for a Private School Exempt from Federal Income Tax For information on racial and ethnic nondiscriminatory policies, see Revenue Procedure 75-50, 1975-2 C.B. 587 at www.irs.gov .	A church or religious organization that operates a private school, whether separately incorporated or operated as part of its overall operations, that teaches secular subjects and generally complies with state law requirements for public education. Note: It is not considered racially discriminatory for a parochial school to select students on the basis of membership in a religious denomination if membership in the denomination is open to all on a racially nondiscriminatory basis. Further, a seminary, or other purely religious school, that primarily teaches religious subjects usually with the purpose of training students for the ministry, is not subject to the racially nondiscriminatory requirements because it is considered to be a religious rather than an educational organization.	A church or religious organization must file Form 5578 to certify that it does not discriminate based on race or ethnic origin.	Form 5578 must be filed on or before the 15th day of the 5th month following the end of the organization's taxable year (May 15 for a calendar year). If an organization files Form 990 or Form 990-EZ, the certification must be made on Schedule A (Form 990 or Form 990-EZ).
Form 8282 Donee Information Return	Churches and religious organizations.	A church or religious organization must file Form 8282 if it sells, exchanges, transfers, or otherwise disposes of certain non-cash donated property within three years of the date it originally received the donation. This applies to non-cash property that had an appraised value of more than \$5,000 at time of donation.	The church or religious organization must file Form 8282 with the IRS within 125 days of date of disposition of the property; and furnish the original donor with a copy of the form.

Charitable Contributions — Substantiation and Disclosure Rules

Recordkeeping

A church or religious organization should be aware of the recordkeeping and substantiation rules imposed on donors of charities that receive certain *quid pro quo* contributions.

Recordkeeping Rules

A donor cannot claim a tax deduction for any contribution of cash, a check or other monetary gift made on or after January 1, 2007 unless the donor maintains a record of the contribution in the form of either a bank record (such as a cancelled check) or a written communication from the charity (such as a receipt or a letter) showing the name of the charity, the date of the contribution, and the amount of the contribution.

Substantiation Rules

A donor cannot claim a tax deduction for any single contribution of \$250 or more unless the donor obtains a contemporaneous, written acknowledgment of the contribution from the recipient church or religious organization. A church or religious organization that does not acknowledge a contribution incurs no penalty; but without a written acknowledgment, the donor cannot claim a tax deduction. Although it is a donor's responsibility to obtain a written acknowledgment, a church or religious organization can assist the donor by providing a timely, written statement containing the following information:

- name of the church or religious organization,
- date of the contribution,
- amount of any cash contribution, and
- description (but not the value) of non-cash contributions.

In addition, the timely, written statement must contain one of the following:

- statement that no goods or services were provided by the church or religious organization in return for the contribution,

- statement that goods or services that a church or religious organization provided in return for the contribution consisted entirely of intangible religious benefits, or
- description and good faith estimate of the value of goods or services other than intangible religious benefits that the church or religious organization provided in return for the contribution.

The church or religious organization may either provide 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.

Disclosure Rules that Apply to *Quid Pro Quo* Contributions

A contribution made by a donor in exchange for goods or services is known as a *quid pro quo* contribution. A donor may only take a contribution deduction to the extent that his or her contribution exceeds the fair market value of the goods and services the donor receives in return for the contribution. Therefore, donors need to know the value of the goods or services. A church or religious organization must provide a written statement to a donor who makes a payment exceeding \$75 partly as a contribution and partly for goods and services provided by the organization.

Example 1: If a donor gives a church a payment of \$100 and, in return, receives a ticket to an event valued at \$40, this is a *quid pro quo* contribution, and only \$60 is deductible by the donor ($\$100 - \$40 = \$60$). Even though the deductible amount does not exceed \$75, since the *quid pro quo* contribution the church received is in excess of \$75, the church must provide the donor with a written disclosure statement. The statement must: (1) inform the donor that the amount of the contribution that is deductible for federal income tax purposes is limited to the excess of money (and the fair market value of any property other than money) contributed by the donor over the value of goods or services provided by the church or religious organization; and (2) provide the donor with a good-faith estimate of the value of the goods or services.

The church or religious organization must provide the written disclosure statement with either the solicitation or the receipt of the contribution and in a manner that is likely to come to the attention of the donor. For example, a disclosure in small print within a larger document may not meet this requirement.

Exceptions to Disclosure Statement

A church or religious organization is not required to provide a disclosure statement for *quid pro quo* contributions when: (a) the goods or services meet the standards for *insubstantial value*; or (b) the only benefit received by the donor is an *intangible religious benefit*. Additionally, if the goods or services the church or religious organization provides are *intangible religious benefits* (examples follow), the acknowledgement for contributions of \$250 or more does not need to describe those benefits.

Generally, intangible religious benefits are benefits provided by a church or religious organization that are not usually sold in commercial transactions outside a donative (gift) context.

Intangible religious benefits include:

- admission to a religious ceremony
- de minimus tangible benefits, such as wine used in religious ceremony

Benefits that are not intangible religious benefits include:

- tuition for education leading to a recognized degree
- travel services
- consumer goods

*IRS Publication 1771,
Charitable Contributions:
Substantiation and
Disclosure Requirements,
provides more information
on substantiation and
disclosure rules.*

*Order Publication 1771
free through the IRS at
(800) 829-3676.*

Special Rules Limiting IRS Authority to Audit a Church

Tax Inquiries and Examinations of Churches

Congress has imposed special limitations, found in IRC section 7611, on how and when the IRS may conduct civil tax inquiries and examinations of churches. The IRS may only initiate a *church tax inquiry* if the Director, Exempt Organizations, Examinations reasonably believes, based on a written statement of the facts and circumstances, that the organization: (a) may not qualify for the exemption; or (b) may not be paying tax on an unrelated business or other taxable activity.

Restrictions on Church Inquiries and Examinations

Restrictions on church inquiries and examinations apply only to churches (including organizations claiming to be churches if such status has not been recognized by IRS) and conventions or associations of churches. They do not apply to related persons or organizations. Thus, for example, the rules do not apply to schools that, although operated by a church, are organized as separate legal entities. Similarly, the rules do not apply to integrated auxiliaries of a church.

Restrictions on church inquiries and examinations do not apply to all church inquiries by the IRS. The most common exception relates to routine requests for information. For example, IRS requests for information from churches about filing of returns, compliance with income or Social Security and Medicare tax withholding requirements, supplemental information needed to process returns or applications, and other similar inquiries are not covered by the special church audit rules.

Restrictions on church inquiries and examinations do not apply to criminal investigations or to investigations of the tax liability of any person connected with the church, e.g., a contributor or minister.

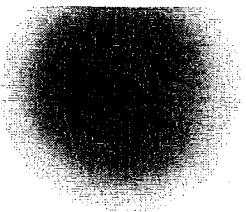
The procedures of IRC section 7611 will be used in initiating and conducting any inquiry or examination into whether an excess benefit transaction (as that term is used in IRC section 4958) has occurred between a church and an insider.

Audit Process

The following is the sequence of the audit process.

1. If the *reasonable belief* requirement is met, the IRS must begin an inquiry by providing a church with written notice containing an explanation of its concerns.
2. The church is allowed a reasonable period in which to respond by furnishing a written explanation to alleviate IRS concerns.
3. If the church fails to respond within the required time, or if its response is not sufficient to alleviate IRS concerns, the IRS may, generally within 90 days, issue a second notice, informing the church of the need to examine its books and records.
4. After issuance of a second notice, but before commencement of an examination of its books and records, the church may request a conference with an IRS official to discuss IRS concerns. The second notice will contain a copy of all documents collected or prepared by the IRS for use in the examination and subject to disclosure under the Freedom of Information Act, as supplemented by IRC section 6103 relating to disclosure and confidentiality of tax return information.
5. Generally, examination of a church's books and records must be completed within two years from the date of the second notice from the IRS.

If at any time during the inquiry process the church supplies information sufficient to alleviate the concerns of the IRS, the matter will be closed without examination of the church's books and records. There are additional safeguards for the protection of churches under IRC section 7611. For example, the IRS cannot begin a subsequent examination of a church for a five-year period unless the previous examination resulted in a revocation, notice of deficiency of assessment, or a request for a significant change in church operations, including a significant change in accounting practices.



Glossary

Church. Certain characteristics are generally attributed to churches. These attributes of a church have been developed by the IRS and by court decisions. They include: distinct legal existence; recognized creed and form of worship; definite and distinct ecclesiastical government; formal code of doctrine and discipline; distinct religious history; membership not associated with any other church or denomination; organization of ordained ministers; ordained ministers selected after completing prescribed courses of study; literature of its own; established places of worship; regular congregations; regular religious services; Sunday schools for the religious instruction of the young; schools for the preparation of its ministers. The IRS generally uses a combination of these characteristics, together with other facts and circumstances, to determine whether an organization is considered a church for federal tax purposes.

The IRS makes no attempt to evaluate the content of whatever doctrine a particular organization claims is religious, provided the particular beliefs of the organization are truly and sincerely held by those professing them and the practices and rites associated with the organization's belief or creed are not illegal or contrary to clearly defined public policy.

Integrated Auxiliary Of A Church. The term integrated auxiliary of a church refers to a class of organizations that are related to a church or convention or association of churches, but are not such organizations themselves. In general, the IRS will treat an organization that meets the following three requirements as an integrated auxiliary of a church. The organization must:

- be described both as an IRC section 501(c)(3) charitable organization and as a public charity under IRC sections 509(a)(1), (2), or (3),
- be affiliated with a church or convention or association of churches, and
- receive financial support primarily from internal church sources as opposed to public or governmental sources.

Men's and women's organizations, seminaries, mission societies, and

youth groups that satisfy the first two requirements above are considered integrated auxiliaries whether or not they meet the internal support requirements. More guidance as to the types of organizations the IRS will treat as integrated auxiliaries can be found in the Code of Regulations, 26 CFR section 1.6033-2(h).

The same rules that apply to a church apply to the integrated auxiliary of a church, with the exception of those rules that apply to the audit of a church. See section Special Rules Limiting IRS Authority To Audit A Church on page 22.

Minister. The term minister is not used by all faiths; however, in an attempt to make this publication easy to read, we use it because it is generally understood. As used in this booklet, the term minister denotes members of clergy of all religions and denominations and includes priests, rabbis, imams, and similar members of the clergy.

IRC Section 501(C)(3). IRC section 501(c)(3) describes charitable organizations, including churches and religious organizations, which qualify for exemption from federal income tax and generally are eligible to receive tax-deductible contributions. This section provides that:

- an organization must be organized and operated exclusively for religious or other charitable purposes,
- net earnings may not inure to the benefit of any private individual or shareholder,
- no substantial part of its activity may be attempting to influence legislation,
- the organization may not intervene in political campaigns, and
- the organization's purposes and activities may not be illegal or violate fundamental public policy.

These requirements are set forth in greater detail throughout this publication.

Help From The IRS

IRS Tax Publications to Order

The IRS provides free tax publications and forms. Order publications and forms by calling toll-free (800) 829-3676, or download publications and forms from the IRS Web site at www.irs.gov. The following list of publications may provide further information for churches and other religious organizations:

Publication 1	<i>Your Rights as a Taxpayer</i>
Publication 15	<i>Circular E, Employer's Tax Guide</i>
Publication 15-A	<i>Employer's Supplemental Tax Guide</i>
Publication 334	<i>Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)</i>
Publication 463	<i>Travel, Entertainment, Gift, and Car Expenses</i>
Publication 517	<i>Social Security and Other Information for Members of the Clergy and Religious Workers</i>
Publication 525	<i>Taxable and Nontaxable Income</i>
Publication 526	<i>Charitable Contributions</i>
Publication 557	<i>Tax-Exempt Status for Your Organization</i>
Publication 561	<i>Determining the Value of Donated Property</i>
Publication 571	<i>Tax-Sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations</i>
Publication 598	<i>Tax on Unrelated Business Income of Exempt Organizations</i>
Publication 910	<i>Guide to Free Tax Services</i>
Publication 1771	<i>Charitable Contributions: Substantiation and Disclosure</i>
Publication 3079	<i>Gaming Publication for Tax-Exempt Organizations</i>
Publication 4221-PC	<i>Compliance Guide for 501(c)(3) Public Charities</i>
Publication 4630	<i>Exempt Organizations Products and Services Navigator</i>

IRS Customer Service

Telephone assistance for general tax information is available by calling:

IRS Customer Service

toll-free at (800) 829-1040.

EO Customer Service

Telephone assistance specific to exempt organizations is available by calling:

IRS Exempt Organizations Customer

Account Services toll-free at

(877) 829-5500.

EO Web Site

Visit the IRS Exempt Organizations

Web site at www.irs.gov/eo.

Stay Exempt - Tax Basics for 501(c)(3)s - a free on-line IRS workshop covering tax compliance issues confronted by small and mid-sized tax-exempt organizations, available at www.stayexempt.org.

EO Update

To receive IRS Exempt Organization's Update, a periodic newsletter with information for tax-exempt organizations and tax practitioners who represent them, visit www.irs.gov/eo and click on "EO Newsletter."

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Keystone products and services are designed with you in mind, to help you manage your financial affairs with ease and at the lowest cost possible. Our success is based on member satisfaction and our staff will provide you the personal attention you deserve!

Low Rates on Loans

- Home Equity
- Auto
- Consolidation
- Mission Visa Credit Card
- Mortgages
- Student
- Secured
- Signature
- Share Secured
- Vacation

More Return for Your Money

- Share Savings
- All-Purpose Savings
- Certificates of Deposit
- IRA (Coming Soon) Traditional & Roth
- Christmas Club
- Checking
- Money Market Checking

Free Services

- ABC Student Report Card Program
- Free Notary Services
- Quarterly Newsletter
- Financial Counseling
- Auto Pricing by the NADA Guide
- Credit Score Enhancement
- Online Banking
- Electronic Bill Pay

Special Member Services

- Payroll Deduction
- Wire Transfers
- Direct Deposit
- Credit Life Insurance
- Gap Insurance
- Credit Disability Insurance
- Extended Vehicle Warranty
- Carfax Reports

Special Church Services

- Church Mortgage Loans
- Corporate Credit Cards
- Ministry Loans for Equipment, Supplies, New Ministry Expenses, etc.
- High Rate Certificates of Deposit
- Equity Loans for Major Renovations

Contact Us

By phone: (800) 886-3382 ext. 257
(724) 776-2300 ext. 257
Direct dial: (412) 894-0966
(814) 209-0029
By fax: (724) 776-1377
By email: info@keystoneumfcu.org
On the web: www.keystoneumfcu.org

Patti Columbe, CEO/Treasurer, ext. 223
Patti Lipinski, Office Manager, ext. 242
Kasi Devinney, Loan Officer, ext. 230
Carolyn Burrell, Member Service Rep., ext. 257
Darlene Jewett, Member Service Rep., ext. 257
Betti Visucso, Member Service Rep., ext. 257

Forms and Applications

Everything you and your church need to start enjoying the benefits of membership.
The following forms and applications are included in this handbook for your convenience:

- Corporate Resolution
- Account Authorization Form
- Application for Unsecured Church Loans
 - Certification of Church Officials Form
- Application for Church Equity Loans
 - Certification of Church Officials Form
- Corporate Mission VISA Application

Church Membership Requirements

- The church must deposit a minimum of \$25.00 into a Share Account.
- An Account Authorization Card must be completed in full.
- A copy of a photo ID for each person signing the Authorization Card must be included.
- A Corporate Resolution must be completed. Resolution must be printed on church letterhead.

Please complete and include all forms and information indicated with your application.

(to be printed on church letterhead)

CORPORATE RESOLUTION

Resolved that the following person (s):

Of the _____, are authorized to act in all matters related to this account further mentioned. This authority shall continue in force until written notice of its revocation is given to the Keystone United Methodist Federal Credit Union.

I hereby certify that I, _____ am the duly elected Administrator of this organization. The governing body has received, reviewed and approved this agreement which governs this mentioned account, and the foregoing is a true and correct copy of a Resolution duly adopted by the governing body of this organization.

Signature

Date

Chairman Board of Trustees

Date

Keystone United Methodist Federal Credit Union
P.O. Box 2088
Cranberry Township, PA 16066

Account Authorization Card

The first step to church membership is to fill out this card. Church account activation requires the signatures of any persons who will be authorized to receive account information and transact business on behalf of your church. If more than one signature is required to transact business for your church, those persons and signatures must be included on this card.



FEIN # _____

MEMBER INFORMATION

Member/Owner _____
Address _____
Phone: Home () _____ Work () _____
E-mail: _____

Type of Entity ☐ Corporation ☐ Partnership ☐ LLC (Limited Liability Corporation)
☐ Association Club ☐ Nonprofit Organization ☐ Other _____
☐ Sole Proprietorship ☐ Other _____

Other Name(s) _____
☐ Person(s) authorized to receive account information _____

Is more than one signature required to transact business? ☐ No ☐ Yes — How Many? _____

AUTHORIZED SIGNERS

By signing this authorization, each of the signers jointly and severally certifies and agrees that the terms of the Certificate of Authority on the reverse side apply to the Account Owner listed above. The signers further acknowledge receipt of and agree to the terms of the Membership and Account Agreement, Account Card, Truth-in-Savings Disclosure, and Funds Availability Policy Disclosure, if applicable, as amended by the Credit Union from time to time.

_____ Name	_____ Title	X _____ Signature	_____ Date
_____ Name	_____ Title	X _____ Signature	_____ Date
_____ Name	_____ Title	X _____ Signature	_____ Date
_____ Name	_____ Title	X _____ Signature	_____ Date

FOR CREDIT UNION USE ONLY ☐ See Account Card

Effective Date _____ Opened /App'd by _____ Member Verification _____

Reviewed Documentation _____

Copies Obtained:
☐ Corporate Resolution ☐ Certificate/Affidavit of Trust ☐ Partnership Agreement ☐ Other _____

(over)

Application for Church Loans

Requirements for Church Loans:

- Church must have a least \$25.00 in Share Account.
- Application must be completed in full.
- Consumer Credit Disclosure Form properly signed.
- All signatures must be witnessed on loan document. Signatures do not need to be notarized.
- Photo copy of driver's license for each person signing loan document.
- Corporate Resolution completed in full.

Income Requirements:

- Include 2 current financial statements.

Please complete and enclose all indicated forms and information with your loan papers.



**United Methodist
Federal Credit Union**

P.O. Box 2088
Cranberry Township, PA 16066
800-886-3382 ext 223, Fax 724-776-1377

Application for UNSECURED Church Loans

United Methodist Church
(WPA Conference)

Address:

Tax ID Number:

Phone Number:

District:

Reason for Borrowing:

Financial Analysis of Project:

Cost		\$	
Funds to Apply	\$		
Vehicle Trade-In	\$		
Discounts	\$		
Other Allowances*	\$		
Total Funds to Apply		\$	
Total to be Financed		\$	

*For vehicles, allow for additional expenditures for taxes, tags etc.

GENERAL INFORMATION

Year church was incorporated
Present membership
Average attendance at worship
Church school enrollment
Average church school attendance
Number of contributing families
Average monthly cash flow amount

Certification of Church Officials for UNSECURED Church Loans

This certifies that the Trustees and the Administrative Board/Council of the _____
United Methodist Church in the bounds of the Western Pennsylvania Conference, on the _____ day of _____
year _____ authorized the borrowing of \$ _____ from the
Keystone United Methodist Federal Credit Union.

Below is/are the name(s) of the person(s) authorized to request monetary advances. (*Please Print*)

By signing below, you declare that you are legally authorized to sign for this loan and that the financial information provided with this application is a full and accurate representation of your organization's finances.

Signed: _____	_____	_____
President, Board of Trustees	Printed Name	Witness

Signed: _____	_____	_____
Treasurer or Finance Chair of Church	Printed Name	Witness

Signed: _____	_____	_____
Chairperson, Administrative Board/ Council	Printed Name	Witness

Signed: _____	_____	_____
Pastor	Printed Name	Witness

When returning the completed loan application, please enclose a copy of the following:

- Certificate of Church Officials (Corporate Resolution) properly signed
- Recent Financial Statement and current Annual Audit Report
- copy of the minutes where the loan request was discussed and approved

FOR CREDIT UNION USE ONLY

Approved by: _____ Date _____ Amount \$ _____



**United Methodist
Federal Credit Union**

P.O. Box 2088
Cranberry Township, PA 16066
800-886-3382 ext 223, Fax 724-776-1377

Application for Church EQUITY Loans

United Methodist Church
(WPA Conference)

Address:

Tax ID Number:

Phone Number:

District:

Reason for Borrowing:

Financial Analysis of Project:

Cost		\$	
Funds to Apply	\$		
Vehicle Trade-In	\$		
Discounts	\$		
Other Allowances*	\$		
Total Funds to Apply		\$	
Total to be Financed		\$	

*For vehicles, allow for additional expenditures for taxes, tags etc.

GENERAL INFORMATION

Year church was incorporated
Present membership
Average attendance at worship
Church school enrollment
Average church school attendance
Number of contributing families
Average monthly cash flow amount

Certification of Church Officials for Church EQUITY Loans

This certifies that the Trustees and the Administrative Board/Council of the _____
United Methodist Church in the bounds of the Western Pennsylvania Conference, on the _____ day of _____
year _____ authorized the borrowing of \$ _____ from the
Keystone United Methodist Federal Credit Union.

Below is/are the name(s) of the person(s) authorized to request monetary advances. *(Please Print)*

By signing below, you declare that you are legally authorized to sign for this loan and that the financial information provided with this application is a full and accurate representation of your organization's finances.

Signed: _____
President, Board of Trustees Printed Name Witness

Signed: _____
Treasurer or Finance Chair of Church Printed Name Witness

Signed: _____
Chairperson, Administrative Board/
Council Printed Name Witness

Signed: _____
Pastor Printed Name Witness

District Superintendent Approval:

Signed: _____
Printed Name Witness

- Date of Charge Conference Approval _____

Given under my hand this _____ day of _____ year _____

Signed: _____
Recording Secretary-Charge Conference Printed Name Witness

When returning the completed loan application, please enclose a copy of the following:

- Certificate of Church Officials (Corporate Resolution) properly signed
- Proof of Incorporation
- Financial Analysis (2 Years) *May include balance sheet, budget, and statement of financial conditions.*
- Recent Financial Statement and current Annual Audit Report
- Copy of Deed
- Recent Appraisal or Market Value Assessment
- Copy of the minutes where the loan request was discussed and approved
- Proof of Dwelling Insurance

FOR CREDIT UNION USE ONLY

Approved by: _____ Date _____ Amount \$ _____ 4/05



KEYSTONE UNITED METHODIST
FEDERAL CREDIT UNION
CHURCH MISSION VISA APPLICATION

Please list the authorized users for the account:

	Last Name	First Name	Middle
1.			
2.			
3.			
4.			

Church Name Fed Tax ID#

Address

City, State and Zip Code

Business Phone #

	Birth Date	Issue Visa y/n	Social Security #
Name 1.			
Name 2.			
Name 3.			
Name 4.			

SIGNATURES REQUIRED

Name 1.	
Name 2.	
Name 3.	
Name 4.	

Please return with:

- Corporate Resolution
- Photo ID of each person signing

TO:

Keystone United Methodist Federal Credit Union
P.O. Box 2088
Cranberry Township, PA 16066

Visa Summary of Terms

Annual Percentage Rate for Purchases and Cash Advances	11.90%
Grace Period for Repayment Of Balance for Purchases	25 days
Over the limit Fee	\$20.00
Late Payment Fee	\$20.00
Annual Fee	None
Cash Advance Fee	None
Minimum Finance Charge	None
Transaction Fee for Purchases	None

LOCAL CHURCH

ID NUMBER

WESTERN PENNSYLVANIA CONFERENCE CHURCH NUMBERS

This is the list of the six digit numbers you should use for any correspondence with the finance department for your church. These numbers are assigned by the General Council on Finance and Administration (GCFA NUMBER). They are listed by district, charge, church with the church identification number.

DISTRICT	CHARGE NAME	GCFA	CHURCH NAME
BUTLER	Aliquippa	095206	Aliquippa: First
BUTLER	Ambridge/Economy	095228	Ambridge: First
BUTLER	Ambridge/Economy	095753	Economy
BUTLER	Ambridge: Fellowship	095230	Ambridge: Fellowship
BUTLER	Baden	095263	Baden
BUTLER	Bairdford	095445	Bairdford
BUTLER	Beaver County Bethel/Tucker	095401	Beaver County: Bethel
BUTLER	Beaver Falls: North	170614	BF: Bennetts Run
BUTLER	Beaver Falls: North	095662	Clinton
BUTLER	Beaver Falls: North	087423	Wampum
BUTLER	Beaver Falls:City Charge	095321	BF: Central
BUTLER	Beaver Falls:City Charge	095365	BF: First
BUTLER	Beaver Falls:City Charge	189420	BF: Otterbein
BUTLER	Beaver: First	095308	Beaver: First
BUTLER	BF: College Hill	095343	BF: College Hill
BUTLER	BF: Concord	095707	BF: Concord
BUTLER	BF: Riverview	189431	BF: Riverview
BUTLER	Boyers/Eau Claire: Bethel	086348	Boyers
BUTLER	Boyers/Eau Claire: Bethel	086521	Eau Claire: Bethel
BUTLER	Brackenridge: Trinity	096804	Brackenridge: Trinity
BUTLER	Bridgewater	096963	Bridgewater
BUTLER	Bruin	087070	Bruin
BUTLER	Bruin	087172	Petrolia: Fairview
BUTLER	Bruin	087161	Ridgeville
BUTLER	Brush Run	095525	Brush Run
BUTLER	Buffalo	095786	Craigsville
BUTLER	Buffalo	095924	Fenelton
BUTLER	Buffalo	096280	McKee Chapel
BUTLER	Butler: Christ	086736	Christ Community
BUTLER	Butler: First	095547	Butler: First
BUTLER	Cabot	095560	Cabot
BUTLER	Chicora/Karns City	086383	Chicora
BUTLER	Chicora/Karns City	086350	Karns City
BUTLER	Chippewa	095640	Chippewa
BUTLER	Connoquenessing	095720	Connoquenessing
BUTLER	Country Chapel	096347	Millerstown
BUTLER	Country Chapel	096883	Walter Chapel
BUTLER	Creighton: Janes	095800	Creighton: Janes
BUTLER	Eastbrook	086508	Eastbrook
BUTLER	Ellwood City	095866	Ellwood City: First
BUTLER	Emory Chapel	095888	Emory Chapel
BUTLER	Freeport	096028	Freeport
BUTLER	Georgetown/Smiths Ferry	096041	Georgetown
BUTLER	Georgetown/Smiths Ferry	096702	Smiths Ferry
BUTLER	Harmony-Zelienople	096121	Harmony-Zelienople
BUTLER	Homewood	096143	Homewood
BUTLER	Kaylor/Queenstown	087148	Kaylor
BUTLER	Kaylor/Queenstown	087150	Queenstown
BUTLER	Koppel	096223	Koppel: First
BUTLER	Mars	096267	Mars
BUTLER	Midland Ecum Parish	096724	Green Valley
BUTLER	Midland Ecum Parish	096303	Midland

BUTLER Monaca
 BUTLER Natrona Heights: Center
 BUTLER Natrona Heights: Grace
 BUTLER NC: Croton Ave
 BUTLER NC: Epworth/West Pittsburg
 BUTLER NC: Epworth/West Pittsburg
 BUTLER NC: First
 BUTLER NC: King's Chapel/Wesley
 BUTLER NC: King's Chapel/Wesley
 BUTLER NC: Savannah
 BUTLER NC: Wayside Emmanuel
 BUTLER New Brighton
 BUTLER New Wilmington
 BUTLER Nixon
 BUTLER Pulaski
 BUTLER Rochester
 BUTLER Rochester: Zion
 BUTLER Saint Johns/Forestville
 BUTLER Saint Johns/Forestville
 BUTLER Sarver: Zion
 BUTLER Slippery Rock
 BUTLER Springdale
 BUTLER Thorncreek
 BUTLER Tucker
 BUTLER Unionville
 BUTLER Valencia
 BUTLER Volant
 BUTLER West Liberty
 BUTLER West Liberty
 BUTLER West Liberty
 BUTLER Wurtemburg
 CONNELLSVILLE Acme/Barren Run
 CONNELLSVILLE Acme/Barren Run
 CONNELLSVILLE Addison
 CONNELLSVILLE Addison
 CONNELLSVILLE Addison
 CONNELLSVILLE Alverton/Wesley Chapel
 CONNELLSVILLE Alverton/Wesley Chapel
 CONNELLSVILLE Belle Vernon: First
 CONNELLSVILLE Bridgeport
 CONNELLSVILLE Brownsville
 CONNELLSVILLE Brownsville
 CONNELLSVILLE Brownsville
 CONNELLSVILLE Chalk Hill/Sansom Chapel
 CONNELLSVILLE Chalk Hill/Sansom Chapel
 CONNELLSVILLE Charleroi/Monessen/Webster
 CONNELLSVILLE Charleroi/Monessen/Webster
 CONNELLSVILLE Charleroi/Monessen/Webster
 CONNELLSVILLE Confluence
 CONNELLSVILLE Confluence
 CONNELLSVILLE Confluence
 CONNELLSVILLE Confluence
 CONNELLSVILLE Confluence
 CONNELLSVILLE Connellsville: Wesley/Otterbein
 CONNELLSVILLE Covenant Communities
 CONNELLSVILLE Covenant Communities
 CONNELLSVILLE CV: Albright
 CONNELLSVILLE Dawson

096382 Monaca
 095811 Natrona Heights: Center
 096427 Natrona Heights: Grace
 086840 NC: Croton Ave
 086862 NC: Epworth
 086931 West Pittsburg
 086884 New Castle: First
 086760 NC: King's Chapel
 086964 NC: Wesley
 086942 NC: Savannah
 189715 NC: Wayside Emmanuel
 096484 New Brighton
 087024 New Wilmington
 095503 Nixon
 087126 Pulaski
 096622 Rochester: First
 189841 Rochester: Zion
 086691 Forestville
 087206 Slippery Rock: Saint Johns
 189852 Sarver: Zion
 087365 Slippery Rock
 096768 Springdale
 096826 Thorncreek
 096848 Tucker
 096861 Unionville
 189908 Valencia
 087401 Volant
 086361 Branchton
 086337 Hilliards
 087376 West Liberty
 096985 Wurtemburg
 100576 Acme
 170831 Barren Run
 099088 Addison
 099077 Addison: Grace Chapel
 099113 Addison: Johnson Chapel
 100133 Alverton
 100827 Wesley Chapel
 099102 Belle Vernon: First
 170751 Bridgeport
 099248 Brownsville: First
 099352 Brownsville: West Bend
 099157 South Brownsville
 099328 Chalk Hill
 099330 Sansom Chapel
 102804 Charleroi: First
 100100 Monessen
 100805 Webster
 187682 Casselman
 099341 Confluence
 170886 Harnedsville
 099135 Listonburg
 100485 Silbaugh
 189475 CV: Otterbein
 189464 CV: East Connellsville
 099408 CV: Greenwood
 189453 CV: Albright
 099465 Bryan

CONNELLSVILLE	Dawson	099306	Cochran Memorial
CONNELLSVILLE	Dawson	100747	Vanderbilt
CONNELLSVILLE	Dunbar	099487	Franklin Memorial
CONNELLSVILLE	Dunbar	099385	CV: Wesley
CONNELLSVILLE	Fairview (CV)	099603	Fairview (CV)
CONNELLSVILLE	Fayette City	099647	Fayette City
CONNELLSVILLE	Fells	099660	Fells
CONNELLSVILLE	Gans	099682	Gans
CONNELLSVILLE	Hollsopple: Hopewell	097865	Hollsopple: Hopewell
CONNELLSVILLE	HOME	187751	Hooversville
CONNELLSVILLE	HOME	188196	Mostoller
CONNELLSVILLE	HOME	170944	Stoystown: Otterbein
CONNELLSVILLE	Hopwood/Brownfield	099226	Brownfield
CONNELLSVILLE	Hopwood/Brownfield	099864	Hopwood
CONNELLSVILLE	Hyndman Larger Parish	167764	Cooks Mills
CONNELLSVILLE	Hyndman Larger Parish	170911	Gravel Pit: Bethel
CONNELLSVILLE	Hyndman Larger Parish	167285	Hyndman: First Avenue
CONNELLSVILLE	Hyndman Larger Parish	187795	Hyndman: Grace
CONNELLSVILLE	Hyndman Larger Parish	170922	Palo Alto
CONNELLSVILLE	Hyndman Larger Parish	170933	Wellersburg
CONNELLSVILLE	Indian Creek	170705	Davistown
CONNELLSVILLE	Indian Creek	189577	Indian Creek: Calvary
CONNELLSVILLE	Indian Creek	170716	Mount Salem
CONNELLSVILLE	Jacobs Creek/Owensdale	099807	Jacobs Creek
CONNELLSVILLE	Jacobs Creek/Owensdale	170820	Owensdale
CONNELLSVILLE	Jennerstown	187807	Jennerstown
CONNELLSVILLE	Kantner	170955	Kantner
CONNELLSVILLE	Layton	099614	Layton
CONNELLSVILLE	Masontown	099922	Masontown
CONNELLSVILLE	Meyersdale	100086	Meyersdale: First
CONNELLSVILLE	Meyersdale	187988	Meyersdale: Garrett
CONNELLSVILLE	Meyersdale	170990	Meyersdale: Mount Olivet
CONNELLSVILLE	Meyersdale	171015	Meyersdale: Saint Johns
CONNELLSVILLE	Mill Run/Ohioptyle	189885	Mill Run
CONNELLSVILLE	Mill Run/Ohioptyle	100246	Ohioptyle
CONNELLSVILLE	Mount Pleasant	189704	Mount Pleasant
CONNELLSVILLE	Normalville	170807	Normalville
CONNELLSVILLE	Paradise	189737	Paradise
CONNELLSVILLE	Pennsville	170660	Pennsville
CONNELLSVILLE	Perryopolis/Concord	100496	Belle Vernon: Concord
CONNELLSVILLE	Perryopolis/Concord	100304	Perryopolis
CONNELLSVILLE	Pleasant Hill: Springfield	170818	Pleasant Hill: Springfield
CONNELLSVILLE	Point Marion/Smithfield	100361	Point Marion
CONNELLSVILLE	Point Marion/Smithfield	100508	Smithfield
CONNELLSVILLE	Redstone	100428	Little Redstone
CONNELLSVILLE	Redstone	100202	Newell
CONNELLSVILLE	Redstone	100587	Star Junction
CONNELLSVILLE	Rockwood: Christ/Milford	171026	Milford
CONNELLSVILLE	Rockwood: Christ/Milford	188072	Rockwood: Christ
CONNELLSVILLE	Scottdale: Christ	189863	Scottdale: Christ
CONNELLSVILLE	Scottdale: Hickory Square/Mount Nebo	099795	Hickory Square
CONNELLSVILLE	Scottdale: Hickory Square/Mount Nebo	189921	Mount Nebo
CONNELLSVILLE	Scottdale: Trinity	100463	Scottdale: Trinity
CONNELLSVILLE	Smithton: Winnett/Banning	100532	Banning
CONNELLSVILLE	Smithton: Winnett/Banning	100521	Winnett
CONNELLSVILLE	Somerset: Bethany	170966	Somerset: Bethany
CONNELLSVILLE	Somerset: Beulah	188174	Somerset: Beulah
CONNELLSVILLE	Somerset: Calvary	100543	Somerset: Calvary

CONNELLSVILLE	Somerset: First	188152	Somerset: First
CONNELLSVILLE	Somerset: Grace	188163	Somerset: Grace
CONNELLSVILLE	Somerset: Pleasant Hill	188208	Somerset: Pleasant Hill
CONNELLSVILLE	Somerset: Saint Johns	170977	Somerset: Saint Johns
CONNELLSVILLE	Somerset: Saint Johns	100598	Somerset: Wesley Chapel
CONNELLSVILLE	Stahlstown	170738	Pleasant Grove
CONNELLSVILLE	Stahlstown	100554	Stahlstown: Trinity
CONNELLSVILLE	Stahlstown	170784	Stahlstown: Zion
CONNELLSVILLE	Uniontown Larger Parish	099501	Dunbar: Wesley
CONNELLSVILLE	Uniontown Larger Parish	099820	Juniata
CONNELLSVILLE	Uniontown Larger Parish	099545	Uniontown: Community
CONNELLSVILLE	Uniontown Larger Parish	100703	Upper Middletown
CONNELLSVILLE	Uniontown: Asbury	100645	Uniontown: Asbury
CONNELLSVILLE	Uniontown: Calvary	100667	Uniontown: Calvary
CONNELLSVILLE	Uniontown: Christ/Fairchance: Trinity	099580	Fairchance: Trinity
CONNELLSVILLE	Uniontown: Christ/Fairchance: Trinity	100680	Uniontown: Christ
CONNELLSVILLE	Walnut Hill	100782	Walnut Hill
ERIE-MEADVILLE	Albion: Calvary	189976	Albion: Calvary
ERIE-MEADVILLE	Albion: Grace	088985	Albion: Grace
ERIE-MEADVILLE	Brown Hill/Teepleville	060333	Brown Hill
ERIE-MEADVILLE	Brown Hill/Teepleville	089650	Teepleville
ERIE-MEADVILLE	Cambridge Springs/New Richmond	089023	Cambridge Springs: First
ERIE-MEADVILLE	Cambridge Springs/New Richmond	089648	New Richmond
ERIE-MEADVILLE	Centerville/Riceville	089513	Centerville
ERIE-MEADVILLE	Centerville/Riceville	089728	Riceville
ERIE-MEADVILLE	Cochranon	089067	Cochranon
ERIE-MEADVILLE	Conneaut Lake: Trinity	089080	Conneaut Lake: Trinity
ERIE-MEADVILLE	Conneautville: Valley/Hickernell	089103	Conneautville: Valley
ERIE-MEADVILLE	Conneautville: Valley/Hickernell	060878	Hickernell
ERIE-MEADVILLE	Corry: First	089125	Corry: First
ERIE-MEADVILLE	Corry:Evangelical/Elgin	060470	Corry: Evangelical
ERIE-MEADVILLE	Corry:Evangelical/Elgin	089810	Elgin
ERIE-MEADVILLE	Corry:Evangelical/Elgin	089832	McCray
ERIE-MEADVILLE	Corry:Evangelical/Elgin	036093	Wayne Valley
ERIE-MEADVILLE	Deckards/Sugar Lake	060594	Deckards
ERIE-MEADVILLE	Deckards/Sugar Lake	061213	Sugar Lake
ERIE-MEADVILLE	Diamond/Enterprise	060617	Diamond: Evangelical
ERIE-MEADVILLE	Diamond/Enterprise	089694	Enterprise
ERIE-MEADVILLE	Edinboro	089160	Edinboro
ERIE-MEADVILLE	Erie: Asbury	089182	Erie: Asbury
ERIE-MEADVILLE	Erie: Cascade/Simpson	089205	Erie: Cascade
ERIE-MEADVILLE	Erie: Cascade/Simpson	089342	Erie: Simpson
ERIE-MEADVILLE	Erie: Central	089262	Erie: Henderson
ERIE-MEADVILLE	Erie: Central	089774	Erie: San Juan
ERIE-MEADVILLE	Erie: Christ	089227	Erie: Christ
ERIE-MEADVILLE	Erie: First	089240	Erie: First
ERIE-MEADVILLE	Erie: Glenwood	060674	Erie: Glenwood
ERIE-MEADVILLE	Erie: Kingsley	089284	Erie: Kingsley
ERIE-MEADVILLE	Erie: Lakewood	089307	Erie: Lakewood
ERIE-MEADVILLE	Erie: Lawrence Park	089320	Erie: Lawrence Park
ERIE-MEADVILLE	Erie: Summit	089821	Erie: Summit
ERIE-MEADVILLE	Erie: Tenth Street	089364	Erie: Tenth Street
ERIE-MEADVILLE	Erie: Trinity	089375	Erie: Trinity
ERIE-MEADVILLE	Erie: Wesley	089400	Erie: Wesley
ERIE-MEADVILLE	Espyville/Palmer	089730	Espyville
ERIE-MEADVILLE	Espyville/Palmer	089193	Palmer
ERIE-MEADVILLE	Fairview (EM)	089422	Fairview
ERIE-MEADVILLE	Franklin Center/McKean	089444	Franklin Center

ERIE-MEADVILLE Franklin Center/McKean
 ERIE-MEADVILLE Geneva:Faith/Mumford Chapel
 ERIE-MEADVILLE Geneva:Faith/Mumford Chapel
 ERIE-MEADVILLE Hopeful Heart Trinity
 ERIE-MEADVILLE Hopeful Heart Trinity
 ERIE-MEADVILLE Hopeful Heart Trinity
 ERIE-MEADVILLE Hydetown/Tryonville
 ERIE-MEADVILLE Hydetown/Tryonville
 ERIE-MEADVILLE Lake City/Girard
 ERIE-MEADVILLE Lake City/Girard
 ERIE-MEADVILLE Linesville/Harmonsborg
 ERIE-MEADVILLE Linesville/Harmonsborg
 ERIE-MEADVILLE Littles Corners
 ERIE-MEADVILLE Littles Corners
 ERIE-MEADVILLE Littles Corners
 ERIE-MEADVILLE Lowville
 ERIE-MEADVILLE Meadville: Grace
 ERIE-MEADVILLE Meadville: Stone
 ERIE-MEADVILLE Mill Village/Millers Station
 ERIE-MEADVILLE Mill Village/Millers Station
 ERIE-MEADVILLE Mount Hope/Pine Grove
 ERIE-MEADVILLE Mount Hope/Pine Grove
 ERIE-MEADVILLE NE: Immanuel
 ERIE-MEADVILLE NE: Park
 ERIE-MEADVILLE NE: Stateline
 ERIE-MEADVILLE New Ireland/Lake Pleasant
 ERIE-MEADVILLE New Ireland/Lake Pleasant
 ERIE-MEADVILLE Norrisville
 ERIE-MEADVILLE North Richmond
 ERIE-MEADVILLE Pleasantville
 ERIE-MEADVILLE Saegertown
 ERIE-MEADVILLE South Harborcreek
 ERIE-MEADVILLE Titusville: Bethel
 ERIE-MEADVILLE Titusville: First
 ERIE-MEADVILLE Titusville: White Oak
 ERIE-MEADVILLE Union City: First
 ERIE-MEADVILLE Union City: Parade/Spartansburg
 ERIE-MEADVILLE Union City: Parade/Spartansburg
 ERIE-MEADVILLE Venango/Little Cooley
 ERIE-MEADVILLE Venango/Little Cooley
 ERIE-MEADVILLE Waterford: Asbury
 ERIE-MEADVILLE Wattsburg/Phillipsville
 ERIE-MEADVILLE Wattsburg/Phillipsville
 ERIE-MEADVILLE Weis Library
 ERIE-MEADVILLE West Springfield/Cranesville
 ERIE-MEADVILLE West Springfield/Cranesville
 ERIE-MEADVILLE Woodcock
 FRANKLIN Barkeyville
 FRANKLIN Charleston/Clark: Trinity
 FRANKLIN Charleston/Clark: Trinity
 FRANKLIN Clarion
 FRANKLIN Clarks Mills
 FRANKLIN Clintonville
 FRANKLIN Clintonville
 FRANKLIN Clintonville
 FRANKLIN Cooperstown
 FRANKLIN Cooperstown
 FRANKLIN Cooperstown

089251 McKean
 060798 Geneva: Faith
 089078 Mumford Chapel
 089001 Blooming Valley
 089887 Townville
 089898 Troy Center
 089502 Hydetown
 061372 Tryonville
 089466 Girard
 089524 Lake City: First
 089581 Harmonsborg
 089546 Linesville
 089570 Hamlin Chapel
 089568 Littles Corners
 089592 Meadville: Bethany
 089978 Lowville
 089604 Meadville: Grace
 089626 Meadville: Stone
 089752 Mill Village
 088996 Millers Station
 089477 Mount Hope (GM)
 089012 Pine Grove
 061075 NE: Immanuel
 089661 NE: Park
 089808 NE: State Line
 060958 Lake Pleasant
 061053 New Ireland
 060891 Norrisville
 089637 North Richmond
 089683 Pleasantville
 089741 Saegertown
 089763 South Harborcreek
 089843 Titusville: Bethel
 089865 Titusville: First
 089535 White Oak
 089901 Union City: First
 061394 Parade Street
 089785 Spartansburg
 060993 Little Cooley
 089912 Venango
 089923 Waterford: Asbury
 089956 Phillipsville
 089945 Wattsburg
 061474 Weis Library
 089147 Cranestown
 089967 West Springfield
 089934 Woodcock
 188356 Barkeyville
 086430 Charleston
 086428 Clark: Trinity
 085344 Clarion: First
 086406 Clarks Mills
 086441 Clintonville: Grace
 086417 Peters Chapel
 086394 Rankin Chapel
 089136 Bradleytown
 086463 Cooperstown
 086496 Franklin: Bethel

FRANKLIN	Deer Creek/Reynolds	086372	Deer Creek
FRANKLIN	Deer Creek/Reynolds	087137	Reynolds
FRANKLIN	Dempseytown: Oakland	188505	Dempseytown: Oakland
FRANKLIN	East Brady/Sligo	085424	East Brady
FRANKLIN	East Brady/Sligo	085982	Sligo
FRANKLIN	Emlenton UM Ministry	086598	Emlenton
FRANKLIN	Emlenton UM Ministry	087057	Emlenton: Big Bend
FRANKLIN	Emlenton UM Ministry	188802	Emlenton: Old Zion
FRANKLIN	Fertigs	188777	Ashland
FRANKLIN	Fertigs	085481	Fertigs
FRANKLIN	Fertigs	085550	Pine City
FRANKLIN	Franklin: Christ	188562	Franklin: Christ
FRANKLIN	Franklin: First	086601	Franklin: First
FRANKLIN	Franklin: Galloway	087478	Franklin: Galloway
FRANKLIN	Franklin: Grace	188573	Franklin: Grace
FRANKLIN	Franklin: Nicklin/Center	087115	Franklin: Nicklin
FRANKLIN	Franklin: Nicklin/Center	086678	Polk: Center
FRANKLIN	Franklin: Sugarcreek	086474	Franklin: Lupter Chapel
FRANKLIN	Franklin: Sugarcreek	085798	Franklin: Sugarcreek
FRANKLIN	Franklin: Sugarcreek	188378	Oak Hill
FRANKLIN	Franklin: Sugarcreek	085765	Reno
FRANKLIN	Fredonia	086623	Fredonia
FRANKLIN	Fredonia	086634	Fredonia: Big Bend
FRANKLIN	Greater Oil City UM Ministry	085641	Oil City: Bethel
FRANKLIN	Greater Oil City UM Ministry	188994	Oil City: Calvary
FRANKLIN	Greater Oil City UM Ministry	085776	Oil City: Plumer
FRANKLIN	Greater Oil City UM Ministry	085685	Oil City: Trinity
FRANKLIN	Greenville UM Ministry	188631	Greenville: Calvary
FRANKLIN	Greenville UM Ministry	086645	Greenville: First
FRANKLIN	Grove City: Grace	086667	Grove City: Grace
FRANKLIN	Harrisville	086680	Harrisville
FRANKLIN	Harrisville: Pleasantview	086452	Pleasantview
FRANKLIN	Heckathorn	188664	Heckathorn
FRANKLIN	Hermitage: Hickory	086703	Hermitage: Hickory
FRANKLIN	Kennard	087217	Fallowfield
FRANKLIN	Kennard	087230	Kennard
FRANKLIN	Knox	085548	Knox
FRANKLIN	MCM Co-Op Parish	085184	Curlsville
FRANKLIN	MCM Co-Op Parish	085971	Monroe Chapel
FRANKLIN	MCM Co-Op Parish	086166	Shipperville: Manor
FRANKLIN	Mercer	086782	Mercer
FRANKLIN	Methodist United in Faith Cooperative Ministry	087252	Hendersonville
FRANKLIN	Methodist United in Faith Cooperative Ministry	087310	Mount Hope (SL)
FRANKLIN	Methodist United in Faith Cooperative Ministry	087241	Sandy Lake: Lakeview
FRANKLIN	Methodist United in Faith Cooperative Ministry	087387	Stoneboro
FRANKLIN	Methodist United in Faith Cooperative Ministry	086725	Vincent
FRANKLIN	Mount Joy	086565	Foxburg
FRANKLIN	Mount Joy	086155	Mount Joy
FRANKLIN	Mount Joy	085903	Saint Petersburg
FRANKLIN	New Covenant	085322	Callensburg
FRANKLIN	New Covenant	087068	Parker: First
FRANKLIN	New Covenant	085355	Perryville
FRANKLIN	New Covenant	085333	West Freedom
FRANKLIN	New Horizons	087002	New Virginia
FRANKLIN	New Horizons	086612	Wheatland-Farrell
FRANKLIN	Oil City Grace Ministry	085663	Oil City: Grace
FRANKLIN	Oil City Grace Ministry	085880	Rouseville
FRANKLIN	Polk/East Grove	087092	East Grove

FRANKLIN	Polk/East Grove	087104	Polk
FRANKLIN	Pymatuning	086747	Jamestown
FRANKLIN	Pymatuning	086714	Jamestown: State Line
FRANKLIN	Pymatuning	089717	Westford
FRANKLIN	Redbank Valley UM Ministry	188950	Fairmount City
FRANKLIN	Redbank Valley UM Ministry	188642	Hawthorn: Calvary
FRANKLIN	Redbank Valley UM Ministry	085914	Leasure Run
FRANKLIN	Redbank Valley UM Ministry	085628	New Bethlehem: First
FRANKLIN	Redbank Valley UM Ministry	188972	Oak Ridge
FRANKLIN	Redbank Valley UM Ministry	085743	Putneyville
FRANKLIN	Rimersburg	085812	Lawsonham
FRANKLIN	Rimersburg	085823	Rimersburg
FRANKLIN	Robinson Memorial Chapel	087183	Robinson Chapel
FRANKLIN	Rockland	085173	Cranberry
FRANKLIN	Rockland	085867	Rockland
FRANKLIN	Rockland	085878	Van
FRANKLIN	Seneca	085925	Seneca
FRANKLIN	Sharon: First	087263	Sharon: First
FRANKLIN	Sharpsville	087308	Sharpsville: First
FRANKLIN	Sheakleyville	087332	North Salem
FRANKLIN	Sheakleyville	087228	Old Salem
FRANKLIN	Sheakleyville	087321	Sheakleyville
FRANKLIN	Shippenville	085138	Providence
FRANKLIN	Shippenville	085947	Shippenville
FRANKLIN	Strattanville	085116	Corsica
FRANKLIN	Strattanville	086007	Strattanville
FRANKLIN	Strattanville	085127	Strattanville: Asbury
FRANKLIN	Trinity	086816	Balm
FRANKLIN	Trinity	087285	Sharon: Oakland Avenue
FRANKLIN	Valley Chapel	060936	Cherrytree
FRANKLIN	Valley Chapel	089114	Wallaceville
FRANKLIN	Valley Chapel	087480	Worden Chapel
FRANKLIN	West Middlesex	087467	West Middlesex
FRANKLIN	White Chapel	087412	White Chapel
GREENSBURG	Arnold	097240	Arnold
GREENSBURG	Arona/Herminie #2	189418	Arona
GREENSBURG	Arona/Herminie #2	170636	Herminie #2
GREENSBURG	Bolivar/Germany	097364	Bollivar: First
GREENSBURG	Bolivar/Germany	097741	Germany
GREENSBURG	Bradenville/Pleasant Unity	170658	Bradenville
GREENSBURG	Bradenville/Pleasant Unity	100348	Pleasant Unity
GREENSBURG	Braeburn	097386	Braeburn
GREENSBURG	Charter Oak	097411	Charter Oak
GREENSBURG	Circleville	097422	Circleville
GREENSBURG	Delmont: Faith	170671	Delmont: Faith
GREENSBURG	Derry	097626	Derry: First
GREENSBURG	Dravosburg	102963	Dravosburg
GREENSBURG	East McKeesport	097648	East McKeesport: First
GREENSBURG	Greensburg: First	097785	Greensburg: First
GREENSBURG	Greensburg: Otterbein	189544	Greensburg: Otterbein
GREENSBURG	Greensburg: Trinity/Luxor	189533	Greensburg: Trinity
GREENSBURG	Greensburg: Trinity/Luxor	098186	Luxor
GREENSBURG	Harrison City: Community	097808	Harrison City: Community
GREENSBURG	Herminie	189555	Herminie
GREENSBURG	Hillside	097821	Hillside
GREENSBURG	Holiday Park	098585	Holiday Park
GREENSBURG	Irwin	097923	Irwin: First
GREENSBURG	Jeannette: First	097945	Jeannette: First

GREENSBURG	Jeannette: Gethsemane	189590	Jeannette: Gethsemane
GREENSBURG	Latrobe	098120	Latrobe
GREENSBURG	Latrobe: Bethany	189613	Latrobe: Bethany
GREENSBURG	Leechburg	098142	Leechburg: First
GREENSBURG	Ligonier: Calvary	189635	Ligonier: Calvary
GREENSBURG	Ligonier: Heritage	098164	Ligonier: Heritage
GREENSBURG	Lower Burrell: Bethel	097284	Lower Burrell: Bethel
GREENSBURG	Lycippus: Calvary/New Derry	170693	Lycippus: Calvary
GREENSBURG	Lycippus: Calvary/New Derry	098404	New Derry
GREENSBURG	Madison	099900	Madison
GREENSBURG	Madison: Hilltop	189670	Madison: Hilltop
GREENSBURG	Manor:First	098200	Manor: First
GREENSBURG	McKeesport: Beulah Park/Hope	099966	McKeesport: Beulah Park
GREENSBURG	McKeesport: Beulah Park/Hope	100042	McKeesport: Hope
GREENSBURG	McKeesport: Calvary	969138	McKeesport: Calvary
GREENSBURG	McKeesport: Christy Park/Bell Chapel	099283	Buena Vista: Bell Chapel
GREENSBURG	McKeesport: Christy Park/Bell Chapel	099988	McKeesport: Christy Park
GREENSBURG	McKeesport: First/Kephart/Wesley	100020	McKeesport: First
GREENSBURG	McKeesport: First/Kephart/Wesley	189657	McKeesport: Kephart Memorial
GREENSBURG	McKeesport: First/Kephart/Wesley	099944	McKeesport: Wesley
GREENSBURG	McKeesport: Highland Grove	189646	McKeesport: Highland Grove
GREENSBURG	McKeesport: West Side/Boston	099124	Boston
GREENSBURG	McKeesport: West Side/Boston	100064	McKeesport: West Side
GREENSBURG	Middletown/New Madison	170647	Middletown
GREENSBURG	Middletown/New Madison	100144	New Madison
GREENSBURG	Monroeville	098324	Monroeville
GREENSBURG	Monroeville: Garden City	189522	Monroeville: Garden City
GREENSBURG	Murrysville	098346	Murrysville: First
GREENSBURG	New Alexandria	098381	New Alexandria
GREENSBURG	New Kensington	098780	New Kensington
GREENSBURG	New Stanton	100188	New Stanton
GREENSBURG	North Huntingdon: Christ	099192	North Huntingdon: Christ
GREENSBURG	Oakmont	101321	Oakmont
GREENSBURG	Penns Woods	189748	Penns Woods
GREENSBURG	Pitcairn: Center Avenue	098506	Pitcairn: Center Avenue
GREENSBURG	Port Vue	100406	Port Vue
GREENSBURG	Rector	189624	Lebanon
GREENSBURG	Rector	189830	Rector
GREENSBURG	Rector	170740	Waterford
GREENSBURG	South Greensburg	098643	South Greensburg
GREENSBURG	Tarrs	170842	Glenwood
GREENSBURG	Tarrs	100122	Mount Lebanon
GREENSBURG	Tarrs	189954	Wyano
GREENSBURG	Trafford: Trinity	098745	Trafford: Trinity
GREENSBURG	Turtle Creek: Electric Heights/Miller	098288	Miller
GREENSBURG	Turtle Creek: Electric Heights/Miller	098767	Turtle Creek: Electric Heights
GREENSBURG	Turtle Creek: McMasters	098448	Turtle Creek: McMasters
GREENSBURG	Vandergrift	098803	Vandergrift: First
GREENSBURG	West Newton	100840	West Newton: First
GREENSBURG	Youngwood: Christ	189965	Youngwood: Christ
GREENSBURG	Youngwood: St Paul	100907	Youngwood: Saint Paul
INDIANA	Albion/Big Run	189065	Albion Heights
INDIANA	Albion/Big Run	085220	Saint Phillips
INDIANA	Allegheny River	097706	Ford Memorial
INDIANA	Allegheny River	098107	Kittanning: Union Avenue
INDIANA	Allegheny River	098244	Manorville
INDIANA	Allegheny River	098528	Rogers Chapel
INDIANA	Barton Chapel	086190	Barton Chapel

INDIANA	Bellview	085151	Cliff
INDIANA	Bellview	085231	Ohl
INDIANA	Bellview	085207	Stanton
INDIANA	Bellview	085218	Summerville: Mount Pleasant
INDIANA	Black Lick Circuit	097320	Black Lick
INDIANA	Black Lick Circuit	097887	Hopewell
INDIANA	Black Lick Circuit	098665	Strangford
INDIANA	Blairsville	097342	Blairsville: First
INDIANA	Bowdertown/Uniontown	189282	Bowdertown
INDIANA	Bowdertown/Uniontown	189362	Cherry Tree: Uniontown
INDIANA	Bright Hope UM Parish	097262	Belsano
INDIANA	Bright Hope UM Parish	187636	Belsano: Faith
INDIANA	Bright Hope UM Parish	189351	N Cambria: Mount Union
INDIANA	Bright Hope UM Parish	098368	Nanty Glo
INDIANA	Bright Hope UM Parish	098687	Strongstown
INDIANA	Brockway:Moorhead	085300	Moorhead
INDIANA	Brookville: Evangelical	188425	Brookville: Evangelical
INDIANA	Brookville: First	085286	Brookville: First
INDIANA	Brush Valley	097400	Brush Valley
INDIANA	Brush Valley Circuit	187671	Brush Valley: Calvary
INDIANA	Brush Valley Circuit	190188	Mount Tabor
INDIANA	Brush Valley Circuit	190190	Robinson Evangelical
INDIANA	Clarion River	188436	Donahey
INDIANA	Clarion River	188447	Edeburn
INDIANA	Cloe	097444	Cloe
INDIANA	Cloe	097433	Covode
INDIANA	Cloe	097455	Steffy Chapel
INDIANA	Clymer	097466	Clymer: First
INDIANA	Clymer	097477	Diamondville
INDIANA	Clymer	097490	Starford
INDIANA	Coolspring/Ramsaytown	188766	Ramsaytown
INDIANA	Coolspring/Ramsaytown	189098	Ramsaytown: Coolspring
INDIANA	Creekside	097568	Creekside
INDIANA	Dayton/Smicksburg	097604	Dayton
INDIANA	Dayton/Smicksburg	097592	Smicksburg
INDIANA	Du Bois: First	085366	Du Bois: First
INDIANA	Du Bois: Lakeside	085388	Du Bois: Lakeside
INDIANA	Du Bois: Mount Zion	085402	Du Bois: Mount Zion
INDIANA	Emerickville	085413	Emerickville
INDIANA	Faithfull Followers	188733	Knox Dale
INDIANA	Faithfull Followers	085446	Meade Chapel
INDIANA	Faithfull Followers	085457	Port Barnett
INDIANA	Good Shepherd (IN)	085515	Allens Mills
INDIANA	Good Shepherd (IN)	085504	Hazen
INDIANA	Good Shepherd (IN)	085537	Lake City
INDIANA	Good Shepherd (IN)	085630	Munderf: Zion
INDIANA	Good Shepherd (IN)	085617	Richardsville
INDIANA	Grampian Circuit	181071	Chestnut Grove
INDIANA	Grampian Circuit	181116	Curry Run
INDIANA	Grampian Circuit	181003	Grampian: Saint Paul
INDIANA	Grampian Circuit	180670	Hepburnia
INDIANA	Hickory/Sabula	180750	Hickory
INDIANA	Hickory/Sabula	085594	Sabula
INDIANA	Homer City	097843	Homer City
INDIANA	Indiana: Grace	097901	Indiana: Grace
INDIANA	Indiana: Trinity	188675	Indiana: Trinity
INDIANA	Juneau	188686	Juneau: Valley Chapel
INDIANA	Juneau	188697	Rochester Mills

INDIANA	Juneau	188700	Rossiter: Calvary
INDIANA	Kittanning	098084	Kittanning: First
INDIANA	Lanes Mills	085470	Lanes Mills
INDIANA	Luthersburg	085754	Du Bois: Salem
INDIANA	Luthersburg	085696	Home Camp
INDIANA	Luthersburg	085583	Luthersburg
INDIANA	Marchand	188824	Marchand
INDIANA	Marchand	188835	North Point
INDIANA	Marchand	085253	Sportsburg
INDIANA	Marion Center	098266	Marion Center
INDIANA	New Beginnings	097205	New Beginnings
INDIANA	New Beginnings	098563	Saltsburg: First
INDIANA	New Florence	098426	New Florence
INDIANA	New Hope	188527	Du Bois: Trinity
INDIANA	New Hope	085468	Falls Creek
INDIANA	New Hope	181402	Penfield
INDIANA	New Hope	188755	Pleasant Valley
INDIANA	New Hope	086042	Sykesville: Grace
INDIANA	Punxsutawney: First	085708	Punxsutawney: First
INDIANA	Punxy Crosstown Ministries	189134	Oliveburg: Mount Tabor
INDIANA	Punxy Crosstown Ministries	085721	Punxsutawney: Grace
INDIANA	Punxy Crosstown Ministries	189054	Punxsutawney: Woodland Ave
INDIANA	Purchase Line	097535	Purchase Line
INDIANA	Reynoldsville	085787	Reynoldsville: First
INDIANA	Ringgold	085195	Langville
INDIANA	Ringgold	188948	North Freedom
INDIANA	Ringgold	085845	Ringgold
INDIANA	Sherrett	087343	Sherrett
INDIANA	Sherrett	087558	Wattersonville
INDIANA	Sigel	085082	Clarrington
INDIANA	Sigel	085960	Sigel
INDIANA	Sigel	085093	Sigel: Zion
INDIANA	Summerville/Kingsville	086031	Kingsville
INDIANA	Summerville/Kingsville	086020	Summerville
INDIANA	Tanoma	170578	Tanoma
INDIANA	Templeton/Kellersburg/Widnoon	086188	Kellersburg
INDIANA	Templeton/Kellersburg/Widnoon	098701	Templeton
INDIANA	Templeton/Kellersburg/Widnoon	085561	Widnoon
INDIANA	Timblin	188937	New Salem
INDIANA	Timblin	189225	Porter
INDIANA	Timblin	189236	Timblin
INDIANA	Torrance	098723	Torrance
INDIANA	United Methodist Charge For Christ	097650	Cochran's Mill
INDIANA	United Methodist Charge For Christ	097683	Elderton
INDIANA	United Methodist Charge For Christ	097672	Elderton: Mount Zion
INDIANA	United Methodist Charge For Christ	098541	Rural Valley
INDIANA	United Methodist Charge For Christ	098552	Whitesburg
INDIANA	Valier	086133	Frostburg: Hopwell
INDIANA	Valier	086111	Hamilton
INDIANA	Valier	086122	Valier
JOHNSTOWN	Alum Bank	188048	Alum Bank
JOHNSTOWN	Armagh	097227	Armagh
JOHNSTOWN	Beaverdale	187625	Beaverdale
JOHNSTOWN	Blacklick Community	097307	Blacklick Community
JOHNSTOWN	Centennial	187693	Centennial
JOHNSTOWN	Cherry Tree	176655	Burnside
JOHNSTOWN	Cherry Tree	176677	Emeigh
JOHNSTOWN	Cherry Tree	176644	Patton: Cherry Tree

JOHNSTOWN	Coalport	176702	Coalport: First
JOHNSTOWN	Coalport	177604	Glen Hope
JOHNSTOWN	Coalport	176690	Irvona
JOHNSTOWN	Conemaugh	187716	Conemaugh: First
JOHNSTOWN	Cresson/Gallitzin/Amsbry	176198	Amsbry
JOHNSTOWN	Cresson/Gallitzin/Amsbry	097581	Cresson
JOHNSTOWN	Cresson/Gallitzin/Amsbry	097728	Gallitzin
JOHNSTOWN	Croyle: Mount Olive	170545	Croyle: Mount Olive
JOHNSTOWN	Dunlo/Sidman	187727	Dunlo
JOHNSTOWN	Dunlo/Sidman	188130	Sidman
JOHNSTOWN	Ebensburg	097661	Ebensburg
JOHNSTOWN	Elton: Zion	188094	Elton: Zion
JOHNSTOWN	Fishertown	187738	Fishertown: Mount Union
JOHNSTOWN	Fishertown	190133	Fishertown: Pine Grove
JOHNSTOWN	Fishertown	190155	Fishertown: Sloans Hollow
JOHNSTOWN	Glasgow Larger Parish	188493	Beaver Valley
JOHNSTOWN	Glasgow Larger Parish	177295	Blandburg
JOHNSTOWN	Glasgow Larger Parish	188595	Fiske
JOHNSTOWN	Glasgow Larger Parish	188607	Glasgow: Pleasant Hill
JOHNSTOWN	Glasgow Larger Parish	188620	Utahville
JOHNSTOWN	Hastings/Bakerton	176520	Bakerton
JOHNSTOWN	Hastings/Bakerton	176848	Hastings
JOHNSTOWN	Hollsopple: Bethel	187740	Hollsopple: Bethel
JOHNSTOWN	Johnstown UMP: First	187875	Johnstown: First
JOHNSTOWN	Johnstown UMP: Franklin Street	098005	Johnstown: Franklin Street
JOHNSTOWN	Johnstown UMP: Trinity	187955	Johnstown: Trinity
JOHNSTOWN	Johnstown UMP: Trinity Asbury	969093	Johnstown: Trinity-Asbury
JOHNSTOWN	Johnstown: Belmont	187820	Johnstown: Belmont
JOHNSTOWN	Johnstown: Bethany	187831	Johnstown: Bethany
JOHNSTOWN	Johnstown: Beulah	187842	Johnstown: Beulah
JOHNSTOWN	Johnstown: Calvary	097967	Johnstown: Calvary
JOHNSTOWN	Johnstown: Christ/Park Avenue	187853	Johnstown: Christ
JOHNSTOWN	Johnstown: Christ/Park Avenue	187933	Johnstown: Park Avenue
JOHNSTOWN	Johnstown: Faith/Ferndale	190177	Johnstown: Faith
JOHNSTOWN	Johnstown: Faith/Ferndale	187886	Johnstown: Ferndale
JOHNSTOWN	Johnstown: Grove Avenue	098027	Johnstown: Grove Avenue
JOHNSTOWN	Johnstown: Homestead Avenue	187911	Johnstown: Homestead Avenue
JOHNSTOWN	Johnstown: Oakland	098040	Johnstown: Oakland
JOHNSTOWN	Johnstown: Roxbury	187944	Johnstown: Roxbury Saint Pauls
JOHNSTOWN	Johnstown: United for God	187864	Johnstown: Albright
JOHNSTOWN	Johnstown: United for God	187658	Johnstown: Bowserdale
JOHNSTOWN	Johnstown: United for God	097546	Johnstown: Cramer
JOHNSTOWN	Johnstown: United for God	187897	Johnstown: Garfield Street
JOHNSTOWN	Johnstown: United for God	187660	Johnstown: Mount Olive
JOHNSTOWN	Johnstown: Westmont	187966	Johnstown: Westmont
JOHNSTOWN	La Jose	189101	La Jose
JOHNSTOWN	Mahaffey Area Parish	180987	Glen Campbell
JOHNSTOWN	Mahaffey Area Parish	181220	Mahaffey
JOHNSTOWN	Mahaffey Area Parish	180657	New Washington
JOHNSTOWN	Mahaffey Area Parish	181093	Smithport
JOHNSTOWN	New Paris	176416	New Paris: First
JOHNSTOWN	Northern Cambria: St John's	176564	N Cambria: Saint Johns
JOHNSTOWN	Patton:Trinity/Spangler	177400	N Cambria: Spangler
JOHNSTOWN	Patton:Trinity/Spangler	177205	Patton: Trinity
JOHNSTOWN	Point	190144	Point
JOHNSTOWN	Portage: Bethany	188050	Portage: Bethany
JOHNSTOWN	Portage: Trinity	188061	Portage: Trinity
JOHNSTOWN	Saint Michael	188141	Saint Michael

JOHNSTOWN	Salix: Bethel	188083	Salix: Bethel
JOHNSTOWN	Scalp Level: Trinity	188106	Scalp Level: Trinity
JOHNSTOWN	Seward	098608	Seward
JOHNSTOWN	Shanksville/Central City	171037	Central City
JOHNSTOWN	Shanksville/Central City	188128	Shanksville
JOHNSTOWN	Shawnee	176358	Buffalo Mills
JOHNSTOWN	Shawnee	170501	Helixville
JOHNSTOWN	Shawnee	176393	Manns Choice
JOHNSTOWN	South Fork: First	188210	South Fork: First
JOHNSTOWN	South Fork: Mount Hope	187990	South Fork: Mount Hope
JOHNSTOWN	South Fork: Wesley	098621	South Fork: Wesley
JOHNSTOWN	Summit Chapel/Mineral Point	098302	Mineral Point
JOHNSTOWN	Summit Chapel/Mineral Point	097502	Summit Chapel
JOHNSTOWN	Westover/East Ridge:Harmony	189305	East Ridge: Harmony
JOHNSTOWN	Westover/East Ridge:Harmony	189327	Westover: Grace
JOHNSTOWN	Wilmore/Lilly	097717	Lilly
JOHNSTOWN	Wilmore/Lilly	188221	Wilmore
JOHNSTOWN	Windber: Calvary	098882	Windber: Calvary
KANE	Bear Lake/Chandlers Valley	189987	Bear Lake
KANE	Bear Lake/Chandlers Valley	060390	Chandlers Valley
KANE	Benezette	180761	Benezette
KANE	Benezette	180737	Caledonia
KANE	Benezette	181606	Sinnemahoning
KANE	Benezette	180566	Sterling Run
KANE	Benezette	180830	Weedville
KANE	Bradford Area Parish	150640	Bradford: Asbury
KANE	Bradford Area Parish	060311	Bradford: West Branch
KANE	Bradford Area Parish	150822	Custer City
KANE	Bradford Area Parish	061155	Rew
KANE	Bradford: First	150662	Bradford: First
KANE	Bradford: Hill Memorial	060297	Hill Memorial
KANE	Brockport	085275	Brandy Camp
KANE	Brockport	085264	Brockport
KANE	Brockport	085297	Kersey
KANE	Brockport	085311	Toby
KANE	Ceres/Shinglehouse/Millport	150720	Ceres
KANE	Ceres/Shinglehouse/Millport	061031	Chrystal
KANE	Ceres/Shinglehouse/Millport	061018	Millport
KANE	Ceres/Shinglehouse/Millport	061097	Oswayo
KANE	Ceres/Shinglehouse/Millport	151586	Shinglehouse
KANE	Clarendon: Trinity/Tiona	087888	Clarendon: Trinity
KANE	Clarendon: Trinity/Tiona	087797	Tiona
KANE	Duke Center	150888	Duke Center
KANE	East Kane	088303	East Kane
KANE	Eldred	150946	Eldred
KANE	Emporium	180908	Emporium: First
KANE	Evans Memorial	060710	Evans Memorial
KANE	Grand Valley/Sanford	060834	Grand Valley
KANE	Grand Valley/Sanford	060856	Sanford
KANE	Johnsonburg	085526	Johnsonburg
KANE	Kane: First	088325	Kane: First
KANE	Lander	088427	Lander
KANE	Lottsville/Sugar Grove	088677	Lottsville
KANE	Lottsville/Sugar Grove	088688	Sugar Grove
KANE	Marienville/Greenwood	086177	Greenwood
KANE	Marienville/Greenwood	085606	Marienville
KANE	Mount Jewett/Hazel Hurst	088416	Hazel Hurst
KANE	Mount Jewett/Hazel Hurst	088462	Mount Jewett

KANE	N Clarion: Good Shepherd	086097	N Clarion: Good Shepherd
KANE	Pittsfield: Otterbein	060413	Pittsfield: Otterbein
KANE	Port Allegany Area Parish	150786	Crosby
KANE	Port Allegany Area Parish	151427	Port Allegany
KANE	Ridgway: Trinity	085801	Ridgway: Trinity
KANE	Russell/Akeley	088553	Akeley
KANE	Russell/Akeley	088564	Russell
KANE	Saint Marys	181526	Saint Marys: First
KANE	Sheffield/Barnes	088611	Barnes
KANE	Sheffield/Barnes	088600	Sheffield
KANE	Smethport	151644	Smethport
KANE	Tidioute: First/Tionesta	086064	Tidioute: First
KANE	Tidioute: First/Tionesta	086086	Tionesta
KANE	Tylersburg	086018	Helen Furnace
KANE	Tylersburg	086075	Scotch Hill
KANE	Tylersburg	086100	Tylersburg
KANE	Warren: First	088724	Warren: First
KANE	Warren: Grace	088746	Warren: Grace
KANE	West Hickory	086144	West Hickory
KANE	YESS Shared Ministry	061430	Covenant
KANE	YESS Shared Ministry	088690	Stoneham
KANE	YESS Shared Ministry	088781	Youngsville First
KANE	Youngsville: Evangelical	061496	Youngsville: Evangelical
PITTSBURGH	Allison Park: Epworth	095877	Allison Park: Epworth
PITTSBURGH	Allison Park: St Pauls	189817	Allison Park: Saint Paul's
PITTSBURGH	Anne Ashley	103205	Anne Ashley
PITTSBURGH	Bakerstown	095285	Bakerstown
PITTSBURGH	Baldwin Community	101104	Baldwin Community
PITTSBURGH	Bethel Park: Christ	101206	Bethel Park: Christ
PITTSBURGH	Blackburn	095423	Blackburn
PITTSBURGH	Braddock: Fourth Street	099168	Braddock: Fourth Street
PITTSBURGH	Braddock: Muhleman Mem	099181	Braddock: Muhleman Memorial
PITTSBURGH	Coraopolis	095764	Coraopolis
PITTSBURGH	Cornerstone	170523	Cornerstone
PITTSBURGH	Dormont	101241	Dormont
PITTSBURGH	Dutilh	095822	Dutilh
PITTSBURGH	First Bethel	102622	First Bethel
PITTSBURGH	Fox Chapel: Faith	095968	Fox Chapel: Faith
PITTSBURGH	Greenstone	101148	Greenstone
PITTSBURGH	Hays	101640	Hays
PITTSBURGH	Homestead Park	103240	Homestead Park
PITTSBURGH	Homestead: Eighth Avenue	061510	Homestead
PITTSBURGH	Hot Metal Bridge Faith Community	061417	Hot Metal Bridge
PITTSBURGH	Ingomar	096187	Ingomar
PITTSBURGH	Jefferson (PB)	103342	Jefferson (PB)
PITTSBURGH	Laketon Heights	101263	Laketon Heights
PITTSBURGH	Little Hill	189874	Little Hill
PITTSBURGH	McKnight	096245	McKnight
PITTSBURGH	Northside Ministries	101503	Pgh: Calvary
PITTSBURGH	Northside Ministries	101970	Pgh: Church Of Our Saviour
PITTSBURGH	Northside Ministries	102063	Pgh: New Hope
PITTSBURGH	Pgh: Albright Community	171573	Pgh: Albright Community
PITTSBURGH	Pgh: Comm Of Reconcil	101194	Pgh: Comm Of Reconcil
PITTSBURGH	Pgh: Emanuel	189794	Pgh: Emanuel
PITTSBURGH	Pgh: First	101560	Pittsburgh: First
PITTSBURGH	Pgh: Haven Heights	101627	Pgh: Haven Heights
PITTSBURGH	Pgh: Mary S Brown-Ames	101764	Pgh: Mary S Brown-Ames
PITTSBURGH	Pgh: Mount Lebanon	101308	Pgh: Mount Lebanon

PITTSBURGH	Pgh: Stanton Heights	189828	Pgh: Stanton Heights
PITTSBURGH	Pgh: Warren	969195	Pgh: Warren
PITTSBURGH	Pittsburgh: South Hills Partnership	102768	Carnegie
PITTSBURGH	Pittsburgh: South Hills Partnership	101183	Castle Shannon
PITTSBURGH	Pittsburgh: South Hills Partnership	101582	Pgh: Fairhaven
PITTSBURGH	Pittsburgh: South Hills Partnership	101684	Pgh: Hill Top
PITTSBURGH	Pittsburgh: South Hills Partnership	102041	Pgh: Spencer
PITTSBURGH	River's Edge	096360	Millvale
PITTSBURGH	River's Edge	095241	Pittsburgh: Community
PITTSBURGH	River's Edge	096688	Sharpsburg: Grace
PITTSBURGH	Sewickley	096666	Sewickley
PITTSBURGH	Shannopin/Glenwillard	096085	Glenwillard
PITTSBURGH	Shannopin/Glenwillard	096746	Shannopin: South Heights
PITTSBURGH	Swissvale	102187	Swissvale
PITTSBURGH	Trinity Tower	101332	Trinity Tower
PITTSBURGH	Verona/Rosedale	102143	Rosedale
PITTSBURGH	Verona/Rosedale	102201	Verona
PITTSBURGH	West End Circuit	101228	Crafton
PITTSBURGH	West End Circuit	101285	McKees Rocks: Christ
PITTSBURGH	West End Circuit	101981	Pgh: Sheraden
PITTSBURGH	West Homestead	103227	West Homestead
PITTSBURGH	West View	102245	West View
PITTSBURGH	Wexford: Salem	096644	Wexford: Salem
PITTSBURGH	Whitaker	104142	Whitaker
PITTSBURGH	Wilkinsburg: Mifflin Ave	102280	Wilkinsburg: Mifflin Ave
PITTSBURGH	Wilkinsburg: South Ave	102325	Wilkinsburg: South Ave
PITTSBURGH	Windover Hills	102336	Windover Hills
WASHINGTON	Avery	103967	Avery
WASHINGTON	Bentleyville/Houston	102600	Bentleyville
WASHINGTON	Bentleyville/Houston	103262	Houston: First
WASHINGTON	Bobtown/Taylorstown/Mt Calvary	102644	Bobtown
WASHINGTON	Bobtown/Taylorstown/Mt Calvary	103570	Mount Calvary
WASHINGTON	Bobtown/Taylorstown/Mt Calvary	103717	Taylorstown
WASHINGTON	Brave	102677	Kents Chapel
WASHINGTON	Brave	102735	Spraggs
WASHINGTON	Brave	103091	Valley Chapel
WASHINGTON	Bridgeville	102688	Bridgeville: First
WASHINGTON	California	102702	California
WASHINGTON	Canonsburg	102724	Canonsburg: First
WASHINGTON	Carmichaels	102746	Carmichaels: First
WASHINGTON	Centerville/Taylor	102781	Brownsville: Centerville
WASHINGTON	Centerville/Taylor	103901	Taylor
WASHINGTON	Central Highlands	099534	Central Highlands Community
WASHINGTON	Clairton: First	102826	Clairton: First
WASHINGTON	Clairton: Pine Run	103785	Clairton: Pine Run
WASHINGTON	Claysville	102848	Claysville
WASHINGTON	Claysville: Zion	189511	Claysville: Zion
WASHINGTON	Coal Center: Grace	103001	Coal Center: Grace
WASHINGTON	Crossroads	102815	Crossroads
WASHINGTON	Eldersville	095844	Eldersville
WASHINGTON	Elizabeth	099523	Elizabeth
WASHINGTON	Fairall	103034	Claughton Chapel
WASHINGTON	Fairall	103067	Fairall
WASHINGTON	Fairall	103581	Mount Morris
WASHINGTON	Good Shepherd	103821	Rogersville
WASHINGTON	Good Shepherd	103637	Throckmorton
WASHINGTON	Good Shepherd	104062	Waynesburg: Washington St
WASHINGTON	Graysville:Fairview/Nebo	103912	Graysville: Fairview

WASHINGTON	Graysville:Fairview/Nebo	103832	Nebo
WASHINGTON	Greater Purpose Team Ministry	102520	Allenport
WASHINGTON	Greater Purpose Team Ministry	102928	Denbo: Saint Pauls
WASHINGTON	Greater Purpose Team Ministry	103147	Fredericktown
WASHINGTON	Greater Purpose Team Ministry	103284	Howe
WASHINGTON	Greater Purpose Team Ministry	103320	Jefferson (WA)
WASHINGTON	Greater Purpose Team Ministry	103808	Rices Landing
WASHINGTON	Greater Purpose Team Ministry	103843	Roscoe
WASHINGTON	Greater Purpose Team Ministry	103648	Roscoe: Mount Tabor
WASHINGTON	Greene Hills/Fairmount	170682	Fairmount
WASHINGTON	Greene Hills/Fairmount	103728	Nineveh
WASHINGTON	Greene Hills/Fairmount	103923	Union Valley
WASHINGTON	Greenock	099727	Greenock
WASHINGTON	Jackson Community	103774	Jackson Comm: Bethany
WASHINGTON	Jackson Community	103810	Jackson Comm: Valley Chapel
WASHINGTON	Jefferson Avenue/West Washington	104005	Washington: Jefferson Avenue
WASHINGTON	Jefferson Avenue/West Washington	104027	West Washington
WASHINGTON	John Wesley	969253	John Wesley
WASHINGTON	Jollytown	103375	Grandview
WASHINGTON	Jollytown	103364	Jollytown
WASHINGTON	Jollytown	103353	New Freeport: Pleasant Hill
WASHINGTON	Jollytown	103397	Pine Bank
WASHINGTON	Liberty/Amity	102542	Amity
WASHINGTON	Liberty/Amity	103386	Liberty
WASHINGTON	Mapletown/Mount Pleasant	103626	Greensboro: Mount Pleasant
WASHINGTON	Mapletown/Mount Pleasant	103400	Mapletown
WASHINGTON	McMurray: Trinity	102757	McMurray: Trinity
WASHINGTON	Meadow Lands/Fawcett	103103	Fawcett
WASHINGTON	Meadow Lands/Fawcett	103488	Meadow Lands
WASHINGTON	Midway	096325	Midway
WASHINGTON	Monongahela Parish	103557	Fordyce
WASHINGTON	Monongahela Parish	103592	Waynesburg: Mount Pleasant
WASHINGTON	Monongahela: First	103546	Monongahela: First
WASHINGTON	Nobelstown/Federal/McDonald	103741	Federal
WASHINGTON	Nobelstown/Federal/McDonald	103466	McDonald
WASHINGTON	Nobelstown/Federal/McDonald	103125	Noblestown
WASHINGTON	Oak View	103568	Oak View
WASHINGTON	Scenery Hill/Davidson	102906	Davidson
WASHINGTON	Scenery Hill/Davidson	103865	Scenery Hill
WASHINGTON	Speers/Dunlevy	189692	Dunlevy
WASHINGTON	Speers/Dunlevy	103887	Speers
WASHINGTON	UM Community Churches	102586	Beallsville
WASHINGTON	UM Community Churches	103661	Fredericktown: Mount Zion
WASHINGTON	UM Community Churches	103422	Marianna
WASHINGTON	UM Community Churches	104288	Zollarsville
WASHINGTON	Union Roads	103160	Union Roads
WASHINGTON	Washington: First	103980	Washington: First
WASHINGTON	Waynesburg: First	104040	Waynesburg: First
WASHINGTON	West Alexander	104084	West Alexander
WASHINGTON	West Elizabeth/Elrama/Glassport	103045	Elrama
WASHINGTON	West Elizabeth/Elrama/Glassport	099705	Glassport
WASHINGTON	West Elizabeth/Elrama/Glassport	104120	West Elizabeth
WASHINGTON	Wrights/Edwards Chapel	103023	Edwards Chapel
WASHINGTON	Wrights/Edwards Chapel	103945	Wrights

**LOCAL CHURCH
INCORPORATION**

Department Resources

[Incorporation Memo for Preschools](#)

[Sample Charge Conference Resolutions](#)
(PDF 22 KB)

[Charge Conference Resolution 2](#)
(PDF 55 KB)

[Sample Board of Trustees Resolution](#)
(PDF 56 KB)

[Sample Articles of Incorporation](#)
(PDF 64 KB)

[Original Appointment of Agent](#)
(PDF 55 KB)

[Sample Charge Conference Resolution 3](#)
(PDF 55 KB)

[Sample Certification of Amended Articles](#)
(PDF 64 KB)

[Sample Bylaws](#)
(PDF 70 KB)

These are sample documents which are created to assist local churches, working with their own attorney or the conference chancellor. Each church must consider state and local laws, as well as their own unique facts and circumstances. The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.

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Contact Info

Incorporating the Local United Methodist Church

This memo discusses some of the considerations and concerns involved in the incorporation of a United Methodist local church. Each church needs to make its own decision on whether to incorporate, based on the general factors and considerations set forth below and based on their own set of facts and circumstances. The forms at the end of the memo are suggested corporate forms and structures that need to be reviewed by an attorney who is familiar with your church and not-for-profit incorporation laws in your state.

¶ 2528.1 of The Book of Discipline vests the charge conference with the authority to direct the board of trustees of the local church to incorporate the church. The incorporation must be accomplished subject to the Discipline and in accordance with local law. (Note that as of January 2001, incorporation of churches is prohibited in Virginia and West Virginia).

Incorporation should protect and exempt the individual officers and members, jointly and severally, of the local church, from legal liability for and on account of the debts and other obligations of every kind and description of the local church. The first step in the incorporation process should be the retention of qualified legal counsel. Legal counsel should be very familiar with the structure of the United Methodist denomination, especially the trust clause (¶ 2503), the local church structure, and the various roles of the district superintendent as to certain local church matters.

Advantages of Incorporation

1. Limited liability
2. Clear legal capacity to enter into contracts and agreements
3. Perpetual duration

Under the law, a corporation is a separate legal entity from its officers, directors and its incorporators. Corporate powers are conferred by the corporate charter and by the state corporation statute. The corporate form provides a continuous entity for the ownership and management of property, and for carrying out the business and programs of the local church. Assertions of liability for acts undertaken by the corporation may be satisfied, if proved, from corporate assets only, rather than from personal assets of the corporate directors, except in cases of fraud against the corporation by a director, or where corporate formalities are not followed, and a case can be made that the corporation is acting as an alter ego of its directors.

A corporation derives its powers and existence from the state. The sources of its powers are its charter and the general statute under which the corporation was organized. The statutes grant numerous specific powers relating to organization, the use and conveyance of property, the election of officers, the amendment of articles of incorporation and by-laws, the right of dissolution, etc.

The "express powers" of a corporation are those related to the business activities in which the corporation is engaged that are enumerated in its charter. "Implied powers" arise out of reasonable inferences about the scope and intent of the language of the charter powers as they relate to certain facts and circumstances. Great care should be taken by the local church corporation to insure that its acts and transactions do not extend beyond its limits of authority. Such acts are termed ultra vires and should be expressly barred by the corporation's Articles of Incorporation.

Procedures for forming and organizing corporations vary from state to state. However, general incorporation statutes in every jurisdiction allow for the issuance of a charter of incorporation to certain persons by a designated state official (usually the Secretary of State) in compliance with the provisions of the corporation statute. The typical statute requires:

1. The preparation and execution of the articles of incorporation by the incorporators, and the acknowledgment of their signatures before a notary public

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2. The delivery of the articles of incorporation to the Secretary of State, including any other required incorporation papers and payment of required organizational fees
3. Filing of the articles by the Secretary of State, and subsequent issuance by him or her of the certificate of incorporation
4. The recording of the Certificate and Articles of Incorporation with the Recorder of Deeds, or any other county officials as required in the county or parish where the corporation is located
5. The convening of the first corporation organization meeting at the call of the directors to adopt by-laws, elect officers, and transact other business.

The articles of incorporation generally include the following provisions:

1. The name and address of the corporation.
2. The address of its registered agent for the service of process, notice, or demand upon the corporation. Usually the agent will be the board of trustees, inasmuch as it manages the business of the local church about property and other legal affairs.
3. The duration or tenure of the corporation, which may be perpetual or limited. Church corporations are typically perpetual.
4. The names and addresses of the incorporators.
5. A statement of purpose for which the corporation is formed.
6. The names and number of directors constituting the initial board of directors, and the names and addresses of those who are to serve as directors until the first called meeting.
7. Membership of the corporation, and, in the case of the local church, specific reference to the Discipline provisions on incorporation of the local church.
8. The powers of the corporation.

9. Procedures for the adoption of by-laws by the board of trustees.
10. Definition of the quorum of directors needed to transact corporate business.
11. Procedures for amending the articles of incorporation.
12. Provisions for the distribution of assets upon dissolution of the corporation.

Upon completion of the required charter application and the articles of incorporation, these documents must be submitted to the district superintendent for his or her written approval. The purpose of obtaining the superintendent's written approval is to insure conformity of the documents with the Discipline. Particular attention should be devoted to the following:

1. The corporation's stated purpose and powers must support the doctrine of The United Methodist denomination, and all its property must be subject to the "laws, usages, and ministerial appointments" of the Church.
2. The board of trustees, who ordinarily will serve as the board of directors of the corporation per the Discipline, must be properly selected. Officers of the board of trustees are the officers of the board of directors of the corporation.
3. The powers and responsibilities of the corporation, and its board of directors, should include the powers and responsibilities about property specified for the charge conference by the Discipline.
4. The members of the corporation are to be the members of the charge conference.
5. Should the corporation cease to exist, the title to all its property is to be vested in the annual conference board of trustees, to be held in trust for benefit of the local church, if it should continue to exist, and, if not, for the benefit of the conference or successor entity.
6. The articles of incorporation and the by-laws of the corporation that are submitted to the state should include the provisions of the Book of Discipline of The United Methodist Church by reference.
7. After completion of the incorporation, care should be taken to deed all property into the new corporation. Real property can be deeded by use of a quitclaim deed. This transfer can present an excellent opportunity to review the title to property, to determine if there are any limitations on reversionary interests and to make sure that the trust clauses (§ 2503) are

put into the new deeds.

Many states now have special religious corporation statutes that significantly decrease the reporting requirements and filing costs for such corporations. These statutes also often restrict the oversight role of the attorney general. Local counsel should advise on incorporating under such statutes.

Note: Sample incorporation forms, including bylaws, are included. Each state has different incorporation requirements. These forms should be a useful starting point for the local church's attorney.

It might be helpful as well to consult with other local churches that have recently incorporated in your state to obtain samples of their forms for review, assuming their incorporation forms have been prepared by a knowledgeable attorney with attention to the unique structure of the United Methodist denomination.

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Incorporation of the Local Church - Sample Charge Conference Resolutions

WHEREAS, it is the recommendation of certain members of this local church that the Charge Conference elect to direct the Board of Trustees to incorporate said church under the laws of the State of _____ and the *Discipline* of The United Methodist Church; and

WHEREAS, such members further desire said incorporation to be for and in accordance with the purposes set forth in the United Methodist *Discipline*; and in such manner as will fully protect and exempt from any and all legal liability the individual officers and members, jointly and severally, of the local church, and the Charge, Annual, Jurisdictional, and General Conferences of The United Methodist Church and each of them, for an on account of the debts and other obligations of every kind and description of the local church; and

WHEREAS, this meeting of the Charge Conference is called to consider the said recommendation to incorporate the local church as hereinbefore stated; and

WHEREAS, said members of the Charge Conference have been duly notified of the special meeting of the Charge Conference of this said association and the purpose thereof, which meeting has been duly authorized to be held and called in accordance with the United Methodist *Discipline*.

NOW, THEREFORE, BE IT RESOLVED that the membership of the Charge Conference of _____ (church name and state), an unincorporated association, duly called and convened, do hereby authorize and direct the incorporation of said association as (church name and state), a(n) _____ (state) nonprofit religious corporation (or not for profit corporation), in accordance with the *Discipline* of The United Methodist Church and for the purposes as set forth in said *Discipline*, and do further authorize and direct the Board of Trustees of this association to forthwith cause proper Articles of Incorporation, containing therein the requirements and necessary provisions of the United Methodist *Discipline*, to be prepared, executed, and transmitted forthwith to the Office of the Secretary of the State of _____ for filing therein, and that the expense of said incorporation be paid from the General Treasury of said association.

BE IT FURTHER RESOLVED, that the following persons be, and they are hereby designated as the original trustees of said new nonprofit corporation:

[as many lines as Trustees designated, but not fewer than three (3) members nor more than nine (9) - Paragraph 2524 of *The Book of Discipline*, 2000]

RESOLVED FURTHER, that said Board of Trustees be further authorized to do and perform any and all acts necessary to carry this resolution into full force and effect.

(Date of Meeting)

VOTE:

Approved ____ Defeated ____

(Place of Meeting)

CERTIFICATION
(if required)

The undersigned, Secretary of the Charge Conference of _____ Church, an unincorporated association, do hereby certify that the following action was duly taken by said Charge Conference on the ____ day of _____, 20_____, and that the same is in full force and effect.

Secretary
Charge Conference

Incorporation of the Local Church - Charge Conference Resolution 2

WHEREAS, the members of the Charge Conference of _____
(name and state), an unincorporated association, did this ____ day of _____, 20_____,
by proper resolution direct and authorize the Board of Trustees of said association to promptly
incorporate said association under the laws of the State of _____ pursuant to the
Discipline of The United Methodist Church, as a nonprofit, religious corporation (or not for
profit corporation); and

WHEREAS, it will become necessary upon the incorporation of said association to
transfer all of the assets of said association to the new corporation, which shall be known as

(name and state).

NOW THEREFORE, BE IT RESOLVED by the members of the Charge Conference
of _____ (name and state), an unincorporated
association, duly called and convened, that the Board of Trustees of said association in order to
perfect further and carry on the operation of said association as a corporation and to comply with
the *Discipline* of The United Methodist Church be, and it is hereby authorized and directed to
prepare, transfer and convey unto _____
(name and state), the newly formed corporation, by proper deeds, bills of sale, and other
instruments, all the property of said association, real and personal, of whatever kind and
description whatsoever, subject to all the encumbrances and liabilities of the unincorporated
association and that thereupon all the rights, privileges, immunities, powers, franchises, and
authority and all the property and obligations of such unincorporated society or association shall
pass to, vest in, and be the property and (in the case of encumbrances and liabilities) obligations
of the corporation so formed, and that the expense of said transfer and conveyance and all
matters necessary and incidental thereto be borne by and paid from the General Treasury of said
unincorporated association.

Place of Meeting: _____

Date of Meeting: _____

VOTE: **Approved** ____ **Defeated** ____

CERTIFICATION (if required)

The undersigned, Secretary of the Charge Conference of _____ Church, an
unincorporated association, do hereby certify that the following action was duly taken by said
Charge Conference on the ____ day of _____, 20____, and that the same is in full force
and effect.

**Secretary
Charge Conference**

Incorporation of the Local Church – Sample Board Of Trustees Resolution

Pursuant to the direction of the Charge Conference of the

(name of unincorporated association) authorizing this Board by its proper officers to prepare, execute, and file Articles of Incorporation for this religious, unincorporated association, be it hereby

RESOLVED, that the President (Chairman) and Secretary of this Board forthwith cause Articles of Incorporation to be prepared, executed, and filed with the Secretary of the State of _____ as a nonprofit corporation; and

BE IT FURTHER RESOLVED, that _____ be designated as Statutory Agent of this corporation upon whom any process, notice, or demand required or permitted by statute to be served upon the corporation may be served; and

BE IT FURTHER RESOLVED, that the following persons be, and they are hereby designated as the incorporators of said new nonprofit corporation:

(minimum of one (1) incorporator required,
typically Chairman of Board of Trustees)

BE IT FURTHER RESOLVED, that said President (Chairman) and Secretary of the Board be, and they are hereby authorized and directed to do and take such actions as they deem necessary to carry into effect the foregoing resolutions, all pursuant to the *Discipline* of The United Methodist Church.

(Date of Meeting)

VOTE:

Approved ____ Defeated ____

(Place of Meeting)

Each state varies on the form required for Articles of Incorporation

Approved for filing:

By _____

Date _____

SAMPLE
Articles Of Incorporation
OF

The undersigned, all of whom are citizens of the United States, desiring to form a corporation, not for profit, under _____ (state authority or statute), do hereby certify:

FIRST: The name of said corporation shall be _____

SECOND: The place where the principal office of the corporation is to be located is _____
(City, County, and State)

THIRD: The purpose or purposes for which the corporation is formed are as more fully set forth in the *Discipline* of The United Methodist Church or as may hereafter, from time to time, be amended including:

(a) The promotion of the Christian religion through the preaching of the Word of God, the administration of the sacraments, ordinances, and other means of grace, the maintenance of worship, the edification of believers, the evangelization of the world, and the promotion of the missionary and benevolence causes.

(b) The promotion of the Christian religion through the preaching of the Word of God, the administration of the sacraments, ordinances, and other means of grace, the maintenance of worship, the edification of believers, the evangelization of the world, and the promotion of the missionary and benevolence causes.

(c) Receiving, holding, and disbursing gifts, bequests, and funds arising from all sources.

(c) Acquiring, owning, and maintaining real estate, buildings, and other property real or personal, incidental, necessary, or proper to carry out said objects.

(d) Doing of any and all things necessary or incident to the accomplishment of such purposes.

(e) All of the above shall be in accordance with the Doctrines, Laws, Usages, *Discipline*, and Ministerial appointments of The United Methodist Church.

FOURTH: The following persons shall serve as the initial trustees of said corporation and shall serve as provided in the *Discipline* of The United Methodist Church:

NAME	ADDRESS
_____	_____
_____	_____
_____	_____

[Note: Not less than three (3), nor more than nine (9)]

FIFTH: Upon the filing of these Articles of Incorporation of _____, the society or association now known as _____, a corporation not for profit, and the members of such society or association shall be members of such corporation, and all the rights, privileges, immunities, powers, franchises, authority, property, and obligations of such unincorporated society or association shall thereupon pass to, vest in, and be the rights, privileges, immunities, powers, franchises, authority, property, and obligations of _____, a corporation not for profit.

SIXTH: The corporation shall support the Doctrine of The United Methodist Church and all its property, both real and personal, shall be subject to the *Discipline*, Laws, Usages, and Ministerial appointments of The United Methodist Church as are now or shall be, from time to time, established, made, and declared by the lawful authority of the said church.

SEVENTH: The corporation, in conformity with the *Discipline* of The United Methodist Church, shall have the power to receive, acquire, and hold title, in trust or otherwise, to real and personal property, and to improve, encumber, lease, sell, convey, and dispose of all such property.

EIGHTH: Subject to the provisions of the *Discipline*, the corporation shall have the power to erect and maintain buildings for the worship of God, for training in Christian faith and conduct, and for Christian social intercourse, and to purchase, lease, and/or rent and otherwise acquire or build and maintain residences for the use and occupancy of its ministers.

NINTH: The business of this corporation shall be conducted in conformity with the *Discipline* of The United Methodist Church as the same now exists or as may hereafter be amended, changed, or modified, and the bylaws of the corporation shall include the *Discipline* of The United Methodist Church and no bylaws shall be adopted inconsistent with the provisions of said *Discipline*.

In addition to the powers and duties granted to this corporation by the *Discipline* of The United Methodist Church, the corporation assumes for itself all the rights, powers, and privileges and immunities which are now, and which may be during the existence thereof be

conferred by law upon corporation with a similar character, provided the same are not inconsistent with said *Discipline*. All amendments, bylaws, and regulations of this corporation shall at all times be in conformity with the *Discipline* of The United Methodist Church.

But notwithstanding the above, however, at no time shall any of the amendments, bylaws, or regulations of the corporation be prohibited by or in conflict with the nonprofit corporate laws of the State of _____.

TENTH: The members of the corporation shall mean the membership of the corporation and shall be composed of such persons (ministerial and lay) as from time to time shall be defined in accordance with the *Discipline* of The United Methodist Church, and such members thereof shall have only such voting and other rights as now exist or may hereafter be granted by the *Discipline* of The United Methodist Church.

ELEVENTH: If for any reason the corporation shall be abandoned, discontinued, or cease to exist as a legal entity and its charter shall expire or be terminated, the title to all its property both real and personal shall be vested and be the property of the _____ annual conference of The United Methodist Church, pursuant to said *Discipline* of The United Methodist Church, and if it should not be in existence to any successor United Methodist organization and if none to an organization qualified under § 501(c)(3) of the Internal Revenue Code of the United States.

IN WITNESS WHEREOF, we have hereunto subscribed our names, this _____ day of _____, 20__.

INCORPORATORS

_____, 20__ (place)

LOCAL CHURCH
REPORTING FORM
&
STATISTICAL TABLES

**THE UNITED METHODIST CHURCH
WESTERN PENNSYLVANIA ANNUAL CONFERENCE**

John R. Wilson, Conference Secretary
118 Charles Street, Dorseyville, PA 15238-1008
conference.secretary@wpaumc.org

Phone 412-767-5646

Fax 412-767-0501

To the Local Church Treasurers,

I want to thank Pat Morris, Conference Treasurer, for inviting me to include the statistical tables in this helpful manual for local church Treasurers.

Attached you will find three (3) worksheets with instructions from GCF&A. Since these are standardized forms from the denomination they include several extra lines that do not apply to this annual conference. Even though the responsibility for filing these forms rests with the Pastor, I believe the local church Treasurer is instrumental in providing the accurate data required by January 31 each year.

The data required for Table I comes from numbers collected throughout the year by the local church Membership Secretary. The data required for Table II comes from local church Treasurer expense reports. And the data required for Table III comes from the local church Financial Secretary income reports. Keeping track of the expenses separate from income, by different officers in the local church is an important check and balance for keeping the financial records secure. My recommendation to the Pastors is to distribute copies of these three forms to the three local church officers to collect the data.

In filling out Table II, I am frequently asked two questions. The first, why aren't the numbers required the same as other reports like the local church budget or audit report? The reason the numbers are different is because these forms fulfill a different purpose so the questions must be different.

The second frequent question is which lines does Western PA Conference need from the local church? For example, the Mission Share/Appportionment figures are filled in by the Conference Controller, so they are unnecessary for the local church to fill in and do not appear online in the Table 2 form.

Line 48 & 49 Other benevolences paid directly by local church to agencies are not UM offerings paid to the conference Treasurer and reported above by conference treasurer/controller.

Line 51 direct-billed clergy non-health benefits are all Pension and benefits funds paid directly by the local church to/for and in behalf of all Pastors.

Line 52 direct-billed clergy health benefits are Hospitalization coverage paid by church combining pastor with all associates under appointment.

Lines 53-64 follow the denominational form instructions. The expenses are divided between Program, Operating and Building in a general way. My Rule of Thumb is to include all local church expenses somewhere on the form but include them only once.

Line 65 Grand Total Paid is computed in the spring after the Conference Controller closes the conference books. The local church can then print the entire Table 2 from the website for their files.

If you have questions about filling out the statistical tables, contact me by email or phone listed above. Thank you for your assistance in completing the annual statistical tables found each year in the *Official Journal*.

John R. Wilson
Conference Secretary
Western PA Conference



MEMBERSHIP & PARTICIPATION

Table 1 of the Local Church Report to the Annual Conference
The General Council on Finance and Administration of The United Methodist Church
2009-2012 Quadrennium - Revised 5.26.09

Conference Church No. _____

GCFA Church No _____

Employer Identification No. (Federal Tax ID No.) _____

State _____

Pastor _____

County _____

Church _____

Charge _____

District _____

Reports for the year ending December 31, _____, or for the period _____ to _____

FEDERATED/COMMUNITY CHURCHES: Report only that part of the membership belonging to the United Methodist Church

1. Total professing members reported at the close of last year 1) _____ +
Enter here the figure reported on Line 9 of last year's Local Church Report. Do not use this line to correct the previous year's report. If possible, this line should be provided by the annual conference statistician.

2.a. Received this year on Profession of Christian Faith 2.a) _____ +

2.b. Restored by affirmation 2.b) _____ +

2.c. Correct previous year's reporting errors of total professing membership numbers by addition 2.c) _____ +

3. Transferred in from other United Methodist churches 3) _____ +

4. Transferred in from non-United Methodist churches 4) _____ +

5.a. Removed by Charge Conference action 5.a) _____ -

5.b. Withdrawn from Professing Membership 5.b) _____ -

5.c. Correct previous year's reporting errors of total professing membership numbers by subtraction 5.c) _____ -

6. Transferred out to other United Methodist churches 6) _____ -

7. Transferred out to non-United Methodist churches 7) _____ -

8. Removed by death 8) _____ -

9. Total professing members reported at the close of this year 9) _____ =

Enter here the figure reported from calculating 1+(2.a+2.b+2.c+3+4)-(5.a+5.b+5.c+6+7+8)=9. Affiliate, associate, and baptized members (who have not yet become professing members) should not be counted as professing members.

On the following lines report for each member the racial/ethnic group with which she or he identifies, or to which she or he is regarded in the community as belonging. Each member should be included in only one group. The total number of membership in 9.a to 9.g must equal the total entered in line 9.

9.a. Asian 9.a) _____
Members with origins and/or heritage in any of the indigenous peoples of Asia, Southeast Asia, or the Indian Subcontinent. This area includes but is not limited to Bangladesh, Cambodia, China, India, Indonesia, Japan, Korea, Laos, Malaysia, Myanmar, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, and Vietnam.

9.b. African American/Black 9.b) _____
Members with origins and/or heritage in the Black African racial groups of Africa, the Caribbean, or North, Central, or South America who identify themselves as "African American" or "Black."

9.c. Hispanic/Latino 9.c) _____
Members of Central American, Cuban, Mexican, Puerto Rican, South American, or Spanish culture or heritage, regardless of race.

9.d. Native American 9.d) _____
Members who are Alaskan Native, American Indian, Eskimo, and/or whose heritage is in any of the indigenous peoples of North America, and/or who maintain cultural identification through tribal affiliation or community recognition.

9.e. Pacific Islander 9.e) _____
Members with origins and/or heritage in the Pacific Islands, including Fiji, Guam, Hawaii, Samoa, and Tonga.

9.f. White 9.f) _____
Members with origins and/or heritage in any of the peoples of Europe, the Middle East, North Africa, or the former USSR.

9.g. Multi-Racial 9.g) _____
Members with origins and/or heritage in two or more of the other six categories.

Report the number of male and female professing members. The total of the numbers entered in these two spaces must equal the total in line 9.

9.h. Female 9.h) _____

9.i. Male 9.i) _____

10. Average attendance at all weekly worship services 10) _____

Report average combined attendance at all services held on a weekly basis as the primary opportunity for worship. If the church has worship services attended primarily by persons who do not attend on Sunday morning, attendance at those services should be reported. Count all persons (including children) who participate in part of any of these services.

11. Number of persons baptized this year (all ages) 11) _____

12. Total Baptized Members who have not become Professing Members 12) _____

Report all persons who are baptized members of the church, but have not yet taken the vows of professing membership. DO NOT INCLUDE persons who have been removed from professing membership (by withdrawal or charge conference action), though they remain baptized members.

13. Number of other constituents of the church 13) _____

Report the number of all unbaptized children, church school members, and others who are not members of the church but are in relationship with the congregation and for whom the local church has pastoral responsibility. These persons should be recorded in your church's Constituency Roll.

14. Total enrolled in confirmation preparation classes this year 14) _____

Report the number of persons of all ages who have participated in confirmation preparation classes during the year. If they were confirmed and joined, these persons should also be reported on line 2.a.

15-19. PARTICIPANTS IN CHRISTIAN FORMATION GROUPS AND OTHER SMALL GROUP MINISTRIES

Enter on these lines the total number of persons who have been participating significantly in any and all of the church's Christian formation groups. **Count participants only once, even if they participate in more than one group.** Christian Formation Groups are primarily Sunday morning groups, but may also include other classes and small groups that enhance participants' knowledge and experience of the Bible, spiritual life, and Christian nurture (§256.1a-d). Include groups sponsored by other agencies (Scouts, etc.) only if wholly integrated with the church's education ministry.

15. Number of CHILDREN in all Christian formation groups and other small group ministries..... 15) _____ +

Generally the term children refers to ages 0-11. Include any children in this age range serving as leaders.

16. Number of YOUTH in all Christian formation groups and other small group ministries..... 16) _____ +

Generally the term youth refers to ages 12-18. Include any youth in this age range serving as leaders.

17. Number of YOUNG ADULTS in all Christian formation groups and other small group ministries..... 17) _____ +

Generally the term young adult refers to ages 19-30. Include any young adults in this age range serving as leaders.

18. Number of OTHER ADULTS in all Christian formation groups and other small group ministries..... 18) _____ +

Generally the term other adult refers to ages 31 and older. Include any adults in this age range serving as leaders.

19. TOTAL number of persons participating in Christian formation groups..... 19) _____ =

Report here the total participants in all Sunday church groups and other groups which form individuals as Christian disciples by totaling lines 15-18.

20. Average weekly attendance (all ages) in Sunday Church school..... 20) _____

Report here the TOTAL average weekly attendance figures for sessions of all education classes and groups that meet in Sunday Church School groups.

21. Number of persons (all ages) active in covenant discipleship groups..... 21) _____

Report here the total number of persons in small groups who meet weekly for accountability and support based on a mutually agreed covenant (see the General Rules (§101) or the General Rule of Discipleship (§118.2.a) for examples).

22. Number of participants in Vacation Bible School..... 22) _____

Report here the number of individual students attending the church's Vacation Bible School, or similar activity, including Vacation Bible Schools conducted in cooperation with other churches.

23. Number of ongoing classes (all ages) for learning in Sunday Church School..... 23) _____

Report here the total number of classes for learning held each week in Sunday Church School through all or most of the year.

24. Number of ongoing classes for learning (all ages) other than Sunday Church School..... 24) _____

Report here the total number of classes held each week at times other than Sunday Church School, including small groups that meet in places other than the church building for learning purposes.

25. Number of short-term classes and groups (all ages) for learning..... 25) _____

Report here the total number of classes or groups for learning that meet less than all or most of the year. Include here Disciple Bible Study classes.

26. Membership in United Methodist Men..... 26) _____

Report here the total number of members in the local organization as reported by the president.

27. Amount paid for projects (UMM)..... 27) _____

Report amounts paid for local church and community projects or programs, or for other projects and programs selected by the group.

28. Membership in United Methodist Women..... 28) _____

Report here the total number of members in the local organization as reported by the president.

29. Amount paid for local church and community work (UMW)..... 29) _____

Report amounts paid for local church and community projects or programs, or for other projects and programs selected by the group. DO NOT INCLUDE money sent by UMW to the district or conference treasurer for United Methodist Women's work.

30.a Number of UMM teams sent from this local church..... 30.a) _____

Report ONLY those teams affiliated with United Methodist Volunteers in Mission

30.b Number of persons sent out on UMM teams from this local church..... 30.b) _____

Report ONLY those persons sent out with teams affiliated with United Methodist Volunteers in Mission

31.a Number of other mission teams sent from this local church..... 31.a) _____

Report those teams sent out for mission not affiliated with UMM. These may include teams that build homes, distribute goods and services to meet human need, participate in building projects, evangelize to populations, or are otherwise engaged in work on a short-term basis for specific missional project(s) or purposes. DO NOT INCLUDE any groups reported on 30.a.

31.b Number of persons sent out on other mission teams from this local church..... 31.b) _____

Report those persons sent out with teams for mission not affiliated with UMM. These may include teams that build homes, distribute goods and services to meet human need, participate in building projects, evangelize to populations, or are otherwise engaged in work on a short-term basis for specific missional project(s) or purposes. DO NOT INCLUDE participants of groups reported in 30.b.

32. Number of community ministries for daycare and/or education..... 32) _____

Enter the total number of different ministries sponsored by your church (i.e. child or adult day care, after school tutoring, summer day camp, preschool/nursery school, moms' day out, youth lock-ins, language schools, etc) that provide daycare and/or educational services and are accessed by the community. DO NOT INCLUDE any ministries reported on 34.

33. Number of persons served by community ministries for daycare and/or education..... 33) _____

Enter here the total estimated number of participants (including members and non-members) for those programs counted in line 32 above.

34. Number of community ministries for outreach, justice, and mercy..... 34) _____

Enter the total number of different ministries sponsored by your church (i.e. revivals, community events, food banks, homeless shelters, legal services, community nurse, prison ministry) that are offered to the community as a means of outreach, social justice, and/or mercy. DO NOT INCLUDE any ministries reported on 32.

35. Number of persons served by community ministries for outreach, justice, and mercy..... 35) _____

Enter here the total estimated number of participants (including members and non-members) for those programs reported on line 34 above.



CHURCH ASSETS & EXPENSES

Table 2 of the Local Church Report to the Annual Conference
The General Council on Finance and Administration of The United Methodist Church
2009-2012 Quadrennium - Revised 5.26.09

State _____

County _____

Charge _____

Conference Church No. _____

GCFA Church No. _____

Employer Identification No. (Federal Tax ID No.) _____ - _____

Pastor _____

Church _____

District _____

Reports for the year ending December 31, _____, or for the period _____ to _____

36. Market value of church-owned land, buildings and equipment..... 36) _____

Enter the estimated market value of buildings, parsonages, and equipment plus the value of parsonage-related assets used in the ministry of the church and the support of its pastor(s). If a parsonage is in a charge of more than one church, list parsonage-related assets only on report of church where parsonage is located. If property is held by a multi-church charge in common (rather than by an individual church) a share of the value should be assigned to each church according to its percentage of total professing membership within the charge unless a specific percentage of commonly-held property has been otherwise designated. A residence not used as a parsonage should be listed on Line 37. Congregations are not obligated to initiate property appraisals in order to provide this estimate.

37. Market value of all other church-owned assets 37) _____

Enter the estimated market value of all other real estate and personal property such as cash, stocks, bonds, trusts, securities, investments belonging to the church, including money raised or donated and held for future building programs or any other special purposes, and all property and other investments not included elsewhere.

38. Debt secured by church physical assets 38) _____

Enter the amount of debt currently held by the church that is secured by church property and assets, such as mortgages.

39. Other debt 39) _____

Enter the total of all debt currently held by the church that is not secured by church property assets, such as credit cards, lines of credits, and lease-to-purchase agreements. The sum of lines 38 and 39 should equal the total debt currently held by the church.

PLEASE NOTE: The amounts reported as expenditures on the following lines (40.b + 41.b-64) should equal the total amount of money spent by the local church for the past year.

40.a Total amount APPORTIONED to the local church for all causes paid to the AC Treasurer 40.a) _____

This amount should include the total for all district, annual conference, jurisdictional, and general church funds apportioned to the local church to be remitted to the annual conference treasurer. This number shall be provided by the annual conference treasurer.

40.b Total amount PAID by the local church for all apportioned causes to AC Treasurer 40.b) _____ +

This amount should include the total given by the local church to the annual conference treasurer for all district, annual conference, jurisdictional, and general church apportioned funds. This number shall be provided by the annual conference treasurer.

41.a Total amount APPORTIONED to the local church for all apportioned causes directly paid to the DISTRICT 41.a) _____

This amount should include the total of all funds apportioned directly by the district. DO NOT INCLUDE any amounts apportioned to the local church to be remitted to the annual conference treasurer.

41.b Total amount PAID by the local church for apportioned causes directly paid to the DISTRICT 41.b) _____ +

This amount should include the total given to all causes apportioned by, and paid directly to, the district. DO NOT INCLUDE any amounts given to the annual conference treasurer for conference apportioned causes.

42. Total amount for General Advance Specials remitted to the Annual Conference Treasurer 42) _____ +

Report the amount paid for all General Advance Special Gifts by the local church. This number shall be provided by the annual conference treasurer.

43. Total amount for World Service Specials remitted to the Annual Conference Treasurer 43) _____ +

Report the amount paid for all World Service Special Gifts by the local church. This number shall be provided by the annual conference treasurer.

44. Total amount for Annual Conference Advance Specials remitted to the Annual Conference Treasurer 44) _____ +

Report the amount of gifts to approved Annual Conference Advance specials. This number shall be provided by the annual conference treasurer.

45. Total amount for the Youth Service Fund remitted to the Annual Conference Treasurer 45) _____ +

Report the amount paid for Youth Service Fund by the local church. This number shall be provided by the annual conference treasurer.

46. Total amount of all other funds sent to AC Treasurer for connectional mission and ministry 46) _____ +

Report any other non-apportioned funds sent to the annual conference treasurer for connectional mission and ministry not otherwise reported on lines 40.b and 41b-45 including non-apportioned giving to higher education and health and welfare ministries. This number shall be provided by the annual conference treasurer.

47. Total Annual Conference Special Sunday Offerings remitted to the Annual Conference Treasurer 47) _____ +

Report the total paid for annual conference special day offerings. This number shall be provided by the annual conference treasurer.

48. Total amount given directly to United Methodist causes (not sent to AC Treasurer) 48) _____ +

Report here monies paid directly by the local church to United Methodist-related institutions and causes. DO NOT INCLUDE any amounts sent to the Treasurer in your annual conference. Those monies should be reported on lines 42- 47.

49. Total amount given to non-United Methodist benevolent and charitable causes 49) _____ +

Report here monies paid directly by the local church to local benevolence or community organizations or to non-United Methodist organizations outside the local church.

50. General Special Sunday Offerings remitted to the Annual Conference Treasurer

On the following lines report the total paid for these six special day offerings. These amounts shall be provided by the annual conference treasurer.

50.a Human Relations Sunday	50.a).....	+
50.b One Great Hour of Sharing	50.b).....	+
50.c Peace with Justice Sunday	50.c).....	+
50.d Native American Ministries Sunday	50.d).....	+
50.e World Communion Sunday	50.e).....	+
50.f U.M. Student Day	50.f).....	+

51. Total amount paid by the local church for all direct-billed clergy non-health benefits	51).....	+

This amount should include the total paid by the local church for ministerial benefits, excluding health. DO NOT INCLUDE any monies paid for the benefits of church staff not serving as a pastor, including those appointed by the bishop to specialized ministries. DO NOT INCLUDE any amounts deducted from clergy salaries and paid on their behalf.

52. Total amount paid by the local church for all direct-billed clergy health benefits	52).....	+

This amount should include the total amount paid by the local church for ministerial health benefits. DO NOT INCLUDE any monies paid for the health benefits of church staff not serving as a pastor, including those appointed by the bishop to specialized ministries. DO NOT INCLUDE any amounts deducted from clergy salaries and paid on their behalf.

53. Total amount paid in base compensation to the pastor	53).....	+

Enter here the total amount of compensation paid by local church to the primary (senior) pastor of the church, as well as any tax-deferred amounts (agreement pursuant to IRS Section 403b), and/or any contributions made pursuant to a salary reduction agreement to a "cafeteria plan" (IRS Code Section 125 plan).

54. Total amount paid in base compensation to all associate pastors assigned by the bishop	54).....	+

Enter here the total amount of compensation paid by local church to the associate pastor(s) of the church, as well as any tax-deferred (agreement pursuant to IRS Section 403b), and/or any contributions made pursuant to a salary reduction agreement to a "cafeteria plan" (IRS Code Section 125 plan).

55. Total amount paid to/for pastor and associate(s) for housing and utilities and/or related allowances	55).....	+

Enter here the total amount paid to/for all pastors for housing allowances and other housing and utility-related allowances including those for light, heat, furniture, garage rental, service costs (yard work, cleaning, etc.), and any normal expenditures incurred to maintain the parsonage. DO NOT ENTER payments on parsonage-related debts, purchase of land, building, remodeling, and major equipment expenditures here. Report those expenses on lines 63 and 64.

56. Total amount paid to pastor and associate(s) for accountable reimbursements	56).....	+

Enter here the total amount paid to all pastors for accountable reimbursements. This includes any reimbursements of expenses incurred by the pastor(s) based upon a written policy and/or agreement of the church and pastor(s) in which expenses are substantiated through receipts or other documentation and must be presented prior to payment by the church. These include expenses for travel, continuing education, books, publications and other expenses related to supporting the ministry and development of the pastor. DO NOT ENTER reimbursements of expenditures made by the pastor for local church programs and operating expenses here. They should be reported on lines 61 and 62 below.

57. Total amount paid to pastor and associate(s) for any other cash allowances (non accountable)	57).....	+

Enter here the total amount paid to all pastors for other cash allowances based upon an agreement of the church and pastor(s). These include allowances for health or other insurance premiums other than those billed or apportioned by the annual conference (reported on lines 40b, 51, and 52), travel, continuing education, books, publications, membership dues, and other allowances related to supporting the ministry and development of the pastor. DO NOT ENTER allowances for expenditures made by the pastor for local church programs and operations here. They should be reported on lines 61 and 62 below.

58. Total amount paid in salary and benefits for Deacons	58).....	+

Report the amounts paid by the local church as compensation and expenses for ordained deacons it employs in specialized ministries. The report total should include base salary, benefits, reimbursements for expenses such as travel, and allowances such as those for utilities and housing. DO NOT INCLUDE non-cash benefits or amounts reported on lines 51-57.

59. Total amount paid in salary and benefits for Diaconal Ministers	59).....	+

Report the amounts paid by the local church as compensation and expenses for consecrated diaconal ministers it employs. The report total should include base salary, benefits, reimbursements for expenses such as travel, and allowances such as those for utilities and housing. DO NOT INCLUDE non-cash benefits or any amounts reported on lines 51-57.

60. Total amount paid in salary and benefits for all other church staff	60).....	+

Report the amounts paid by the local church as salaries, housing, benefits, expense reimbursements, and allowances for any lay employees who are not diaconal ministers. DO NOT INCLUDE amounts reported on lines 51-57.

61. Total amount spent for local church program expenses	61).....	+

Report the total of all amounts spent on local church program under the direction of the local Church Council, Council on Ministries, or equivalent body for the purposes of education, witness, outreach, mercy, communication, and other ministries. DO NOT INCLUDE amounts given to support local or national non-United Methodist groups and agencies in their programs. Those amounts should be reported on line 49.

62. Total amount spent for other local church operating expenses	62).....	+

Enter the total of current operating expenses, such as office expense, expenses for property maintenance and insurance, utilities for the church, etc. DO NOT INCLUDE any expenditures already reported on lines 40b or 41b-61.

63. Total amount paid for principal and interest on indebtedness, loans, mortgages, etc.	63).....	+

Report here all payments on all loans, mortgages, etc. DO NOT INCLUDE principal and interest on money borrowed and repaid within the current fiscal year. This should be reported on lines corresponding to the purpose for which the money was borrowed.

64. Total amount paid on capital expenditures for building, improvements, and major equipment purchases	64).....	+

Enter here only amounts paid from contributions, not from loans. Enter any outstanding indebtedness on Lines 38 or 39. Amounts contributed but not paid out (retained for use in future years) should be included on Line 37. Report the cost of new property and buildings, major purchases of new equipment or furnishings (organs or other musical instruments, heating and cooling equipment, kitchen equipment, audio-visual equipment, furnishings) and major renovation. Also include short-term rent.

65. TOTAL AMOUNT PAID BY THE LOCAL CHURCH ON ALL EXPENDITURES (SUM OF LINES 40b + 41b-64)	65).....	=



CHURCH INCOME

Table 3 of the Local Church Report to the Annual Conference
The General Council on Finance and Administration of The United Methodist Church
2009-2012 Quadrennium - Revised 5.26.09

Conference Church No. _____

GCFA Church No _____

Employer Identification No. (Federal Tax ID No.) _____

State _____

Pastor _____

County _____

Church _____

Charge _____

District _____

Reports for the year ending December 31, _____, or for the period _____ to _____

66. Number of households giving to the local church 66) _____

Report here the number of households recorded by name as contributors for the year in support of the annual budget/spending plan and benevolence giving. In cases where individual persons in a household are recorded as giving separately, count each person separately.

Received for annual budget/spending plan

In this section report income for funds used exclusively in support of the annual budget/spending plan. DO NOT INCLUDE funds used for capital improvements or acquisitions (report these on lines 68.a-d) unless they are provided for within the annual budget/spending plan of the local church. DO NOT INCLUDE funds received from connectional or institutional sources and grants outside of the local church (report these on lines 69.a-c). DO NOT INCLUDE income designated for specific benevolent/charitable causes (report these on line 68.d)

67.a. Amount received through pledges 67.a) _____ +

Enter here receipts of funds received toward the payment of pledges, estimates of giving, or other commitments establishing a level of giving toward annual budget/spending plan of the church (for example, a member's payments toward an annual pledge). If your church does not conduct financial stewardship campaigns using pledges, please skip this line.

67.b. Amount received from non-pledging, but identified givers 67.b) _____ +

Enter here this year's receipts from identifiable individuals who have not pledged or provided an estimate of giving in support of the annual budget/spending plan (for example, personal check from a member who did not submit a pledge card in response to the church's stewardship campaign).

67.c. Amount received from unidentified givers 67.c) _____ +

Enter here receipts from unidentifiable individuals used in support of the annual budget/spending plan (for example, loose currency or coins placed in the offering plate).

67.d. Amount received from Interest and Dividends 67.d) _____ +

Enter here funds allocated toward the annual budget/spending plan earned through interest on deposits or dividends from stocks (for example, interest on reserve funds invested in money market accounts used to support the annual church budget).

67.e. Amount received from Sale of Church Assets 67.e) _____ +

Enter here funds allocated toward the annual budget/spending plan from the sale of church-owned assets (for example, the sale of discarded church furniture).

67.f. Amount received through building use fees, contributions, and rentals 67.f) _____ +

Enter here funds allocated toward the annual budget/spending plan from building use fees and related contributions and rentals (for example, fees collected from weddings for building use).

67.g. Amount received through fundraisers and other sources 67.g) _____ +

Enter here funds received in support of the annual budget/spending plan from special fundraisers and any other sources (for example, net receipts from a pancake breakfast used to support the annual budget).

67. Total income for annual budget/spending plan 67) _____ =

Enter here the total sum of 67.a through 67.g

Received for capital campaigns and other designated special projects

In the lines below report income for those funds that are designated exclusively for capital campaigns and other special projects. DO NOT INCLUDE funds reported on lines 67.a-67.g above.

68.a. Capital campaigns 68.a) _____ +

Enter here receipts from capital campaigns and this year's interest from previous campaign balances (for example, receipts from a building renovation capital campaign).

68.b. Memorials, endowments, and bequests 68.b) _____ +

Enter here receipts from memorials, endowments, and bequests. Include this year's interest or dividends from investments or deposits. Include rents received from physical properties. Include funds from liquidation of assets, but do not include income from interest of dividends re-invested in existing memorials, endowments, and bequests (for example, interest from endowment funds retained in endowment accounts).

68.c. Other sources and projects 68.c) _____ +

Enter here receipts from other sources in support of capital campaigns and special projects (for example, sale of church-owned land held as deposits for future use).

68.d. Amount received for Special Sundays, General Advance Specials, World Service Specials, Conference Advance Specials and other forms of directed benevolent (charitable) giving 68.d) _____ +

Enter here receipts for benevolent causes including Special Sunday offerings, General Advance and World Service special gifts, Conference Advance Specials and other forms of designated donations given by individuals and forwarded by the local church.

68. Total income for designated causes including capital campaign and other special projects 68) _____ =

Enter here the total sum of 68.a through 68.d.

Received from District(s), Annual Conference(s), Jurisdictional Conference(s), General Church and/or other institutional sources outside the local church.

These funds can be used towards operating and benevolence budgets not reported on lines 67.a to 67.g.

69.a. Equitable Compensation Funds received by Church or Pastor 69.a) _____ +

Enter here equitable compensation funds received by church or pastor.

69.b. Advance Special, apportioned, and connectional funds received by church 69.b) _____ +

Enter here advance special funds or apportioned funds received by church (for example, pastor salary support from annual conference funds beyond equitable compensation funds).

69.c. Other grants and financial support from institutional sources 69.c) _____ +

Enter here funds received from other sources (for example, grants received from a foundation in support of the church food bank).

69. Total income from connectional and other institutional sources outside the local church. 69) _____ =

Enter here the total sum of 69.a through 69.c.

MEDIA RESOURCES

CHURCH COPYRIGHT LICENSE

Overview

The Need

The copyright law is very clear on copying music. If you do not have express permission from the rightful owner of the song, you cannot make a copy. Many church music leaders who have made efforts to honor the law and have tried to obtain permission first from the copyright owner before making copies have found this to be a time-consuming challenge and in many cases, an administrative nightmare.

Many have agreed...the copyright law is fair but not practical. That's why more than 145,000 churches across North America are taking advantage of the Church Copyright License from CCLI.

The Solution

The Church Copyright License is a contractual agreement with songwriters and publishers from around the world. For an annual license fee, a church receives legal authorization to copy from over 150,000 songs for congregational use. Here is a simplified version of the Church Copyright License:

What You Can Do

- Print songs, hymns and lyrics in bulletins, programs, liturgies and songsheets for use in congregational singing.

- Create your own customized songbooks or hymnals for use in congregational singing.

- Create overhead transparencies, slides or use any other format whereby song lyrics are visually projected (such as computer graphics and projection) for use in congregational singing.

- Arrange, print and copy your own arrangements (vocal and instrumental) of songs used for congregational singing, where no published version is available.

- Record your worship services (audio or video) provided you only record live music. Accompaniment tracks cannot be reproduced. You may charge up to \$4 each for audiocassette tapes and CDs, and \$12 each for videotapes and DVDs.

What You Cannot Do

- Photocopy or duplicate octavos, cantatas, musicals, handbell music, keyboard arrangements, vocal scores, orchestrations or other instrumental works.

- Translate songs into another language. This can only be done with the approval of the respective publisher.

- Rent, sell or lend copies made under the license to groups outside the church or to other churches. (It is OK to distribute recordings to shut-ins, missionaries or others outside the church.)

- Assign or transfer the license to another church or group without CCLI's approval.

Over

CHURCH COPYRIGHT LICENSE

Costs

What It Costs

The annual fee varies for the Church Copyright License, depending on your church size, as shown in the grid below. Church size is based on your regular attendance for your main service(s). If you have multiple services, use your combined attendance.

The Church Copyright License Annual Fee - U.S.

Category	Church Size	Annual Fee
AH	1-24	\$49
A	25-99	\$101
B	100-199	\$170
C	200-499	\$223
D	500-999	\$312
E	1,000-1,499	\$382
F	1,500-2,999	\$460
G	3,000-4,999	\$519

The Church Copyright License is an annual license. All terms are in effect only while the license is active. If the license is not renewed, all rights are terminated effective on the expiration date.

The quantity of copies allowed should not exceed the number of your "Church Size" category, with the exception that the quantity of recordings duplicated per service should not exceed 15% of the "Church Size" category.

For more information, contact CCLI at 1-800-234-2446 or www.ccli.com.

CHRISTIAN VIDEO LICENSING INTERNATIONAL

Overview

It's becoming more common. Pastors use portions of movies to enhance sermon points. Sunday school teachers and childcare workers play a full-length feature. Youth leaders show the latest videos. Educators use movies to train and inspire. For all these activities, the Church Video License provides legal coverage for your church.

Most of us fast-forward right through that FBI warning at the beginning of videos and DVDs. Ever wonder what it actually says? The Federal Copyright Act of 1976 stipulates that pre-recorded videos are authorized for personal home use only. Special permission must be granted for any public performance...and that includes churches. Violations can result in substantial fines, up to \$30,000 per infringement.

CCLI has joined with Motion Picture Licensing Corporation (MPLC) to form Christian Video Licensing International (CVLI), providing the Church Video License for churches and other ministry organizations who show videos and DVDs in a public setting. The Family Values Producer Package covers videos and movies focused on religious and family-based themes. The Total Producer Package also covers many big-name studios like Universal Pictures, Warner Brothers, Walt Disney Pictures, Touchstone, Paramount, and Fox.

Permission required

Pre-recorded home videocassettes or videodiscs (commonly available in retail or rental stores) are intended for personal, home use only. They generally do not carry licenses for public showings.

Viewing outside the home requires a license granting specific authorization. This is the case for each organization that uses videos—*even for nonprofit groups, even if admission is not being charged, and even though the video has been purchased.*

The Copyright Act of 1976 gives copyright owners almost total control of the use of their copyrighted works, including the right to perform films and videocassettes. By law, pre-recorded videocassettes and videodiscs are for home use only, unless you have permission to show them in public. Without permission, *you may be in violation of the Copyright Act and subject to substantial penalties.*

Permission granted

Churches and other ministry organizations can show videos and be in accordance with the U.S. Copyright Act by using one of the following methods:

1. Showing videos which have "Public Performance Rights,"
2. Receiving written permission prior to using the video, or
3. Obtaining coverage with the Church Video License

Over

CHRISTIAN VIDEO LICENSING INTERNATIONAL

Through an agreement with several producers, the CVLI Church Video License provides legal coverage for churches and for other ministry organizations to show home videocassettes and videodiscs of motion pictures. (Each organization needs to be specifically covered.) Coverage includes playing just a few seconds of a video all the way up to showing a full-length feature.

The Church Video License is one of the most cost effective and convenient ways for churches and other ministry organizations to protect themselves from the possibility of being fined for illegal use of videocassettes and videotapes.

What you can do

With this license:

1. Pastors can use selected movies to illustrate sermon points.
2. Sunday schools and Youth Groups can view the latest videos.
3. Educational classes can use videos for teaching and training.

Other ministry organizations (schools, childcare, conferences, camps) can also be licensed to include videos in their programs.

What you can't do

This license does not cover materials that have been copied from another source or recorded from television. It also does not cover charging an admission fee for video showings or where specific titles have been advertised or publicized.

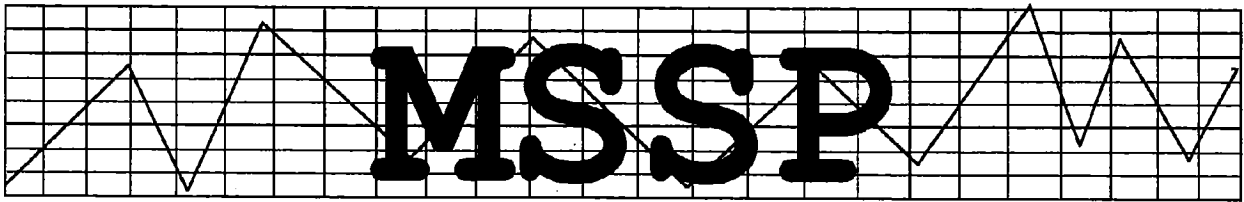
Below you'll find our license fees for churches. Just call our toll-free number and let us know your church size along with the producer package you want. We can license you immediately—right over the phone. Once we verify your information, we'll provide a license number and your coverage will begin.

You'll find a detailed listing of producers for the Family Values Producer Package and the Total Producer Package by viewing the Producer List.

Category	Church Size	Family Values Producer Pkg	Total Producer Pkg
A & AH	1-99	\$50.00	\$180.00
B	100-199	\$90.00	\$180.00
C	200-499	Not Available	\$180.00
D	500-999	Not Available	\$250.00
E	1,000-1,499	Not Available	\$350.00
F	1,500-2,999	Not Available	\$475.00
G & up	3,000 & up	Not Available	\$600.00

For more information, contact CVLI at 1-888-771-2854 or www.cvli.org.

MINISTERS
TAX RETURN



Market Segment Specialization Program



Ministers

The taxpayer names and addresses shown in this publication are hypothetical. They were chosen at random from a list of names of American colleges and universities as shown in *Webster's Dictionary* or from a list of names of counties in the United States as listed in the *United States Government Printing Office Style Manual*.

This material was designed specifically for training purposes only. Under no circumstances should the contents be used or cited as authority for setting or sustaining a technical position.



Department of the Treasury
Internal Revenue Service

Training 3149-101 (4/95)
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MINISTERS

OVERVIEW

Several potential examination issues are prevalent on ministers' tax returns:

1. The first issue that must be determined is whether the minister is an employee or an independent contractor. This is primarily a factual question. *Professional & Executive Leasing, Inc. v. Commissioner*, 862 F.2d 751, 753 (9th Cir. 1988; *James v. Commissioner*, 25 T.C. 1296, 1300 (1956); *Hand v. Commissioner*, 16 T.C. 1410 (1951).

The distinction between an employee and an independent contractor in this context must be made on common law grounds. *United States v. Webb, Inc.*, 397 U.S. 179, 183 (1970). See also IRC section 3121(d)(2); Treas. Reg. sections 31.3121(d)-1(c) and 31.3401(c)-1. In determining whether a worker is an employee, "employer control over the manner in which the work is performed, 'either actual or the right to it, is the basic test.'" *General Investment Corp. v. United States*, 823 F.2d 337, 341 (9th Cir. 1987, (quoting *Air Terminal Cab, Inc. v. United States*, 478 F.2d 575, 579 (8th Cir.), cert. denied, 414 U.S. 909 (1973))). Actual control need not be exercised by the employer, provided the employer has the right to control the employee when it is appropriate and necessary.

The control test must be applied only after taking into account the nature of the work to be performed. When the worker is a professional, such as a minister, the extent of control necessary for the professional to qualify as an employee is less than that necessary for a nonprofessional worker performing routine and mechanical duties. See *James v. Commissioner*, 25 T.C. 1296 (1956). The absence of the need to control the manner in which the minister conducts his or her duties should not be confused with the absence of the right to control. The right to control contemplated by the common law as an incident of employment requires only such supervision as the nature of the work requires. *McGuire v. United States*, 349 F.2d 644, 646 (9th Cir. 1965).

2. Although they are generally considered employees under the common law rules, payment for services as a minister is considered income from self employment and is not subject to FICA taxes or income tax withholding (if the employer and employee agree, an election can be made to have income taxes withheld). "Even though a minister may receive a Form 1099-MISC for the performance of services, he or she may be a common law employee and should in fact be receiving a Form W-2. In those very limited cases in which a minister is an independent contractor, such as in the case of a traveling evangelist, the issuance of a Form 1099-MISC is appropriate."
3. A minister may elect exemption from self-employment tax under these circumstances:
 - a. As a member of a religious order who has taken a vow of poverty, or
 - b. By seeking exemption based on an opposition to receiving social security benefits due to religious principles. This is discussed in detail later.
4. A minister is frequently provided a parsonage or is paid a housing allowance, which is exempt from income tax under section 107 of the Code. However, the fair rental value of the housing or parsonage is included in the computation of self-employment tax. There are four provisions in the Internal Revenue Code that are unique to ministers. These provisions include: (1) the IRC section 107 exclusion (for income tax purposes only) for housing allowances or the fair rental value of church-owned parsonages provided to the minister rent-free; (2) the exemption of some ministers from social security coverage; (3) treatment of ministers (who are not exempt) as self-employed for social security tax purposes with respect to ministerial services; and (4) exemption of ministerial wages from income tax withholding (unless elected by the minister).

WHO QUALIFIES FOR SPECIAL TAX TREATMENT AS A MINISTER

1. To qualify for the special tax provisions available to ministers, an individual must be a "minister" and must perform services "in the exercise of his ministry." Treas. Reg. section 1.107-1(a) incorporates the rules of Treas. Reg. section

1.1402(c)-5 in determining whether the individual is performing the duties of a minister of the gospel.

2. Treas. Reg. 1.1402(c)-5 requires that an individual be a "duly ordained, commissioned, or licensed minister of a church." In *Salkov v. Commissioner*, 46 T.C. 190 (1966), the Tax Court, in holding that a Jewish cantor was a minister eligible for the IRC section 107 housing allowance, interpreted that phrase to be disjunctive. It stated that the purpose of the requirement was to exclude self-appointed ministers, not to limit the benefits only to the ordained. Accordingly, it concluded that the petitioner qualified because he was commissioned by, and was a duly qualified member of the Cantors Assembly of America, which functions as the official cantorial body for the Conservative branch of the Jewish religion in America, and because he was selected by a representative Conservative congregation to perform the functions of cantor.
3. Treas. Reg. section 1.1402(c)-5(b)(2) provides that service performed by a minister in the exercise of the ministry includes:
 - a. Ministration of sacerdotal functions;
 - b. Conduct of religious worship;
 - c. Control, conduct, and maintenance of religious organizations (including the religious boards, societies, and other integral agencies of such organizations), under the authority of a religious body constituting a church or denomination.
4. Treas. Reg. section 1.1402(c)-5(b)(2) also provides that whether service performed by a minister constitutes conduct of religious worship or ministration of sacerdotal functions depends on the tenets and practices of the particular religious body constituting the church or denomination.
5. Treas. Reg. section 1.107-1(a) also provides examples of specific services considered duties of a minister, including:
 - a. Performance of sacerdotal functions;
 - b. Conduct of religious worship;

- c. Administration and maintenance of religious organizations and their integral agencies;
 - d. Performance of teaching and administrative duties at theological seminaries.
6. The duties performed by the individual are also important to the initial determination whether he or she is a duly ordained, commissioned, or licensed minister. Because religious disciplines vary in their formal procedures for these designations, whether an individual is "duly ordained, commissioned, or licensed" depends on these facts and circumstances.
- a. In *Salkov v. Commissioner, supra*, and *Silverman v. Commissioner*, 57 T.C. 727 (1972), the Tax Court, in holding that a cantor of the Jewish faith was a duly ordained, commissioned, or licensed minister, looked, in each case, to the systematic manner the cantor was called to his ministry and the ecclesiastical functions he carried out in concluding that he was a minister within the meaning of IRS Section 107.
 - b. In Rev. Rul. 78-301, 1978-2 C.B. 103, the IRS followed the Tax Court decisions in *Salkov* and *Silverman* and held that a Jewish cantor who is not ordained but has a bona fide commission and is employed by a congregation on a full-time basis to perform substantially all the religious worship, sacerdotal, training, and educational functions of the Jewish denomination's religious tenets and practices is a minister of the gospel within the meaning of IRS section 107. Rev. Rul. 78-301 revoked and modified prior Revenue Rulings to the extent that they required that an individual must be invested with the status and authority of an ordained minister fully qualified to exercise all of the ecclesiastical duties of a church denomination to be considered ministers under IRC sections 107 and 1402.
 - c. In *Knight v. Commissioner* 92 T.C. 199 (1989), the Tax Court considered whether a licentiate of the Cumberland Presbyterian Church (a status that was less than full ordination), who had not filed a timely exemption from self-employment tax, was a duly ordained, commissioned, or licensed minister in the exercise of required duties who was thus liable for self-employment tax. The

petitioner argued that he was not formally ordained as a minister and could not administer church sacraments or participate in church government. Thus, he could not be a minister subject to IRC section 1402(c). The court rejected this view, and looked at all the facts. In concluding that he was a licensed minister, it cited the facts that he was licensed by the church, he conducted worship services, and he was considered by the church to be a spiritual leader.

- d. In contrast, the Tax Court held in *Lawrence v. Commissioner*, 50 T.C. 494 (1968), that a "minister of education" in a Baptist church was not a "duly ordained, commissioned, or licensed" minister for purposes of IRS section 107. The petitioner held a Master's Degree in Religious Education from a Baptist Theological Seminary, but was not ordained. Although his church "commissioned" him after he assumed the position, the court interpreted the commissioning to be for tax purposes, as it did not result in any change in duties. Most significant, however, was the court's analysis of petitioner's duties or rather, the duties he did not perform. He did not officiate at Baptisms or the Lord's Supper, two Ordinances that closely resembled sacraments, nor did he preside over or preach at worship services. The court concluded that the evidence did not establish that the prescribed duties of a minister of education were equivalent to the duties of a Baptist minister.

INCOME TO BE REPORTED

A minister usually receives compensation from the employing church or church agency for personal services but may also receive bonuses or "special gifts." In addition, the minister may receive fees paid directly from parishioners for performing weddings, funerals, baptisms, and masses. All are includible in gross income, along with expense allowances for travel, transportation, or other business expenses received under a non-accountable plan. If the church or church agency pays amounts in addition to salary to cover the

minister's self-employment tax or income tax, these are also includible in gross income.¹

Fees for weddings, funerals, etc., which are given directly to the church rather than to the minister are not considered compensation to the minister. Contributions made to or for the support of individual missionaries to further the objectives of their missions are includible in gross income.²

A minister's compensation package often includes a parsonage allowance, that is, the use of church owned housing, a housing allowance, or a rental allowance. This is treated differently for income tax and self-employment tax purposes, and is discussed in detail in the next section.

THE PARSONAGE ALLOWANCE

IRC section 107 provides an exclusion from gross income for a "parsonage allowance," housing specifically provided to a minister of the gospel. This includes the rental value of a home furnished to him or her as part of compensation or a rental allowance, to the extent that the payment is used to rent or provide a home. The term "parsonage allowance" includes church provided parsonages, rental allowance with which the minister may rent a home and housing allowances with which the minister may purchase a home. A minister can receive a parsonage allowance for only one home.

The value of the parsonage allowance is not included in computing the minister's income subject to income tax and should not be included in W-2 wages. However, the parsonage allowance is subject to self-employment tax along with other earnings. If a church-owned parsonage is provided to the minister, instead of an allowance, the fair rental value of the housing must be determined. Determining the fair rental value is a question of all facts and circumstances based on the local market, but the church and minister have often already agreed on a figure and can provide documentary evidence.

The exclusion under IRC section 107 only applies if the employing church designates the amount of the parsonage

¹ Revenue Ruling 68-507.

² Revenue Ruling 68-67.

allowance in advance of the tax year.³ The designation may appear in the minister's employment contract, the church minutes, the church budget, or any other document indicating official action.

An additional requirement for purposes of IRC section 107 is that the fair rental value of the parsonage or parsonage allowance must be reasonable in amount.

The amount of the parsonage allowance excludible from gross income is the LEAST of:

1. The amount actually used to provide a home,
2. The amount officially designated as a housing allowance, or
3. The fair rental value (FRV) of the home, including furnishings, utilities, garage, etc.^{4 5}

The following examples illustrate the application of these rules. For simplification, assume that mortgage payments include property taxes and insurance.

Example 1

A is an ordained minister. She receives an annual salary of \$36,000 and use of a parsonage which has a FRV of \$800 a month, including utilities. She has an accountable plan for other business expenses such as travel. A's gross income for arriving at taxable income for Federal income tax purposes is \$36,000, but for self-employment tax purposes it is \$45,600 (\$36,000 salary + \$9,600 FRV of parsonage).

Example 2

B, an ordained minister, is vice president of academic affairs at Holy Bible Seminary. His compensation package includes a salary of \$80,000 per year and a \$30,000 housing allowance. His housing costs for the year

³ Treas. Reg. section 1.107-1(b).

⁴ Treas. Reg. 1.107-1(c).

⁵ Revenue Ruling 71-280.

included mortgage payments of \$15,000, utilities of \$3,000, and \$3,600 for home maintenance and new furniture. The fair rental value of the home, as furnished, is \$18,000 per year.

The three amounts for comparison are:

- a. Actual expenses of \$21,600 (\$15,000 mortgage payments + \$3,000 utilities + \$3,600 other costs)
- b. Designated housing allowance of \$30,000
- c. FRV plus utilities of \$21,000 (\$18,000 + \$3,000 utilities)

B may exclude \$21,000 from gross income but must include in income the other \$9,000 of the housing allowance. The entire \$30,000 will be considered in arriving at net self-employment income.

Example 3

C is an ordained minister and has been in his church's employ for the last 20 years. His salary is \$40,000 and his designated parsonage allowance is \$15,000. C's mortgage was paid off last year. During the tax year he spent \$2,000 on utilities, and \$3,000 on real estate taxes and insurance. The FRV of his home, as furnished, is \$750 a month.

The three amounts for comparison are:

- a. Actual housing costs of \$5,000 (\$2,000 utilities + \$3,000 taxes and insurance)
- b. Designated housing allowance of \$15,000
- c. FRV + utilities of \$11,000 (\$9,000 FRV + \$2,000 utilities)

C may only exclude his actual expenses of \$5,000 for Federal income tax purposes. He may not exclude the FRV of his home even though he has paid for it in previous

years.⁶ \$1,500 will be included in the computation of net self-employment income.

Example 4

Assume the same facts as in Example 3, except that C takes out a home equity loan and uses the proceeds to pay for his daughter's college tuition. The payments are \$300 per month. Even though he has a loan secured by his home, the money was not used to "provide a home" and can't be used to compute the excludible portion of the parsonage allowance. The results are the same as for Example 3.

Example 5

D is an ordained minister and received \$40,000 in salary plus a designated housing allowance of \$12,000. He spent \$12,000 on mortgage payments, \$2,400 on utilities, and \$2,000 on new furniture. The FRV of his home as furnished is \$16,000. D's exclusion is limited to \$12,000 even though his actual cost (\$16,400) and FRV and utilities (\$18,400) are more. He may not deduct his housing costs in excess of the designated allowance.

Example 6

E's designated housing allowance is \$20,000. She and her husband live in one half of a duplex which they own. The other half is rented. Mortgage payments for the duplex are \$1,500 per month. E's utilities run \$1,800 per year, and her tenant pays his own from a separate meter. During the year E replaced carpeting throughout the structure at a cost of \$6,500 and did minor repairs of \$500. E must allocate her mortgage costs, carpeting, and repairs between her own unit and the rental unit in determining the amount of the excludible parsonage allowance. Amounts allocable to the rented portion for mortgage interest, taxes, etc., would be reported on

⁶ *Swaggart v. Commissioner*, T. C. Memo. 1984-409.

Schedule E as usual. Her actual costs to provide a home were \$14,300 (\$9,000 mortgage payments, \$1,800 utilities, and \$3,500 for half the carpeting and repairs). The FRV for her unit is the same as the rent she charges for the other half, which is \$750 a month, and she estimates that her furnishings add another \$150 per month to the FRV. Her FRV plus utilities is \$12,600 (\$10,800 FRV + \$1,800 utilities). E may exclude \$12,600 for Federal income tax purposes.

Even though a minister's home mortgage interest and real estate taxes have been paid with money excluded from income as a housing allowance, he or she may still claim itemized deductions for these items.⁷ The sale of the residence is treated the same as that of other taxpayers, even though it may have been completely purchased with funds excluded under IRC section 107.

A retired minister may receive part of his or her pension benefits as a designated parsonage allowance based on past services. If so, the "least of" rules apply.⁸

Trustees of a minister's retirement plan may designate a portion of each pension distribution as a parsonage allowance excludable under IRC section 107. The minister may claim that the amount is both excludable from income as a parsonage allowance under IRC section 107 and excludable from self-employment income for Self-Employment Contribution Act (SECA) purposes.

Under IRC section 1402(a)(8), a minister is required to include amounts designated as a parsonage allowance per IRC section 107 in calculating his or her earnings from self-employment for SECA purposes. Any amount so designated is not taxed under IRC section 402 as a distribution from a qualified plan. Because amounts received by a retired minister as a parsonage allowance relate to the performance of prior services as a minister, they are includible in net earnings from self employment and are subject to self-employment tax.

Because expenses attributable to earning income which is exempt from tax are not ordinarily deductible, a minister's business expenses related to his or her earnings must be allocated and become partially

⁷ Revenue ruling 87-32.

⁸ Revenue ruling 75-22.

nondeductible.⁹ This is discussed in detail in the next section.

Exhibit 1 provides a worksheet for the computation of the amount that is excludible as a parsonage allowance.

BUSINESS EXPENSES

Employee business expenses: Ministers who are employees may deduct the following expenses on Schedule A as miscellaneous expenses subject to the 2 percent floor: (1) unreimbursed employee business expenses (that is, expenses for which the minister is not reimbursed under an IRS section 62(c) accountable plan) and (2) "nonaccountable" reimbursed business expenses.

The limitations on deductibility of employee business expenses may be avoided if the church adopts an "accountable plan." An accountable plan is an arrangement that meets all the requirements of Treas. Reg. section 1.62, that is, business connection (deductibility under IRC section 162), substantiation within a reasonable period of time, and return of amounts in excess of substantiated expenses within a reasonable period of time. The regulations provide two safe harbor methods under the reasonable period of time requirement.

If an arrangement meets all the requirements for an accountable plan, the amounts paid under the arrangement are excluded from the minister's gross income and are not required to be reported on his or her Form W-2. If, however, the arrangement does not meet one or more of the requirements, all payments under the arrangement are included in the minister's gross income and are reported as wages on the Form W-2, even though no withholding at the source is required.

If the church has a salary reduction arrangement which "reimburses" the minister for employee business expenses by reducing his or her salary, the arrangement will be treated as a nonaccountable plan because it does not meet the reimbursement requirement of Treas. Reg. section 1.62-2(d). See Treas. Reg. section 1.62-2(j), Ex. 2. This is the result regardless of whether a specific portion of the minister's compensation is designated for employee expenses or whether the portion of the compensation to be treated as the expense allowance varies from pay

⁹ IRC section 265.

period to pay period depending on the minister's expenses. As long as the minister is entitled to receive the full amount of annual compensation, regardless of whether or not any employee business expenses are incurred during the taxable year, the arrangement does not meet the reimbursement requirement.

A minister may deduct ordinary and necessary business expenses. However, if a minister's compensation includes a parsonage allowance which is exempt from income under IRC section 107, that portion of the expenses allowable to this tax-exempt income is not deductible, per IRC section 265.^{10 11 12}

Before this allocation is made, the total amount of business expenses must be determined. Ministers are subject to the same substantiation requirements as other taxpayers.

Typical business expenses for ministers include the following:

Transportation. Many ministers receive a nonaccountable auto allowance, which is includible in income. Transportation costs which may be deductible include trips for hospital and nursing home visits, attendance at conferences, or other church business. However, trips to and from church are considered nondeductible commuting expenses.¹³

Travel. A minister may incur travel away from home occasionally for special conferences or other duties out of the area. The same rules regarding the deductibility of meals, entertainment, and lodging apply as for other taxpayers.

Business Use of Home. In order for a home to qualify as a principal place of business under IRC section 280A(c)(1)(A), the functions performed and the time spent at each location where the trade or business is conducted are the primary considerations and must be compared to determine the relative importance of each. *Sohman v. Commissioner*, 113 S. Ct. 701 (1993). The

¹⁰ *Deason v. Commissioner*, 42 T.C. 465.

¹¹ *Dalan v. Commissioner*, T.C. Memo. 1988-106.

¹² *McFarland v. Commissioner*, T.C. Memo. 1992-440.

¹³ *Hamblen v. Commissioner*, 78 T.C. 53.

church often provides an office on the premises for the minister, so the necessity of an office in the home should be questioned closely. Furthermore, since the total cost to provide the home is used in computing the exempt housing allowance, home office deductions for taxes, insurance, mortgage interest, etc. would be duplications. (Note that itemized deductions are allowable for mortgage interest and taxes. ¹⁴)

Supplies, Publications. Ministers may incur some out-of-pocket costs for office supplies and job-related books and periodicals for which they are not reimbursed. This may be more common in small churches. Increasingly, ministers are using computers for writing sermons, correspondence, and record-keeping. Personal use should be determined.

Dues versus Contributions. Ministers often pay a small annual renewal fee to maintain their credentials, which constitutes a deductible expense. However, ministers' contributions to the church are not deductible as business expenses. They may argue that they are expected to donate generously to the church as part of their employment. This is not sufficient to convert charitable contributions to business expenses. The distinction is that charitable contributions are given to a qualifying organization (such as a church) for the furtherance of its charitable activities. Dues, on the other hand, are usually paid with the expectation that a financial benefit will result to the individual, as in a realtor's multilist dues or an electrician's union dues. A minister's salary and benefits are not likely to directly depend on the donations made to the church. They may still be deducted as contributions on Schedule A but may not be used as a business expense to reduce self-employment tax.

Other Expenses. A minister may incur expenses for special vestments that would qualify as "uniforms." Their reasonable cost and care would be deductible. Ordinary street clothes or suits for church are not deductible. Unreimbursed long distance phone calls made for business purposes are deductible.

Once total business expenses have been determined, the nondeductible portion can be computed using the following formula. Exhibit 2 provides a computation worksheet.

¹⁴ Revenue Ruling 87-32.

Formula:

1.
$$\frac{\text{Exempt housing allowance or FRV of parsonage}}{\text{Total ministry income}^*} = \text{Nontaxable Income \%}$$

* Includes salary, fees, expense allowances under nonaccountable plans, plus the housing allowance or parsonage FRV.
2.
$$\text{Total business expenses} \times \text{nontaxable income \%} = \text{Expenses to be allocated to nontaxable income}$$

= Nondeductible expenses

These examples illustrate the computation:

Example 7

F receives a salary of \$36,000, an exempt housing allowance of \$18,000 and an auto expense allowance of \$6,000 for his services as an ordained minister. F incurs business expenses as follows: auto, \$7,150; vestments, \$350; dues, \$120; publications and supplies, \$300; totalling \$7,920. His nondeductible expenses are computed as follows:

\$18,000 housing allowance		
-----		= 30%
Nontaxable Income		
\$60,000 total ministry income		
(\$36,000 salary + \$18,000 housing		
+ \$6,000 car allowance)		
 Total business expenses	\$7,920	
Nontaxable income %	<u>x 30%</u>	
Nondeductible expenses	\$2,376	
 Total business expenses	\$7,920	
Nondeductible expenses	<u>(2,376)</u>	
Deductible expenses	\$5,544	

F's deductible expenses are reported as Schedule A miscellaneous deductions since his church considers him an employee and issues a W-2. These expenses, along with any other miscellaneous deductions are subject to a further reduction of 2 percent of his adjusted gross income.

Example 8

G received a salary of \$12,000, a housing allowance of \$9,000, and earned \$3,000 for various speaking engagements, weddings, funerals, etc., all related to her ministry. She reports her salary as "wages" on page 1 of her Form 1040 and her fees on Schedule C. Because her actual housing costs (\$6,000) were less than her housing allowance and the FRV of her home for the year, she must include \$3,000 of her housing allowance as "other income" for income tax purposes. Her total business expenses are \$4,500. The computation of deductible expenses is shown below:

\$6,000 (housing allowance actually exempt from income tax)	
-----	= 25% Nontaxable income
\$24,000 (\$12,000 salary + \$9,000 housing + \$3,000 fees)	
Total expenses \$4,500 x 25% = \$1,125 = nondeductible expenses	
Total expenses \$4,500 - \$1,125 = \$3,375 = deductible expenses.	

Note that this \$3375 would further be allocable between Schedule A miscellaneous deductions (related to salary) and Schedule C (related to other fees).¹⁵ However, as you will see in the next section, this allocation will not change G's self-employment tax, since all ministry income and ministry expenses are included in the computation, regardless of where they are reported on the return for income tax purposes. The allocation between Schedule A and Schedule C will also affect any AGI-dependent computations.

Occasionally a minister may receive no compensation for services. In this case, any actual out-of-pocket costs are deductible as charitable contributions.^{16 17}

¹⁵ Revenue Ruling 80-110.

¹⁶ Revenue Ruling 69-645.

¹⁷ *Gibson v. Commissioner*, T. C. Memo. 1981-668.

SELF-EMPLOYMENT TAX: EXEMPTION

Ministerial services are covered by social security provisions under the Self Employment Contributions Act (SECA). Earnings for these services are subject to self-employment tax unless: ¹⁸

1. The minister is a member of a religious order whose members have taken a vow of poverty, or
2. The minister has requested, and the IRS has approved, an exemption from self-employment tax.

To claim exemption from self-employment tax, a minister must:

1. Be an ordained, commissioned, or licensed minister of a church or denomination. ¹⁹
2. File Form 4361. This is an application for exemption from self-employment tax for use by ministers, members of religious orders, and Christian Science practitioners.
3. Be conscientiously opposed to public insurance (Medicare/Medicaid and Social Security benefits) because of religious beliefs. ²⁰
4. File for exemption for reasons other than economic.
5. Notify the church or order that he or she is opposed to public insurance.
6. Establish that the organization that ordained, licensed, or commissioned the minister is a tax-exempt religious organization.
7. Establish that the organization is a church.
8. Sign and return the statement that the IRS mails to him or her to verify that he or she has requested an exemption based on the grounds listed on the statement (See Exhibit 3).

Form 4361 must be filed by the due date of the Form 1040 (including extensions) for the second tax year in

¹⁸ IRC section 1402(e).

¹⁹ Revenue Ruling 78-301.

²⁰ Treas. Reg. section 1.1402(e)-51.

which at least \$400 in self-employment ministerial earnings was received. The 2 years do not have to be consecutive.

An approved Form 4361 is effective for all tax years after 1967 for which a minister received \$400 or more of self-employed income for ministerial services.

The exemption from self-employment tax applies only to services performed as a minister. The exemption does not apply to other self-employment income.

To determine if a minister is exempt from self-employment tax, request that he or she furnish a copy of the approved Form 4361 if it is not attached to the return. If the taxpayer cannot provide a copy, order a transcript for the year under examination. The ADP and IDRS Information handbook shows where the ministers' self-employment exemption codes are located on the transcripts and what the codes mean. Transcripts will not show exemption status prior to 1988.

If the transcript does not show a MIN SE indicator and the taxpayer still claims that he or she is exempt from self-employment tax, the Taxpayer Relations Branch at the Service Center where the Form 4361 was filed can research this information and provide the taxpayer with a copy. The Social Security Administration in Baltimore also can provide the information on exemption for an individual.

Example 9

H has ministerial earnings of \$400 in 1990 and \$1800 in 1991. He has until April 15, 1992 (if no extension has been filed) to file Form 4361. If the approved Form 4361 is not received by the due date for the 1990 return, the self-employment tax for 1990 is still due by that date. If he later receives the approved 4361, he may amend his 1990 return.

Example 10

J earned \$500 in 1989, \$300 in 1990, and \$6,000 in 1991 from her ministry. She has until April 15, 1992 (if no extension has been filed) to file Form 4361. If the approval of the exemption is not received by April 15, 1990, J must pay the self-employment tax with her 1989 return, but may

amend it after the exemption is approved. J may file a claim for refund (an amended tax return) within 3 years from the time the return was filed or within 2 years from the time the tax was paid, whichever is later.

Example 11

K, ordained in 1990, has \$7,500 in net earnings as a minister in both 1990 and 1991. He files Form 4361 on March 5, 1992. If the exemption is granted, it is effective for 1990 and all following years.

Example 12

L, an ordained minister, has applied for and received exemption from self-employment tax for his services as a minister. In 1991 he has ministerial income of \$12,000 and income from his shoe repair business, a sole proprietorship, of \$9,000. He must compute self-employment tax on the \$9,000.

COMPUTING SELF-EMPLOYMENT TAX

If an exemption from self-employment tax is not applied for, or is not granted, self-employment tax must be computed on ministerial earnings. To compute self-employment tax, allowable trade or business expenses are subtracted from gross ministerial earnings, then the appropriate rate is applied.

Include the following items in gross income for self-employment tax:

1. Salaries and fees for services, including offerings and honoraria received for funerals, baptisms, etc.
2. Any cash housing allowance or utility allowances.
3. FRV of a parsonage, if provided, including the cost of utilities and furnishings provided.
4. Any amounts received for business expenses treated as paid under a nonaccountable plan, such as an auto allowance.

Example 13

M receives a salary from the church of \$20,000. His parsonage allowance is \$12,000. The church withholds Federal income tax (by mutual agreement) and issues him a Form W-2. He has unreimbursed employee business expenses (before excluding nondeductible amounts attributable to his exempt income) of \$5,200. His net earnings for self-employment tax are \$26,800 (\$20,000 + \$12,000 - \$5,200). Note that all of M's unreimbursed business expenses are deductible for self-employment tax purposes, although the portion attributable to the exempt housing allowance is not deductible for Federal income tax purposes. Section 265 of the Internal Revenue Code regarding the allocation of business expenses related to exempt income relates to income tax computations but not self-employment tax computations.

Example 14

G, as shown in Example 8, computes her self-employment taxable income as follows:

\$12,000 salary plus \$9,000 housing allowance plus \$3,000 Schedule C income less (\$4,500) total business expenses equals \$19,500 self-employment income.

NOTE:

IRS Publication 517, Social Security For Members of the Clergy and Religious Workers is a very useful guide for taxpayers and as a quick reference.

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Exhibit 1

EXCLUSION OF PARSONAGE ALLOWANCE
UNDER INTERNAL REVENUE CODE SECTION 107

A. HOME OWNED OR RENTED/ HOUSING ALLOWANCE RECEIVED:

The exclusion is limited to the least of:

1. Amount designated as housing allowance _____
2. Amount actually used to provide a home:
 - Rent _____
 - House payments _____
 - Furnishings _____
 - Repairs _____
 - Insurance, Taxes _____
 - Utilities _____
 - Other expenses _____
 - (Include down payments, interests, etc.,
but not food or servants or entertainment)
3. Fair rental value of home, including furniture,
utilities, garage _____

B. PARSONAGE PROVIDED: FAIR RENTAL VALUE _____

BASED ON THE ABOVE FIGURES, THE AMOUNT OF YOUR HOUSING ALLOWANCE
EXCLUDIBLE FROM INCOME TAX LIABILITY IS _____.

THE ENTIRE DESIGNATED HOUSING ALLOWANCE IS SUBJECT TO
SELF-EMPLOYMENT TAX UNLESS YOU HAVE BEEN APPROVED FOR
EXEMPTION OR ARE RETIRED.

Exhibit 2

COMPUTATION OF ALLOWABLE EXPENSES
WHEN TAX-EXEMPT INCOME IS RECEIVED

1. Amount of tax-exempt income (Housing allowance or fair rental value of parsonage provided) _____
2. Total income from ministry:
Salary _____
Fees _____
Allowances _____
Line 1 Amt. _____
TOTAL _____
3. Divide line 1 amount by line 2 amount.
= Nontaxable income % _____%
4. Total business expenses substantiated:
Auto _____
Travel _____
M & E _____
Other _____
TOTAL _____
5. Multiply line 4 total by line 3 percentage.
These are nondeductible expenses allowable to tax-exempt income. _____
6. Subtract line 5 amount from line 4 amount.
These are deductible expenses for Federal income tax purposes. _____

Exhibit 3 (1 of 3)

LETTER 2250C

We received your Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners. We need additional verification before we can continue processing.

Please carefully read and sign the applicable portion of the declaration at the end of this letter and return it to us so that we may continue processing your application. If you do not wish your application to be processed, please sign the applicable portion of the declaration at the end of this letter and return it to us.

We are requesting this verification because we are required by law to make sure you understand the grounds for which we can approve any request for exemption. You must be either (1) conscientiously opposed to; or (2) because of religious principles, opposed to accepting the benefits of public insurance that makes payments toward the cost of, or provides services for, medical care based on services performed as a minister, member, or practitioner. (Public insurance includes insurance systems established by the Social Security Act.) You must also inform the ordaining, commissioning, or licensing body of your church (or order) that you are opposed to such insurance.

If we allow your exemption, it will apply only to earnings from services as a minister, member, or practitioner, under Section 1402(e) of the Internal Revenue Code. You will not be entitled to the Social Security benefits from such services. This election cannot be revoked once it is approved. This letter allows you to verify that you understand the grounds upon which the exemption can be granted and that you still want the exemption or that you wish to withdraw your request.

If a signed copy of this letter requesting exemption is mailed to the Internal Revenue Service Center within 90 days from the date of this letter, the exemption is effective for all tax

years in which you have net self-employment earnings of \$400 or more, if you derive any part of it from ministerial services. If your response is not mailed within the 90-day period, your exemption will not be effective before the date we receive your response to this letter. You will be subject to self-employment taxes for any period during which your exemption is not effective.

If you have any questions about this letter, you may write to us at the address shown above. If you prefer, you may call the IRS telephone number listed in your local telephone directory. An IRS employee there may be able to help you, but the office at the address shown on this letter is most familiar with your case.

When you return the declaration as requested, or if you write to us with questions about this letter, please provide your telephone number and the most convenient time for us to call if we need additional information. Please attach this letter to any correspondence to help us identify your case. Keep the copy for your records.

Thank you for your cooperation.

Sincerely yours,

Chief, Taxpayer Relations Branch

Enclosures:
Declaration
Copy of this letter
Envelope

Applicant's Name
Social Security Number

Please sign the appropriate signature line. Only one should be signed.

Declaration

I have read this letter and understand the grounds on which I may receive an exemption from self-employment tax. I still wish to proceed with the processing of my application.

Signature

Date

I would like the processing of my application to be discontinued and my application returned to me.

Signature

Date

PASTORS
DISCRETIONARY
FUND

**A MATTER OF GOOD STEWARDSHIP:
TIPS FOR RESPONSIBLE HANDLING
OF A PASTOR'S DISCRETIONARY FUND**

By the GCFA Legal Department

United Methodist churches commonly have a fund called the pastor's discretionary fund, which is intended to give the pastor complete discretion and authority to provide confidential financial support to persons in need. In some local churches, the pastor is given free reign, with no guidelines or instructions on how the church intended for the pastor to handle these monies. In other local churches, the pastor is given some guidance, but it may be very general or unclear, given orally or understood culturally. In addition, in some churches pastors understand that they can use these funds to pay for program or other expenses that are not totally covered by the budget. All of these churches and their pastors no doubt are unaware of the potential for misuse of funds and the income tax consequences to these arrangements.

Regardless of the level of trust between the congregation and its pastor (or between the pastor and the finance committee, treasurer and financial secretary) written policies for the responsible handling of the pastor's discretionary fund are beneficial for everyone and should minimize misuse of funds and negative income tax consequences. If the pastor has complete discretion, without clear guidelines or financial policies, there is a risk that the entire fund could be construed as income to the pastor, simply because the pastor ultimately has the discretion to pay the funds to himself.

Tips

Set forth below are some tips for local churches on the responsible handling of a pastor's discretionary fund.

- Establish a written policy that: 1) sets forth the exclusive purpose(s) of the fund with specificity and clarity (Is it to be used only for providing assistance to the needy? May the pastor use it for any other purposes and, if so, for what specific purposes, consistent with the program and budget of the church); 2) requires the pastor to document and record distributions from the fund (and authorizes the church to request additional documentation) showing the types of assistance provided during any given year (for example: \$100 gift card from a local grocery was given to a needy family to purchase groceries; \$500 was paid to the hospital for a needy family to pay for hospital emergency room treatment for a seriously ill child; \$150 was paid to a transportation company for a needy elderly woman to provide her with transportation to and from a kidney dialysis center for a year; bus tickets and a new pair of shoes and slacks were purchased for a homeless person who had a job interview); 3) encourages the pastor to use the monies for goods and services rather than cash assistance (examples: taxi fare, bus ticket, a bag of groceries, a pair of shoes, a doctor bill), which helps to protect the pastor, the church and the persons receiving assistance from accusations of irregularity or private inurement; 4) requires the pastor to request the funds from the treasurer on

some type of request voucher form, as an internal control mechanism over access to the fund (note: this can be done and still maintain confidentiality for the specific needy persons who will be beneficiaries); 5) requires the fund to be audited with the other church funds; 6) states that the fund may not ever be used by the pastor for himself or his family, and 7) limits the dollar amount that may be expended at any one time without advance written permission from the church council or finance committee.

- Educate new pastors, finance secretaries, treasurers, finance committee chairs and church council chairs on the existence and purpose of the fund and the internal controls and policy that have been established to protect the church and all persons from accusations of irregularity or private inurement;
- Give the pastor authority to distribute the fund only for the specified purpose and consistently enforce the limits on this authority;
- Educate all new pastors about the policy, and ensure that they understand the church's protocols (for example, make sure the pastor knows that the funds can never be used personally or for any family member, for any purpose, including but not limited to college tuition for the pastor's children or other family members; health care expenses for the pastor and his family; emergency cash for the pastor or family members; etc.)
- Educate all new pastors, treasurers and financial secretaries about these matters, and ensure that they understand the potential income tax implications if the church's policy is not followed carefully
- Ensure that the pastor does not keep a stash of emergency cash in his/her desk for quick disbursement, because security and internal controls for cash in a desk drawer are inadequate;
- Account for all expenditures on church financial statements and reports, including the Local Church Statistical Table II
- Retain administrative control over the fund to ensure that all distributions further the church's mission and ministry, and are in keeping with its tax exempt status.
- The church should make provisions for an annual audit of this fund according to *The Book of Discipline* ¶ 617.

Examples of Inappropriate Use of Pastor's Discretionary Fund

- 1) **Appropriate:** Pastor Dave's church has a written discretionary fund policy with careful internal controls. The annual budget for the fund is \$2,500, and Pastor Dave is allowed to spend no more than \$300 at any one time. The

written policy specifies that the discretionary fund may be used only to provide care for the needy. During the year, Pastor Dave submits appropriate documentation for the following expenditures under this fund: 1/5/01 - \$100 for grocery coupons for needy family in church community; 2/14/01 - \$200 to Meadows Community Center, Inc. for winter boots for children of needy families; 2/20/01 - \$100 paid directly to utility company for heat bill for needy family; 4/10/01 - \$172 for groceries for homeless family in church community; 4/3/01 - \$100 for 5 bus passes for men at homeless shelter; 8/1/01 - \$300 for Wesley House for school supplies for needy children; 8/20/01 - additional \$300 for Wesley House for school supplies for needy children (approval of church council obtained for additional expenditure); 10/15/01 - \$275 for groceries for food pantry for Thanksgiving baskets for needy families; 11/2/01 - \$200 for winter coats for children at Meadows Community Center; 11/30/01 - \$50 for cab fare coupons for elderly woman in need of transportation for kidney dialysis until regular volunteer driver's car is repaired.

- 2) **Appropriate expense but troublesome procedures:** Pastor Bob is given a \$5,000 discretionary fund each year. The church does not have a written policy about how the funds are to be used. The funds are kept in a separate checking account, for which Pastor Bob is the sole authorized signer on the account. Pastor Bob always uses the funds for the same purposes each year: to purchase school supplies and winter coats for needy children in the area; to provide homeless persons with a Thanksgiving and Christmas dinner at a local restaurant; to purchase food and bus passes for the church's most needy families. While the use of the funds in this example is fine, the scenario is troublesome because of: a) the lack of internal controls (two signers on the account; documentation of the expenses for the church treasurer or financial secretary; b) the absence of a written policy stating that Pastor Bob may not use the funds for anything other than assistance to needy persons and families; and c) the absence of any protocols to prohibit Pastor Bob from using the funds for any personal purposes may make the entire \$5,000 taxable income to him.
- 3) **Might be inappropriate:** Pastor Nancy used the discretionary fund to buy a bag of groceries for all new members of the church. While it is certainly appropriate for the church to give a small gift of hospitality to all new members of the church, the pastor's discretionary fund should not be used for this purpose unless the written church policy specifically states that this is one of the authorized purposes for the discretionary fund. It would be more appropriate for the hospitality gifts for new members to come from the budget of the evangelism committee. It would be especially inappropriate to use the discretionary fund for hospitality gifts to all new members if the church's policy intends for the discretionary fund to be used for needy families, unless **all** new members of the church qualified as needy.

- 4) **Unwise under most circumstances:** Pastor Tom distributed \$1,000 out of the discretionary fund to pay for Christmas gifts to his staff. It is appropriate for a church to authorize its pastor to use church funds to take staff out for a Christmas lunch, at the church's expense, and it is appropriate for the church to buy small gifts of appreciation to staff for special occasions. It is best for these expenses to come from a specific line item in the budget where other staff support expenses are borne; also it might be more appropriate for these types of expenses to come from the budget of the pastor parish relations committee, where there may be greater accountability and control over the expenditure.
- 5) **Probably inappropriate:** Pastor Frank used \$2,000 of the discretionary fund to pay for new appliances in the kitchen of the parsonage. While new appliances might have been needed and would be an expense appropriate for the local church to make, if it chose to do so, this scenario is troublesome because: a) the church should make the decision about what to upgrade in the parsonage, if the church is going to pay for that expense; b) the expenses of upgrading the parsonage should come from the budget for church property, or out of the pastor's housing allowance, depending on the circumstances and the arrangements between the church and the pastor regarding parsonage expenses; c) the discretionary fund should not be used for anything that appears to be for the benefit of the pastor or his family.
- 6) **Always inappropriate:** Pastor Alice borrowed \$5,000 from the discretionary fund to pay for her son's college tuition expense.
- 7) **Always inappropriate:** Pastor Sally distributed \$5,000 out of the discretionary fund to assist her daughter with the down payment for the purchase of a first home. Her daughter otherwise would not have been able to purchase the home.
- 8) **Always inappropriate:** Pastor Sue's church has a written discretionary fund policy with careful internal controls. The annual budget for the fund is \$5,000, and Pastor Sue is allowed to spend no more than \$500 at any one time. The written policy specifies that the discretionary fund may be used for any of the following purposes: 1) providing care for the needy; 2) for special church projects that come up during the year without other budget dollars for support, provided that the pastor seeks approval of the church council before spending the money for any such project. The youth group approaches Pastor Sue to ask for help with a mission project that the church council will not agree to fund. Pastor Sue agrees to provide \$400 for the project. While the project might qualify for support under the discretionary fund policy (purpose #2), Pastor Sue should have gone to the church council for approval before agreeing to support the project.

In summary, regardless of how a church decides to fund a pastor's discretionary account (through the annual budget, special offerings, etc.), a written policy on usage with specificity and clarity, together with sound internal controls, are important protections for the pastor, the church, and those who are recipients of the funds. Confidentiality for recipients can be maintained even with these sound internal controls. Protecting the church's assets is a matter of good stewardship of the gifts that have been entrusted to the church to do God's work in the community and world.

PAYROLL

LOCAL CHURCH TAX REPORTING REQUIREMENTS

1. PAYROLL TAXES FOR CHURCHES

A. Withhold taxes on staff employees, file forms and comply with deposit requirements

1. Federal Social Security (NO CLERGY WITHHOLDING)
2. Federal Income Tax (NO **REQUIRED** CLERGY WITHHOLDING)
At the request of the clergy, the employer may withhold income tax for that clergy, pursuant to a Form W-4 and state equivalent of federal Form W-4. (Keep W-4 forms on file).
3. State income tax withholding (requirements vary from state to state)

There is no mandatory federal income tax withholding for clergy; income tax withholding can be done at clergy request, but Social Security is never to be withheld for clergy.

B. Quarterly Filing Requirements (April 30, July 31, October 31 and January 31 for the first, second, third and fourth quarters)

1. Form 941 - Federal
2. State equivalent form (may vary from state to state)

See separate memo on Form 941 Filing Requirements - clergy compensation is shown on 941 but no information on Social Security and Medicare wages and withholding.

C. Annual Filing Requirements

1. January 31: Form W-2 must be given to employees.
2. February 28: Form W-3 must be filed with the Social Security Administration.

(Note: W-2 and W-3 filings can be made electronically in some cases. See the Social Security Administration website at www.ssa.gov for more details.)

3. State filing requirements vary from state to state.

2. FILING REQUIREMENTS FOR PAYMENTS TO SELF-EMPLOYED INDIVIDUALS (Such as independent contractors supplying repair or other services to the church)

- A. January 31: Form 1099-MISC must be given to individuals (who receive compensation of \$600 or more).
- B. February 28: Form 1099-MISC must be filed with the IRS
- C. February 28: File Form 1096 with the IRS together with the 1099-MISC forms.

FORM 941 FILING REQUIREMENTS

Internal Revenue Service Form 941 is the Employer's Quarterly Federal Tax Return. The first report for the year must be filed by April 30 (for the pay period ending March 31). Subsequent filing dates are July 31, October 31 and January 31. Form 941 reports the number of employees, the amount of Social Security and Medicare wages and taxes, as well as the income taxes, which are withheld in each quarterly period. You have already been filing the Form 941 if you currently have an employee(s).

It is the position of the Internal Revenue Service that a church which has only a minister (and no other staff) need not file a Form 941 (see letter from the IRS to GCFA in this tax packet). However, if the minister should file a Form W-4, electing to have voluntary income tax withholding, Form 941 is required. Any amounts withheld are reported as income tax on Line 3.

General Instructions for Filing Form 941

(Note: complete instructions on filing Form 941 are available at the IRS website, www.irs.gov.)

Make checks payable to "United States Treasury".

File only one form per quarter, even if your church has multiple locations or divisions

Make dollar entries without the dollar sign and comma — 1000.00; show negative amounts in parentheses (1000.00).

Line 1 is for the number of employees.

Line 2 is for the total amount of quarterly wages, tips and other compensation paid to all employees that are subject to federal income tax. The total compensation should not include salary reduction pension contributions, any housing or utility allowance, or accountable reimbursement policy payments. Health insurance premiums paid by the church are also excluded. Taxable fringe benefits and travel or other allowances are includable as income.

For Lines 6 and 7, there is no information reported for clergy, as the church must not do any Social Security or Medicare withholding on behalf of clergy. Because of specific code provisions, clergy are always considered self-employed for Social Security taxes. If there is no other staff withholding, these boxes should be left blank.

The box in Line 8 should not be checked (unless none of the payments are subject to Social Security taxes).

Reconcile your year-to-date wage and tax information with the Form 941 that you just filed. This should be done every quarter.

Show employee earnings only up to the Social Security taxable wage base.

Questions have arisen about whether the IRS will be concerned that Social Security and Medicare taxes withheld on Lines 6 and 7 (which **must not** include any withholding

for clergy) are inconsistent with the compensation paid (which **does** include clergy salary). IRS officials have stated that IRS computers should not identify these disparities. However, should such an inquiry arise, you should inform the IRS that clergy are considered self employed for Social Security taxes for services performed in the exercise of ministry under Internal Revenue Code § 3121(b)(8)(A).

TIPS FOR RECONCILIATION

Here are some tips to make the year-end process run of 941s and W-2s as error-free and smooth as possible:

Review all wage and tax categories. Then, prior to processing your W-2s and 941s, verify that all general ledger liability accounts balance.

WHAT TO LOOK FOR

Remember any mid-year changes made in salary reduction pension contributions, housing allowances, accountable reimbursement plans or employer/employee tax withholding accounts. Be prepared to make correcting journal entries for out of balance situations caused by mid-year or year-end adjustments.

Complete your fourth-quarter 941 first, then prior to distributing the W-2s, balance the 941 totals against the W-2s.

WHAT TO BALANCE — SOCIAL SECURITY AND MEDICAL TIPS AND WAGES (FOR LAY EMPLOYEES) AND FEDERAL INCOME TAX WITHHELD

If there are any inconsistencies, you can correct them promptly.

Do a preliminary run of the W-2s on plain paper and verify the totals against your annual reconciliation worksheet.

The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

JUN - 9 1997

David A. Ullrich, Esq.
Associate General Counsel
General Council on Finance
and Administration
The United Methodist Church
1200 Davis Street
Evanston, IL 60201-4193

Dear Mr. Ullrich:

This is in response to your letter of February 25, 1997. Specifically, you have asked for confirmation that a United Methodist church with one minister and no other staff is not required to file a Form 941.

If the minister is the church's only employee, the church is not required to file Form 941 because ministers are exempt from income tax withholding and are treated as self-employed for Federal Insurance Contributions Act (FICA) tax purposes. Therefore, unless the church has other employees or the minister has elected voluntary income tax withholding, no Form 941 is required.

We hope you find this information helpful.

Sincerely,

Jerry E Holmes

JERRY E. HOLMES
Chief, Branch 2
(Employee Benefits and
Exempt Organizations)

INFORMATION FOR COMPLETING FORM W-2 FOR CLERGY

The purpose of this document is to give some general information on completing Form W-2 for clergy. More specific instructions on completing Form W-2 are available at the IRS website (www.irs.gov).

Box A, Control Number does not have to be completed.

Box B is the Employer Identification Number. Each local church (or charge) should have its own Employer Identification Number (EIN). Employer Identification Numbers can be obtained by filing IRS Form SS-4.

Box C, D, E & F are self-explanatory.

Box 1 contains certain items of compensation paid by the church. Set forth below are two lists, one for items that are reported in box 1 and the other for items that are not reported in box 1.

ITEMS WHICH NEED TO BE REPORTED IN BOX 1

1. Salary, wages and bonuses
2. Most gifts which are paid through a church account
3. Allowances (other than the housing allowance) must be reported as well as reimbursements which are made under a non-Accountable Reimbursement Policy.
4. If a per diem arrangement is used, payments in excess of IRS rates
5. If the standard mileage rate is used, any amounts in excess of those rates (If the IRS rate was \$.345 per mile and a pastor were paid \$.36 per mile, the difference, \$.015 per mile, would have to be reported here.)
6. Taxable fringe benefits, the most common are:
 - a. the cost of employer-provided group term life insurance that exceeds \$50,000 (Note: This applies to the \$50,000 CPP death benefit together with any PPP death benefit or policy purchased by either the church or provided through an annual conference group plan. Conference treasurers or pension officers will need to supply information from conference plans. (If the total insurance coverage does not exceed \$50,000, the cost of such coverage is not reported.)

- b. The value of the personal use of a church-provided automobile;
- 7. A social security allowance (or any portion of the minister's self-employment taxes paid by the church)
- 8. Reimbursements of non-qualified moving expenses (typically, a move less than 50 miles)

ITEMS NOT REPORTED IN BOX 1

- 1. Salary reduction contributions to the Board of Pensions and Health Benefits 403(b) Plan or other qualified plans
- 2. Properly designated (in advance) housing and utility allowance
- 3. Qualified health and medical plan premium payments
- 4. Reimbursement of business expenses under an Accountable Reimbursement Policy
- 5. Payments under a qualified salary reduction plan — for medical reimbursement accounts or dependent care assistance
- 6. Excludable Fringe Benefits:
 - a. Term life insurance (up to \$50,000 of life insurance coverage or CPP or BPP death benefit)
 - b. Qualified tuition payments
 - c. Qualified moving expenses

Box 2, the local church is not required to do any federal income tax withholding for clergy. However, some clergy may wish to request voluntary withholding by filing a Form W-4 with the church. Through voluntary income tax withholding, clergy may avoid the need to pay quarterly estimated taxes.

Box 3, 4, 5 & 6 are left blank for clergy. Clergy are defined as self-employed for Social Security or SECA purposes (under the Internal Revenue Code Section 3121 (b)(8)(A)). The church should not report Social Security/Medicare wages and must not do any Social Security/Medicare tax withholding. Any Social Security tax withholding done erroneously by the church (which comes from church funds) is additional reportable income to the pastor. If the church wishes to assist the pastor in paying all or a portion of his Social Security taxes, it should add an additional amount to the wages paid to the pastor.

Box 7, 8 & 9 are not applicable.

Box 10 would include any dependent care benefits that are paid.

Box 11 does not apply for most clergy. Amounts contributed to plans administered by the GBPHB or other 403(b) plans should not be included in this box. However, if a pastor is a participant in some other (non-qualified) plan, amounts may need to be reported here.

Box 12 is to be used to show codes and amounts of benefits or contributions for clergy. (See the IRS Form W-2 instructions for a complete list of codes.) The following codes are the most relevant for clergy:

1. **Code C** — If the pastor is provided more than \$50,000 in CPP and BPP death benefits or group term life insurance, you need to show the premiums attributed to benefits *in excess* of \$50,000. If CPP and BPP together provide more than \$50,000 in death benefits, the General Board of Pension and Health Benefits will supply this information on request to your conference treasurer who, in turn, should make this available to the local church. If the pastor has served more than one church during the year, typically this information is only included in the W-2 of the last church served.
2. **Code E** — 403(b) employee salary reduction contributions
3. **Code P** — Qualified moving expense reimbursements paid directly to the employee.

Box 13 is checked if the pastor is a participant in the church retirement plan(s)

Box 14 may be used for additional reporting. You may include information on a housing allowance or utility allowance here. If the church does not put that information here, the church should independently tell the pastor these amounts.

Box 16—20 state and local tax information — states and municipalities vary on what items are deducted from gross wages.

General Council on Finance and Administration is not engaged in providing legal or accounting services. If legal or tax advice is required, the service of a competent professional should be sought.

Example of Form W-2 for Clergy

This is an example of how to fill out a Form W-2 for Rev. Sue Service. Rev. Service has a salary of \$25,000 from the local church. Rev. Service is provided a parsonage and the church pays a \$1,500 housing (parsonage/utility) allowance to her pursuant to an estimate of such expenses and a properly adopted resolution (this is in addition to her \$25,000 salary). The parsonage allowance is not included as income in Box 1 on Form W-2 but it may be reported in box 14. If the church does not report the amount in box 14, it should report it independently to the pastor because this amount must be included in self-employment (Social Security) earnings (along with the fair rental value of the parsonage).

Rev. Service receives a non-accountable travel allowance of \$3,000. This entire sum is included as income and must be added to her \$25,000 salary, giving a total of \$28,000 in income from the church.

There is also an accountable reimbursement policy for other professional business expenses in the amount of \$2,500. None of this amount is reported on the Form W-2. (Note: travel/vehicle expenses can be handled by an accountable reimbursement policy as well but that would be in lieu of a travel allowance).

The local church makes a Ministerial Pension Plan (MPP) contribution of \$2,750. This is not reported as income. There is a 403(b) pension contribution of \$500 by the church, out of the pastor's salary, to the pastor's personal account and that amount is treated as an after-tax contribution which does not reduce income. Additionally, the pastor made a voluntary 403(b) salary reduction (pre-tax) contribution of \$900. This voluntary contribution reduces her reportable income from \$28,000 to \$27,100. (Note in box 13, the Retirement Plan box should be checked.)

Rev. Service has not requested any voluntary federal income tax withholding by the church but rather has assumed the obligation of making quarterly estimated payments.

The church pays (*out of the church's own budget, and not as a salary reduction*) a medical insurance premium under the conference plan in the amount of \$3,000, which is not reportable income.

Box 1 of Form W-2 reports wages and tips of \$27,100, consisting of the salary and the travel allowance (less the pension salary reduction contribution). (If the minister wishes to take deductions for the travel expenses, those deductions must be taken on Schedule A as opposed to Schedule C.) None of the accountable reimbursement amount is included in Box 1 and these expenses are not reported on the minister's tax return.

Reportable Income Items

Cash salary (which includes the personal pension contribution of \$500)	\$25,000.00
Travel allowance	3,000.00
Value (if any) of life insurance provided in excess of \$50,000 under CPP	—

Reductions of Income (before tax)

Salary reduction for pension plan	900.00

Non Reportable Funds

Accountable reimbursement policy for business expenses	2,500.00
Parsonage allowance (for utilities for the parsonage)	1,500.00
Medical insurance premium	3,000.00
Ministerial Pension Plan (MPP)	2,750.00

Box 2 is not completed, as Rev. Service did not choose to have any voluntary income tax withholding, but rather paid estimated taxes directly. If the church withheld income taxes pursuant to a filed Form W-4, such amounts would be reported here.

Box 3-6 should *not* have any entries (leave blank, do *not* insert "0"s).

Box 12 should show the code and amount reflecting the voluntary salary reduction contribution, in this case, E \$900. (If Rev. Service received the benefit of life insurance in excess of \$50,000, the amount of the premium would be included in box 1 and shown here together with the code letter C.)

Box 13 should show an X in the box for Retirement Plan.

Box 14 may include the housing allowance of \$1,500

Box 16-20 should be completed according to your own state's requirements.

The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice. In addition, GCFA is not recommending any particular salary, housing allowance, or travel allowance. The examples here are merely illustrative.

FORM W-3 REPORTING REQUIREMENTS

The Form W-3 - Transmittal of Wage and Tax Statements must be filed annually by employers together with Copy A of the Forms W-2. Basically, the information contained in the Forms W-2 and Forms 941 (filed quarterly) are the basis for the information to be supplied on Form W-3. The Form W-3 must be filed with the Social Security Administration by February 28.

The employer should make sure the Form W-3 wage and withholding information agrees with the total amounts from the Forms W-2 and that the Form W-3 is reconciled with the quarterly Form 941 returns.

Note: According to the IRS instructions for Form W-3, in Box b – Kind of Payer, a church or church organization should check the “941” box even if it is not required to file Form 941 or Form 944 (for example, because the church staff consists of only the pastor).

For more complete information, refer to the Form W-3 instructions available at the IRS website (www.irs.gov).

OVERVIEW

PAYROLL TAXES:

Withhold payroll taxes for all staff employees, file forms and comply with deposit requirements.

1. **FEDERAL INCOME TAX:** Every employee must fill out form W-4 specifying the number of deductions he or she has for federal income tax purposes. Form I-9 should be filled out at the same time with photo identification and proof of social security number. **THERE IS NO REQUIRED WITHHOLDING FOR CLERGY.** At the specific request of the clergy person, the employer may withhold income tax for that clergy person, pursuant to a Form W-4 being filed. The local church should keep Form W-4 and Form I-9 on file at the Church.
2. **FEDERAL SOCIAL SECURITY TAX:** The current rate is .062 percent. **SOCIAL SECURITY IS NEVER TO BE WITHHELD FOR CLERGY.**
3. **FEDERAL MEDICARE TAX:** The current rate is .0145 percent. **FEDERAL MEDICARE TAX IN NEVER TO BE WITHHELD FOR CLERGY.**
4. **PENNSYLVANIA INCOME TAX WITHHOLDING:** The current rate is 3.07 percent. **PENNSYLVANIA WITHHOLDING IS NOT MANDATORY FOR CLERGY.**
5. **LOCAL TAX WITHHOLDING:** Local taxes vary by municipality. Each Church should contact its local taxing authority for specific requirements.

QUARTERLY FILING REQUIREMENTS:

Both the Internal Revenue Service and the State of Pennsylvania require the filing of quarterly payroll tax returns. These returns are due April 30, July 31, October 31 and January 31 for the first, second, third and fourth quarters.

1. File form 941 with the Internal Revenue Service by the dates shown above. **IF A CLERGY PERSON IS THE ONLY PERSON ON THE PAYROLL, THE INTERNAL REVENUE**

**SERVICE DOES NOT REQUIRE THE CHURCH TO
FILE FORM 941 UNLESS THE CLERGY PERSON HAS
REQUESTED FEDERAL WITHHOLDING.**

2. File form 501 quarterly with the State of Pennsylvania by the dates shown above.
3. Local filing requirements vary by municipality

ANNUAL FILING REQUIREMENTS:

1. Form W-2 must be given to all employees by January 31 of the next year. The employee should receive a copy for the Internal Revenue Service, State of Pennsylvania, local taxing authority (if required), and his personal file.
2. Form W-3 with copies of all forms W-2 must be filed with the Social Security Administration by February 28 of the next year. (The W-3 for 2006 is due on February 28, 2007.)
3. Pennsylvania requires that the year end reconciliation with all forms W-2 be filed on Form 1667 by January 31 of the next year. (The 2006 Form 1667 is due by January 31, 2007.)
4. Local filing requirements vary by municipality.

PAYMENT TO SELF-EMPLOYED INDIVIDUALS:

This section refers to any individual or company to whom you pay \$600.00 or more during the calendar year.

1. Any individual, independent contractor or company to whom you make payments is required to fill out Form W-9. These forms are kept on file at the Church.
2. Form 1099-MISC must be given to individuals or companies who receive compensation from you in a calendar year of \$600.00 or more. **NOTE:
IT IS NOT NECESSARY TO SEND A CORPORATION
FORM 1099, BUT A FORM W-9 SHOULD BE KEPT ON
FILE TO SHOW THE PAYEE'S STATUS AS A
CORPORATION.**
3. All Forms 1099-MISC must be filed with the Internal Revenue Service by February 28. Form 1096 must be attached to the 1099-MISC forms.

UNEMPLOYMENT TAXES:

As religious organizations, all United Methodist Church are exempt from paying Federal and Pennsylvania unemployment taxes.

All employees should be made aware that the Church is exempt from these taxes and that they will be unable to collect unemployment when they resign or are terminated.

FORM 941 FILING REQUIREMENTS

Internal Revenue Service Form 941 is the Employer's Quarterly Federal Tax Return. The first report for the year must be filed by April 30 (for the pay period ending March 31). Subsequent filing dates are July 31, October 31 and January 31. Form 941 reports the number of employees, the amount of Social Security and Medicare wages and taxes, as well as the income taxes which are withheld in each quarterly period. You have already been filing Form 941 if you currently have an employee(s).

It is the position of the Internal Revenue Service that a church which has only a minister (and no other staff) need **NOT** file a Form 941. However, if the minister should file a Form W-4, electing to have voluntary income tax withholding, Form 941 is required. Any amounts withheld are reported as **INCOME TAX** on Line 3.

If a Church is part of a charge, all tax filing requirements apply to the church that actually issues the payroll checks.

Make dollar entries without the dollar sign and comma --- 1000.00; show negative amounts in parentheses (1000.00).

SPECIFIC INSTRUCTIONS FOR FORM 941

A sample quarterly payroll report and sample Form 941 are shown on the next two pages for your reference. Remember to use the preprinted Form 941 mailed to you by the Internal Revenue Service. If you are not using the preprinted form for any reason fill in the boxes at the top of the page with your Federal Employer Identification Number, Church name and address, and the quarter for which you are filing this return.

LINE 1: Enter the number of employees. (Sample = 5)

LINE 2: Enter the total wages for all employees. (Sample = 20500.00)

LINE 3: Enter total income tax withheld. (Sample = 1500.00)

LINE 5A: Enter total taxable social security wages and calculate tax due. **NOTE THAT THE PASTOR'S SALARY IS NOT INCLUDED IN THESE WAGES.** (In the sample column 1 = 12500.00 and column 2 = 1550.00.(12500 X .124))

LINE 5C: Enter the total taxable medicare wages and calculate tax due. . **NOTE THAT THE PASTOR'S SALARY IS NOT INCLUDED IN THESE WAGES.** (In the sample column 1 =12500.00 and column 2 = 362.50 (12500 X .029)).

LINE 5D: Add the amounts in column 2 of Line 5A and 5C. (Sample = 1912.50).

ANY UNITED METHODIST CHURCH
QUARTERLY PAYROLL SUMMARY
March 31, 2006

NAME	SALARY	HOUSING ALLOWANCE	INCOME TAX	SOCIAL				LOCAL TAX	NET WAGES
				SECURITY TAX	MEDICARE TAX	PENNA TAX			
SECRETARY	\$4,500.00		\$360.00	\$279.00	\$65.25	\$138.15	\$45.00	\$3,612.60	
CUSTODIAN	\$4,000.00		\$320.00	\$248.00	\$58.00	\$122.80	\$40.00	\$3,211.20	
ORGANIST	\$1,500.00		\$120.00	\$93.00	\$21.75	\$46.05	\$15.00	\$1,204.20	
YOUTH DIRECTOR	\$2,500.00		\$200.00	\$155.00	\$36.25	\$76.75	\$25.00	\$2,007.00	
SUBTOTAL	\$12,500.00	\$0.00	\$1,000.00	\$775.00	\$181.25	\$383.75	\$125.00	\$10,035.00	
PASTOR	\$8,000.00	\$1,500.00	\$500.00			\$245.60	\$80.00	\$8,674.40	
GRAND TOTAL	\$20,500.00	\$1,500.00	\$1,500.00	\$775.00	\$181.25	\$629.35	\$205.00	\$18,709.40	

Form **941 for 2006: Employer's QUARTERLY Federal Tax Return**
(Rev. January 2006) Department of the Treasury — Internal Revenue Service

990106

OMB No. 1545-0029

(EIN) Employer identification number	1	2	-	3	4	5	6	7	8	9
Name (not your trade name)	ANY UNITED METHODIST CHURCH									
Trade name (if any)										
Address	123 MAIN STREET									
Number	Street			Suite or room number						
City	ANYTOWN			PA		15999				
	State			ZIP code						

Report for this Quarter ...
(Check one.)

- ☒ 1: January, February, March
☐ 2: April, May, June
☐ 3: July, August, September
☐ 4: October, November, December

Read the separate instructions before you fill out this form. Please type or print within the boxes.

Part 1: Answer these questions for this quarter.

- 1 Number of employees who received wages, tips, or other compensation for the pay period including: Mar. 12 (Quarter 1), June 12 (Quarter 2), Sept. 12 (Quarter 3), Dec. 12 (Quarter 4) 1 **5**
- 2 Wages, tips, and other compensation 2 **20500 .00**
- 3 Total income tax withheld from wages, tips, and other compensation 3 **1500 .00**
- 4 If no wages, tips, and other compensation are subject to social security or Medicare tax . . . ☐ Check and go to line 6.
- 5 Taxable social security and Medicare wages and tips:

	Column 1		Column 2
5a Taxable social security wages	12500 .00	$\times .124 =$	1550 .00
5b Taxable social security tips		$\times .124 =$	
5c Taxable Medicare wages & tips	12500 .00	$\times .029 =$	362 .50

- 5d Total social security and Medicare taxes (Column 2, lines 5a + 5b + 5c = line 5d) . . . 5d **1912 .50**
- 6 Total taxes before adjustments (lines 3 + 5d = line 6) . . . 6 **3412 .50**

7 TAX ADJUSTMENTS (Read the instructions for line 7 before completing lines 7a through 7h.):

- 7a Current quarter's fractions of cents
- 7b Current quarter's sick pay
- 7c Current quarter's adjustments for tips and group-term life insurance
- 7d Current year's income tax withholding (attach Form 941c)
- 7e Prior quarters' social security and Medicare taxes (attach Form 941c)
- 7f Special additions to federal income tax (attach Form 941c)
- 7g Special additions to social security and Medicare (attach Form 941c)

7h TOTAL ADJUSTMENTS (Combine all amounts: lines 7a through 7g.) 7h

- 8 Total taxes after adjustments (Combine lines 6 and 7h.) 8 **3412 .50**

9 Advance earned income credit (EIC) payments made to employees 9

10 Total taxes after adjustment for advance EIC (line 8 - line 9 = line 10) 10 **3412 .50**

11 Total deposits for this quarter, including overpayment applied from a prior quarter 11 **3350 .00**

12 Balance due (If line 10 is more than line 11, write the difference here.) 12 **62 .50**
Make checks payable to **United States Treasury**.

13 Overpayment (If line 11 is more than line 10, write the difference here.)

Check one ☐ Apply to next return.
☐ Send a refund.

► You **MUST** fill out both pages of this form and **SIGN** it.

Next ►

Name (not your trade name)

Employer identification number (EIN)

Part 2: Tell us about your deposit schedule and tax liability for this quarter.

If you are unsure about whether you are a monthly schedule depositor or a semiweekly schedule depositor, see Pub. 15 (Circular E), section 11.

14 ☐ ☐ Write the state abbreviation for the state where you made your deposits OR write "MU" if you made your deposits in multiple states.

15 Check one: ☐ Line 10 is less than \$2,500. Go to Part 3.

☒ You were a monthly schedule depositor for the entire quarter. Fill out your tax liability for each month. Then go to Part 3.

Tax liability: Month 1
 Month 2
 Month 3
 Total liability for quarter Total must equal line 10.

☐ You were a semiweekly schedule depositor for any part of this quarter. Fill out Schedule B (Form 941): Report of Tax Liability for Semiweekly Schedule Depositors, and attach it to this form.

Part 3: Tell us about your business. If a question does NOT apply to your business, leave it blank.

16 If your business has closed or you stopped paying wages ☐ Check here, and

enter the final date you paid wages

17 If you are a seasonal employer and you do not have to file a return for every quarter of the year ☐ Check here.

Part 4: May we speak with your third-party designee?

Do you want to allow an employee, a paid tax preparer, or another person to discuss this return with the IRS? See the instructions for details.

☐ Yes. Designee's name

Phone

Personal Identification Number (PIN)

☐ No.

Part 5: Sign here. You MUST fill out both sides of this form and SIGN it.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

☒ Sign your name here

Print name and title

Date

Phone

Part 6: For PAID preparers only (optional)

Paid Preparer's Signature

Firm's name

Address

EIN

ZIP code

Date

Phone

SSN/PTIN

☐ Check if you are self-employed.

Form 941-V, Payment Voucher

Purpose of Form

Complete Form 941-V, Payment Voucher, if you are making a payment with Form 941, Employer's QUARTERLY Federal Tax Return. We will use the completed voucher to credit your payment more promptly and accurately, and to improve our service to you.

If you have your return prepared by a third party and make a payment with that return, please provide this payment voucher to the return preparer.

Making Payments With Form 941

Make your payment with Form 941 **only if**:

- Your net taxes for the quarter (line 10 on Form 941) are less than \$2,500 and you are paying in full with a timely filed return or
- You are a monthly schedule depositor making a payment in accordance with the Accuracy of Deposits Rule. (See section 11 of Pub. 15 (Circular E), Employer's Tax Guide, for details.) This amount may be \$2,500 or more.

Otherwise, you must deposit the amount at an authorized financial institution or by electronic funds transfer. (See section 11 of Pub. 15 (Circular E) for deposit instructions.) Do not use Form 941-V to make federal tax deposits.

Caution. If you pay amounts with Form 941 that should have been deposited, you may be subject to a penalty. See Deposit Penalties in section 11 of Pub. 15 (Circular E).

Specific Instructions

Box 1—Employer identification number (EIN). If you do not have an EIN, apply for one on Form SS-4, Application for Employer Identification Number, and write "Applied For" and the date you applied in this entry space.

Box 2—Amount paid. Enter the amount paid with Form 941.

Box 3—Tax period. Darken the capsule identifying the quarter for which the payment is made. Darken only one capsule.

Box 4—Name and address. Enter your name and address as shown on Form 941.

- Enclose your check or money order made payable to the "United States Treasury." Be sure also to enter your EIN, "Form 941," and the tax period on your check or money order. Do not send cash. Please do not staple Form 941-V or your payment to the return (or to each other).

- Detach Form 941-V and send it with your payment and Form 941 to the address provided in the Instructions for Form 941.

Note. You must also complete the entity information above Part 1 on Form 941.

✂ **Detach Here and Mail With Your Payment and Tax Return.** ✂

Form **941-V**

Department of the Treasury
Internal Revenue Service

Payment Voucher

► Do not staple or attach this voucher to your payment.

OMB No. 1545-0029

2006

1 Enter your employer identification number (EIN). 12 : 3456789		2 Enter the amount of your payment. ► 62 50	
3 Tax period ☒ 1st Quarter ☐ 2nd Quarter ☐ 3rd Quarter ☐ 4th Quarter		4 Enter your business name (individual name if sole proprietor). ANY UNITED METHODIST CHURCH Enter your address. 123 MAIN STREET Enter your city, state, and ZIP code. ANYTOWN, PA 15999	

LINE 6: Add lines 3 and 5D. (Sample = 3412.50).

LINE 8: Enter same amount as Line 6. (Sample = 3412.50).

Line10: Enter same amount as Line 6. (Sample = 3412.50).

NOTE: PLEASE CONSULT THE INTERNAL REVENUE SERVICE INSTRUCTIONS SENT WITH FORM 941 OR ON THE INTERNET AT IRS.GOV IF YOU HAVE ENTRIES FOR LINES 7 OR 9.

LINE11: Enter the amount you have already paid the Internal Revenue Service for this quarter. (Sample = 3350.00)

LINE 12: Enter the balance due for this quarter. Make your check payable to **UNITED STATES TREASURY** for this amount and mail with your return. (Sample = 62.50). Also remember to include your payment voucher, Form 941-V.

LINE 13: If you have already paid more than you owe to the Internal Revenue Service, you may fill in the amount of your refund on this line and check the box to either receive a check or apply the refund to your next return.

LINE14: Enter PA for the state where you made your deposits.

LINE15: Check the proper box to tell the Internal Revenue Service which type of filer you are. If you checked monthly schedule depositor remember to fill in your tax liability by month. Semi weekly depositors must fill out Schedule B.

PART4: Fill in this section if you paid someone to prepare your return.

PART5: Sign and date the return. You **MUST** fill in this box completely with your handwritten signature in the first box.

Reconcile your year-to-date wage and tax information with the form 941 that you just filed. This should be done every quarter.

NOTE: QUESTIONS HAVE ARISEN ABOUT WHETHER THE IRS WILL BE CONCERNED THAT SOCIAL SECURITY AND MEDICARE TAXES WITHHELD ON LINES 5a AND 5c (WHICH MUST NOT INCLUDE ANY WAGES FOR CLERGY) ARE INCONSISTENT WITH THE COMPENSATION PAID (WHICH DOES INCLUDE CLERGY SALARY). IRS OFFICIALS HAVE STATED THAT THE IRS COMPUTERS SHOULD NOT IDENTIFY THESE DISPARITIES. HOWEVER, SHOULD SUCH AN INQUIRY ARISE, YOU SHOULD INFORM THE IRS THAT CLERGY ARE CONSIDERED SELF-EMPLOYED FOR SOCIAL SECURITY AND MEDICARE TAXES FOR SERVICES PERFORMED IN THE EXERCISE OF MINISTRY UNDER INTERNAL REVENUE CODE § 3121(b)(8)(A).

COMPLETING FORM W-2

In order to help you complete your forms W-2, a sample year end payroll summary and sample W-2 forms for clergy and lay employees are on the next three pages.

NOTE: YOU MUST PROVIDE YOUR PASTOR WITH A W-2 FORM EVEN IF YOU WERE NOT REQUIRED TO FILE FORM 941. THIS W-2 MUST BE SENT TO THE IRS WITH FORM W-3.

- BOX A:** A control number is not necessary, but you may use one.
- BOX B:** Enter your Federal Employer Identification Number.
- BOX C:** Enter the Church name and Address
- BOX D:** Enter the employee's social security number. Note that a fine is imposed for each missing or incorrect social security number.
- BOX E:** Enter the employee's name and address.
- BOX 1:** Enter the total wages paid. The correct amount is in the total wages column on the sample quarterly payroll report. **THE PASTOR'S HOUSING ALLOWANCE IS NOT INCLUDED IN BOX 1.**
- BOX 2:** Enter the total amount of federal income tax withheld. **IF THE AMOUNT IS ZERO, LEAVE THE BOX BLANK. DO NOT ENTER A ZERO.**
- BOX 3:** Enter the amount of the total wages paid to non-clergy employees. **THE PASTOR'S W-2 MUST BE BLANK IN THIS BOX. DO NOT ENTER ZERO.**
- BOX 4:** Enter the amount of social security tax withheld. **THE PASTOR'S W-2 MUST BE BLANK IN THIS BOX. DO NOT ENTER ZERO.**
- BOX 5:** Enter the amount of the total wages paid to non-clergy employees. **THE PASTOR'S W-2 MUST BE BLANK IN THIS BOX. DO NOT ENTER ZERO.**
- BOX 6:** Enter the amount of medicare tax withheld. **THE PASTOR'S W-2 MUST BE BLANK IN THIS BOX. DO NOT ENTER ZERO**
- BOX 7:** Boxes 7, 8, 9, 10 and 11 should be blank. For further information on these boxes please see the Internal Revenue Service instructions on the internet at irs.gov.

ANY UNITED METHODIST CHURCH
YEAR END PAYROLL SUMMARY
December 31, 2006

NAME	SALARY	HOUSING ALLOWANCE	INCOME TAX	SOCIAL		MEDICARE TAX	PENNA TAX	LOCAL TAX	NET WAGES
				SECURITY TAX	TAX				
SECRETARY	\$18,000.00		\$1,440.00		\$1,116.00	\$261.00	\$552.60	\$180.00	\$14,450.40
CUSTODIAN	\$16,000.00		\$1,280.00		\$992.00	\$232.00	\$491.20	\$160.00	\$12,844.80
ORGANIST	\$6,000.00		\$480.00		\$372.00	\$87.00	\$184.20	\$60.00	\$4,816.80
YOUTH DIRECTOR	\$10,000.00		\$800.00		\$620.00	\$145.00	\$307.00	\$100.00	\$8,028.00
SUBTOTAL	\$50,000.00	\$0.00	\$4,000.00		\$3,100.00	\$725.00	\$1,535.00	\$500.00	\$40,140.00
PASTOR	\$32,000.00	\$6,000.00	\$2,000.00		\$0.00	\$0.00	\$982.40	\$320.00	\$34,697.60
GRAND TOTAL	\$82,000.00	\$6,000.00	\$6,000.00		\$3,100.00	\$725.00	\$2,517.40	\$820.00	\$74,837.60

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use 		Visit the IRS website at www.irs.gov/efile .	
b Employer identification number (EIN) 12-3456789				1 Wages, tips, other compensation 18000.00		2 Federal income tax withheld 1440.00	
c Employer's name, address, and ZIP code ANY UNITED METHODIST CHURCH 123 MAIN STREET ANYTOWN, PA 15999				3 Social security wages 18000.00		4 Social security tax withheld 1116.00	
				5 Medicare wages and tips 18000.00		6 Medicare tax withheld 261.00	
				7 Social security tips		8 Allocated tips	
d Employee's social security number 345-67-8912				9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial Last name Suff. SUSAN SECRETARY 3 MAW ST ANYTOWN, PA 15999				11 Nonqualified plans		12a See instructions for box 12	
				13 Statutory employee Retirement plan Third-party sick pay ☐ ☐ ☐		12b	
				14 Other		12c	
						12d	
f Employee's address and ZIP code				15 State Employer's state ID number PA 2222 4444		16 State wages, tips, etc. 18000.00	
				17 State income tax 552.60		18 Local wages, tips, etc. 18000.00	
						19 Local income tax 180.00	
						20 Locality name ANY	

Form **W-2** Wage and Tax Statement

2006

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

a Control number		OMB No. 1545-0008		Safe, accurate, FAST! Use INS e-file		Visit the IRS website at www.irs.gov/efile .	
b Employer identification number (EIN) 12-3456789				1 Wages, tips, other compensation 32000.00		2 Federal income tax withheld 2000.00	
c Employer's name, address, and ZIP code ANY UNITED METHODIST CHURCH 123 MAIN STREET ANYTOWN, PA 15999				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	
				9 Advance EIC payment		10 Dependent care benefits	
d Employee's social security number 567-89-1234				11 Nonqualified plans		12a See instructions for box 12	
e Employee's first name and initial ROBERT PASTOR		Last name 121 MAIN STREET ANYTOWN, PA 15999		13 Statutory employee ☐ Retirement plan ☒ Third-party sick pay ☐		12b	
				14 Other HOUSING 6000.00		12c	
						12d	
f Employee's address and ZIP code				15 State		20 Locality name	
Employer's state ID number PA 2222 4444		16 State wages, tips, etc. 38000.00		17 State income tax 982.40		18 Local wages, tips, etc. 32000.00	
						19 Local income tax 320.00	

Form **W-2** Wage and Tax Statement

2006

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

BOX 12: This box is used to show codes and amounts of benefits or contributions. The most commonly used codes are:

CODE C: If the pastor or any lay employee is provided more than \$50,000 in CPP and BPP death benefits or group term life insurance, you need to show the premiums attributed to benefits in excess of \$50,000. If CPP and BPP together provide more than \$50,000 in death benefits, the General Board of Pension and Health Benefits will supply this information on request of your conference treasurer who, in turn, should make this available to the local church. If the pastor has served more than one church during the year, typically this information is only included in the W-2 of the last church served. **THE AMOUNT LABELED CODE C IN BOX 12 MUST BE ADDED TO BOX 1.**

CODE E: Any amount contributed by the employee to the pension plan out of his own wages that is designated as a pretax pension plan contribution. **THE AMOUNT ENTERED HERE MUST BE SUBTRACTED FROM THE TOTAL WAGES IN BOX 1.**

CODE P: Qualified moving expense reimbursements paid directly to the pastor or employee.

BOX 13: Check the retirement plan box if the pastor or lay employee is enrolled in the General Board of Pension and Health pension plan.

BOX 14: Enter the pastor's housing allowance in box 14 with the description **HOUSING** or **PARSONAGE**.

BOX 15: Enter PA followed by the employer number issued to your church by the state.

BOX 16: Enter total wages paid to the employee. **THE PASTOR'S HOUSING ALLOWANCE MUST BE INCLUDED IN THE STATE TOTAL WAGES.**

BOX 17: Enter the state income tax withheld for the employee.

BOX 18: Boxes 18, 19 and 20 are used to report local wages and withholding. As this varies by municipality, please contact your local tax collector for additional information.

COMPLETING FORM W-3

The Form W-3 – Transmittal of Wage and Tax Statements must be filed annually by employers together with Copy A of the Forms W-2. Basically, the information contained in the Forms W-2 and Forms 941 (filed quarterly) is the basis for the information to be supplied on Form W-3. The Form W-3 must be filed with the Social Security Administration by February 28.

The employer should make sure the Form W-3 wage and withholding information agrees with the total amounts from the Forms W-2 and that the Form W-3 is reconciled with the quarterly Form 941 returns.

SPECIFIC INSTRUCTIONS:

- BOX A: A control number is not necessary.
- BOX B: Check the box marked 941. **IF YOU WERE NOT REQUIRED TO FILE QUARTERLY FORMS 941 BECAUSE YOUR PASTOR WAS THE ONLY EMPLOYEE TO WHOM YOU PAID WAGES, DO NOT CHECK ANY OF THE BOXES IN PART B.**
- BOX C: Enter the total number of forms W-2. Show the number of completed forms W-2 that you are sending. Do not include "VOID" forms in the total.
- BOX D: Not applicable
- BOX E: Enter the Church's Federal Employment Identification number.
- BOX F: Enter the Church name.
- BOX G: Enter the full Church address including zip code.
- BOX H: Not applicable.
- BOX 1: Add together all the amounts from box 1 of each of the W-2 forms you have prepared. Enter this total in box 1 of Form W-3.
- BOX 2: Add together all the amounts from box 2 of each of the W-2 forms you have prepared. Enter this total in box 2 of Form W-3.
- BOX 3: Add together all the amounts from box 3 of each of the W-2 forms you have prepared. Enter this total in box 3 of Form W-3.

ANY UNITED METHODIST CHURCH
YEAR END PAYROLL SUMMARY

December 31, 2006

NAME	SALARY	HOUSING ALLOWANCE	INCOME TAX	SOCIAL			MEDICARE TAX	PENNA TAX	LOCAL TAX	NET WAGES
				SECURITY TAX						
SECRETARY	\$18,000.00		\$1,440.00	\$1,116.00		\$261.00	\$552.60	\$180.00	\$14,450.40	
CUSTODIAN	\$16,000.00		\$1,280.00	\$992.00		\$232.00	\$491.20	\$160.00	\$12,844.80	
ORGANIST	\$6,000.00		\$480.00	\$372.00		\$87.00	\$184.20	\$60.00	\$4,816.80	
YOUTH DIRECTOR	\$10,000.00		\$800.00	\$620.00		\$145.00	\$307.00	\$100.00	\$8,028.00	
SUBTOTAL	\$50,000.00	\$0.00	\$4,000.00	\$3,100.00		\$725.00	\$1,535.00	\$500.00	\$40,140.00	
PASTOR	\$32,000.00	\$6,000.00	\$2,000.00	\$0.00		\$0.00	\$982.40	\$320.00	\$34,697.60	
GRAND TOTAL	\$82,000.00	\$6,000.00	\$6,000.00	\$3,100.00		\$725.00	\$2,517.40	\$820.00	\$74,837.60	

DO NOT STAPLE

a Control number 33333		For Official Use Only ▶ OMB No. 1545-0008	
b Kind of Payer 941 ☒ 943 ☐ 944 ☐ CT-1 ☐ Hshid. emp. ☐ Medicare govt. emp. ☐ Third-party sick pay ☐	1 Wages, tips, other compensation 82000.00		2 Federal income tax withheld 4000.00
	3 Social security wages 50000.00		4 Social security tax withheld 3100.00
c Total number of Forms W-2 5	d Establishment number	5 Medicare wages and tips 50000.00	6 Medicare tax withheld 725.00
e Employer identification number (EIN) 12-3456789		7 Social security tips	8 Allocated tips
f Employer's name ANY UNITED METHODIST CHURCH		9 Advance EIC payments	10 Dependent care benefits
g Employer's address and ZIP code 123 MAIN STREET ANYTOWN, PA 15999		11 Nonqualified plans	12 Deferred compensation
		13 For third-party sick pay use only	
h Other EIN used this year		14 Income tax withheld by payer of third-party sick pay	
15 State Employer's state ID number PA 2222 4444		16 State wages, tips, etc. 88000.00	17 State income tax 2517.40
		18 Local wages, tips, etc. 82000.00	19 Local income tax 820.00
Contact person SALLY MEMBER		Telephone number (664) 000-6666	For Official Use Only
Email address member@church.org		Fax number (777) 777-7777	

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature ▶ *Sally Member*Title ▶ *Treasurer*Date ▶ *2-28-07*Form **W-3 Transmittal of Wage and Tax Statements** **2006**Department of the Treasury
Internal Revenue Service

Send this entire page with the entire Copy A page of Form(s) W-2 to the Social Security Administration.
Photocopies are not acceptable.

Do not send any payment (cash, checks, money orders, etc.) with Forms W-2 and W-3.

What's New

New checkbox for box b on Form W-3. Use the "944" checkbox in box b if you file Form 944, Employer's Annual Federal Tax Return. Form 944 for 2006 is a newly developed form.

Magnetic media filing is discontinued. The Social Security Administration (SSA) will no longer accept any magnetic media reporting of Forms W-2.

Reminder

Separate instructions. See the 2006 Instructions for Forms W-2 and W-3 for information on completing this form.

Purpose of Form

Use Form W-3 to transmit Copy A of Form(s) W-2, Wage and Tax Statement. Make a copy of Form W-3 and keep it with Copy D (For Employer) of Form(s) W-2 for your records. Use Form W-3 for the correct year. **File Form W-3 even if only one Form W-2 is being filed.** If you are filing Form(s) W-2 electronically, do not file Form W-3.

When To File

File Form W-3 with Copy A of Form(s) W-2 by February 28, 2007.

Where To File

Send this entire page with the entire Copy A page of Form(s) W-2 to:

**Social Security Administration
Data Operations Center
Wilkes-Barre, PA 18769-0001**

Note. If you use "Certified Mail" to file, change the ZIP code to "18769-0002." If you use an IRS-approved private delivery service, add "ATTN: W-2 Process, 1150 E. Mountain Dr." to the address and change the ZIP code to "18702-7997." See Publication 15 (Circular E), Employer's Tax Guide, for a list of IRS-approved private delivery services.

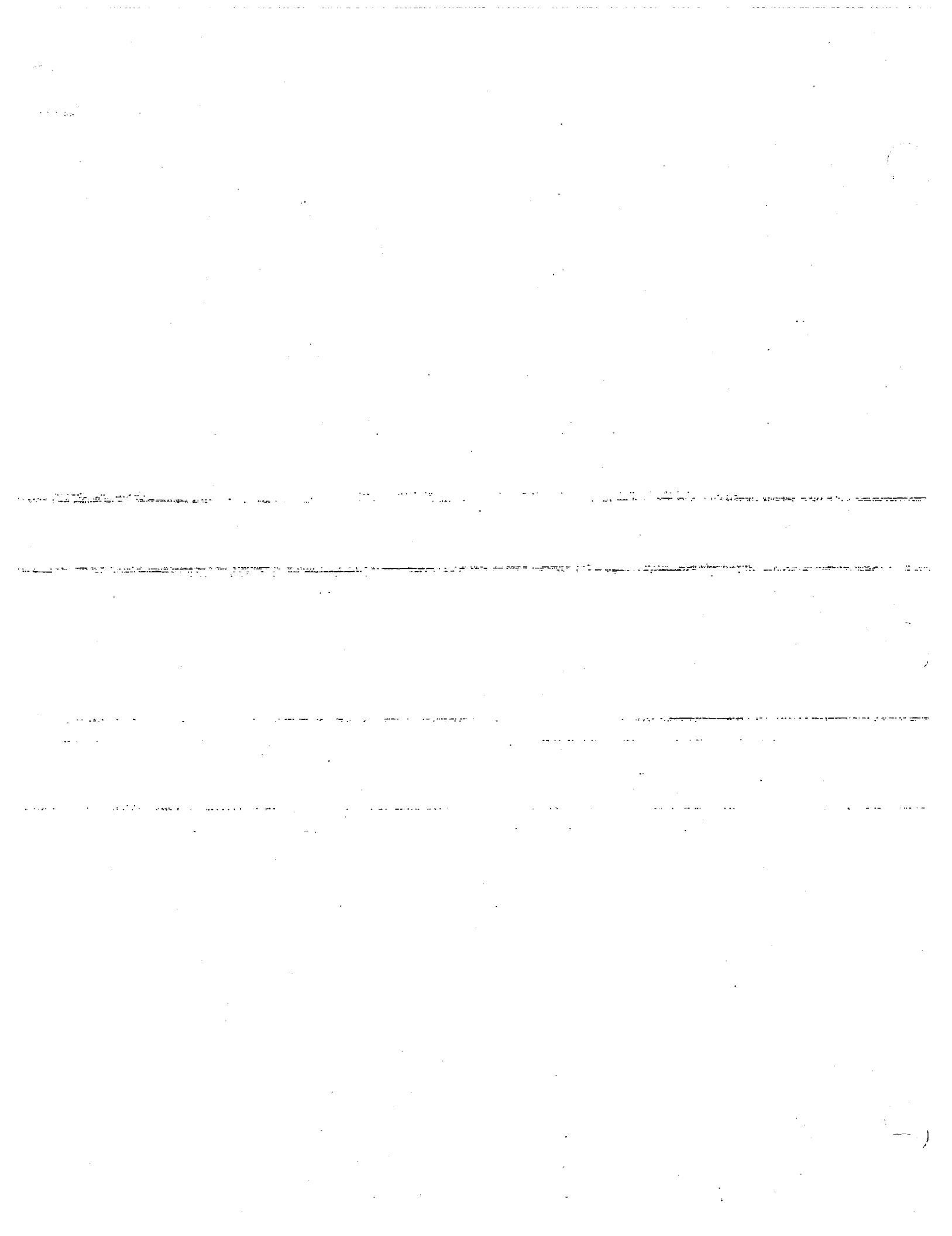
For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D of Form W-2.

- BOX 4: Add together all the amounts from box 4 of each of the W-2 forms you have prepared. Enter this total in box 4 of Form W-3.
- BOX 5: Add together all the amounts from box 5 of each of the W-2 forms you have prepared. Enter this total in box 5 of Form W-3.
- BOX 6: Add together all the amounts from box 6 of each of the W-2 forms you have prepared. Enter this total in box 6 of Form W-3.
- BOX 7: Boxes 7, 8, 9, 10 and 11 are not applicable.
- BOX 12: Add together all the amounts from box 12 **that are marked CODE E** of each of the W-2 forms you have prepared. Enter this total in box 12 of Form W-3.
- BOX 13: Not Applicable.
- BOX 14: Not Applicable.
- BOX 15: This entry must be identical to the entry in Box 15 of each of the forms W-2 you prepared.
- BOX 16: Add together all the amounts from box 16 of each of the W-2 forms you have prepared. Enter this total in box 16 of Form W-3.
- BOX 17: Add together all the amounts from box 17 of each of the W-2 forms you have prepared. Enter this total in box 17 of Form W-3.
- BOX 18: Add together all the amounts from box 18 of each of the W-2 forms you have prepared. Enter this total in box 18 of Form W-3.
- BOX 19: Add together all the amounts from box 19 of each of the W-2 forms you have prepared. Enter this total in box 19 of Form W-3.

Fill in the boxes at the bottom of the form for Contact person, Email address, Telephone number and Fax number.

Be sure to **SIGN AND DATE** the return.

Mail Form W-3 and all Forms W-2 to the Social Security Administration at the address shown in the lower section of the form.



Form W-4 (2010)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2010 expires February 16, 2011. See Pub. 505, Tax Withholding and Estimated Tax.

Note. You cannot claim exemption from withholding if (a) your income exceeds \$950 and includes more than \$300 of unearned income (for example, interest and dividends) and (b) another person can claim you as a dependent on his or her tax return.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How Do I Adjust My Tax Withholding, for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax

payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 919 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 919 for details.

Nonresident alien. If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Check your withholding. After your Form W-4 takes effect, use Pub. 919 to see how the amount you are having withheld compares to your projected total tax for 2010. See Pub. 919, especially if your earnings exceed \$130,000 (Single) or \$180,000 (Married).

Personal Allowances Worksheet (Keep for your records.)

A	Enter "1" for yourself if no one else can claim you as a dependent	A _____				
B	Enter "1" if: <table border="0"><tr><td>☐ You are single and have only one job; or</td><td rowspan="3">} B _____</td></tr><tr><td>☐ You are married, have only one job, and your spouse does not work; or</td></tr><tr><td>☐ Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less.</td></tr></table>	☐ You are single and have only one job; or	} B _____	☐ You are married, have only one job, and your spouse does not work; or	☐ Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less.	
☐ You are single and have only one job; or	} B _____					
☐ You are married, have only one job, and your spouse does not work; or						
☐ Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less.						
C	Enter "1" for your spouse . But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.)	C _____				
D	Enter number of dependents (other than your spouse or yourself) you will claim on your tax return	D _____				
E	Enter "1" if you will file as head of household on your tax return (see conditions under Head of household above)	E _____				
F	Enter "1" if you have at least \$1,800 of child or dependent care expenses for which you plan to claim a credit (Note. Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)	F _____				
G	Child Tax Credit (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. ☐ If your total income will be less than \$61,000 (\$90,000 if married), enter "2" for each eligible child; then less "1" if you have three or more eligible children. ☐ If your total income will be between \$61,000 and \$84,000 (\$90,000 and \$119,000 if married), enter "1" for each eligible child plus "1" additional if you have six or more eligible children.	G _____				
H	Add lines A through G and enter total here. (Note. This may be different from the number of exemptions you claim on your tax return.) ► H _____ For accuracy, complete all worksheets that apply. <table border="0"><tr><td>☐ If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.</td></tr><tr><td>☐ If you have more than one job or are married and you and your spouse both work and the combined earnings from all jobs exceed \$18,000 (\$32,000 if married), see the Two-Earners/Multiple Jobs Worksheet on page 2 to avoid having too little tax withheld.</td></tr><tr><td>☐ If neither of the above situations applies, stop here and enter the number from line H on line 5 of Form W-4 below.</td></tr></table>	☐ If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.	☐ If you have more than one job or are married and you and your spouse both work and the combined earnings from all jobs exceed \$18,000 (\$32,000 if married), see the Two-Earners/Multiple Jobs Worksheet on page 2 to avoid having too little tax withheld.	☐ If neither of the above situations applies, stop here and enter the number from line H on line 5 of Form W-4 below.		
☐ If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the Deductions and Adjustments Worksheet on page 2.						
☐ If you have more than one job or are married and you and your spouse both work and the combined earnings from all jobs exceed \$18,000 (\$32,000 if married), see the Two-Earners/Multiple Jobs Worksheet on page 2 to avoid having too little tax withheld.						
☐ If neither of the above situations applies, stop here and enter the number from line H on line 5 of Form W-4 below.						

----- Cut here and give Form W-4 to your employer. Keep the top part for your records. -----

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate		OMB No. 1545-0074
► Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.				2010
1 Type or print your first name and middle initial.		Last name		2 Your social security number
Home address (number and street or rural route)		3 ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate. Note. If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.		
City or town, state, and ZIP code		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ► ☐		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)		5		
6 Additional amount, if any, you want withheld from each paycheck		6		\$
7 I claim exemption from withholding for 2010, and I certify that I meet both of the following conditions for exemption. ☐ Last year I had a right to a refund of all federal income tax withheld because I had no tax liability and ☐ This year I expect a refund of all federal income tax withheld because I expect to have no tax liability . If you meet both conditions, write "Exempt" here ► 7				
Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete.				
Employee's signature (Form is not valid unless you sign it.) ►		Date ►		
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)	10 Employer identification number (EIN)	

Deductions and Adjustments Worksheet**Note.** Use this worksheet *only* if you plan to itemize deductions or claim certain credits or adjustments to income.

- 1** Enter an estimate of your 2010 itemized deductions. These include qualifying home mortgage interest, charitable contributions, state and local taxes, medical expenses in excess of 7.5% of your income, and miscellaneous deductions **1** \$ _____
- 2** Enter: $\left\{ \begin{array}{l} \$11,400 \text{ if married filing jointly or qualifying widow(er)} \\ \$8,400 \text{ if head of household} \\ \$5,700 \text{ if single or married filing separately} \end{array} \right\}$ **2** \$ _____
- 3** Subtract line 2 from line 1. If zero or less, enter "-0-" **3** \$ _____
- 4** Enter an estimate of your 2010 adjustments to income and any additional standard deduction. (Pub. 919) **4** \$ _____
- 5** Add lines 3 and 4 and enter the total. (Include any amount for credits from *Worksheet 6* in Pub. 919.) **5** \$ _____
- 6** Enter an estimate of your 2010 nonwage income (such as dividends or interest) **6** \$ _____
- 7** Subtract line 6 from line 5. If zero or less, enter "-0-" **7** \$ _____
- 8** Divide the amount on line 7 by \$3,650 and enter the result here. Drop any fraction **8** _____
- 9** Enter the number from the **Personal Allowances Worksheet**, line H, page 1 **9** _____
- 10** Add lines 8 and 9 and enter the total here. If you plan to use the **Two-Earners/Multiple Jobs Worksheet**, also enter this total on line 1 below. Otherwise, **stop here** and enter this total on Form W-4, line 5, page 1 **10** _____

Two-Earners/Multiple Jobs Worksheet (See *Two earners or multiple jobs* on page 1.)**Note.** Use this worksheet *only* if the instructions under line H on page 1 direct you here.

- 1** Enter the number from line H, page 1 (or from line 10 above if you used the **Deductions and Adjustments Worksheet**) **1** _____
 - 2** Find the number in **Table 1** below that applies to the **LOWEST** paying job and enter it here. **However**, if you are married filing jointly and wages from the highest paying job are \$65,000 or less, do not enter more than "3." **2** _____
 - 3** If line 1 is **more than or equal to** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter "-0-") and on Form W-4, line 5, page 1. **Do not** use the rest of this worksheet **3** _____
- Note.** If line 1 is **less than** line 2, enter "-0-" on Form W-4, line 5, page 1. Complete lines 4-9 below to figure the additional withholding amount necessary to avoid a year-end tax bill.
- 4** Enter the number from line 2 of this worksheet **4** _____
 - 5** Enter the number from line 1 of this worksheet **5** _____
 - 6** Subtract line 5 from line 4 **6** _____
 - 7** Find the amount in **Table 2** below that applies to the **HIGHEST** paying job and enter it here **7** \$ _____
 - 8** Multiply line 7 by line 6 and enter the result here. This is the additional annual withholding needed **8** \$ _____
 - 9** Divide line 8 by the number of pay periods remaining in 2010. For example, divide by 26 if you are paid every two weeks and you complete this form in December 2009. Enter the result here and on Form W-4, line 6, page 1. This is the additional amount to be withheld from each paycheck **9** \$ _____

Table 1**Married Filing Jointly****All Others**

If wages from LOWEST paying job are—	Enter on line 2 above	If wages from LOWEST paying job are—	Enter on line 2 above
\$0 - \$7,000 -	0	\$0 - \$6,000 -	0
7,001 - 10,000 -	1	6,001 - 12,000 -	1
10,001 - 16,000 -	2	12,001 - 19,000 -	2
16,001 - 22,000 -	3	19,001 - 26,000 -	3
22,001 - 27,000 -	4	26,001 - 35,000 -	4
27,001 - 35,000 -	5	35,001 - 50,000 -	5
35,001 - 44,000 -	6	50,001 - 65,000 -	6
44,001 - 50,000 -	7	65,001 - 80,000 -	7
50,001 - 55,000 -	8	80,001 - 90,000 -	8
55,001 - 65,000 -	9	90,001 - 120,000 -	9
65,001 - 72,000 -	10	120,001 and over	10
72,001 - 85,000 -	11		
85,001 - 105,000 -	12		
105,001 - 115,000 -	13		
115,001 - 130,000 -	14		
130,001 - and over	15		

Table 2**Married Filing Jointly****All Others**

If wages from HIGHEST paying job are—	Enter on line 7 above	If wages from HIGHEST paying job are—	Enter on line 7 above
\$0 - \$65,000	\$550	\$0 - \$35,000	\$550
65,001 - 120,000	910	35,001 - 90,000	910
120,001 - 185,000	1,020	90,001 - 165,000	1,020
185,001 - 330,000	1,200	165,001 - 370,000	1,200
330,001 and over	1,280	370,001 and over	1,280

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. Internal Revenue Code sections 3402(f)(2) and 6109 and their regulations require you to provide this information; your employer uses it to determine your federal income tax withholding. Failure to provide a properly completed form will result in your being treated as a single person who claims no withholding allowances; providing fraudulent information may subject you to penalties. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their tax laws, and using it in the National Directory of New Hires. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.

Instructions for Form 941

(Rev. February 2010)

Employer's QUARTERLY Federal Tax Return



Department of the Treasury
Internal Revenue Service

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

COBRA premium assistance credit extended. The credit for COBRA premium assistance payments has been extended. It now applies to premiums paid for employees terminated before March 1, 2010, and to premiums paid for 15 months. See *COBRA premium assistance credit* on page 6.

Employers can choose to file Forms 941 instead of Form 944 for 2010. Beginning with tax year 2010, employers that would otherwise be required to file Form 944 can notify the IRS if they want to file quarterly Forms 941 instead of annual Form 944. See Revenue Procedure 2009-51 2009-45 I.R.B. 625, available at www.irs.gov/irb/2009-45_IRB/ar12.html.

Social security wage base for 2010. Do not withhold social security tax after an employee reaches \$106,800 in social security wages in 2010.

Reminders

Correcting a previously filed Form 941. If you discover an error on a previously filed Form 941, make the correction using Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund. Form 941-X is filed separately from Form 941. For more information, see section 13 of Pub. 15 (Circular E) or visit the IRS website at www.irs.gov and enter the keywords *Correcting Employment Taxes*.

Paid preparers must sign Form 941. Paid preparers must complete and sign the paid preparer's section of Form 941.

Electronic filing and payment. Now, more than ever before, businesses can enjoy the benefits of filing and paying their federal taxes electronically. Whether you rely on a tax professional or handle your own taxes, the IRS offers you convenient programs to make filing and paying easier. Spend less time and worry on taxes and more time running your business. Use e-file and the Electronic Federal Tax Payment System (EFTPS) to your benefit.

- For e-file, visit www.irs.gov for additional information.
- For EFTPS, visit www.eftps.gov/eftps or call EFTPS Customer Service at 1-800-555-4477, 1-800-733-4829 (TDD), or 1-800-244-4829 (Spanish).

Electronic funds withdrawal (EFW). If you file Form 941 electronically, you can e-file and e-pay (electronic funds withdrawal) the balance due in a single step using tax preparation software or through a tax professional. However, **do not** use EFW to make federal tax deposits. For more information on paying your taxes using EFW, visit the IRS website at www.irs.gov and type *e-pay* in the search box. A fee may be charged to file electronically.

Credit card payments. Employers can pay the balance due shown on Form 941 by credit card. **Do not** use a credit card to make federal tax deposits. For more information on paying your taxes with a credit card, visit the IRS website at www.irs.gov and type *e-pay* in the search box.

Employer's liability. Employers are responsible to ensure that tax returns are filed and deposits and payments are made, even if the employer contracts with a third party. The

employer remains liable if the third party fails to perform a required action.

Where can you get telephone help? You can call the IRS Business and Specialty Tax Line toll free at 1-800-829-4933, Monday through Friday from 7 a.m. to 10 p.m. local time (Alaska and Hawaii follow Pacific time) to order tax deposit coupons (Form 8109) and for answers to your questions about completing Form 941, tax deposit rules, or obtaining an employer identification number (EIN).

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in instructions on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

General Instructions:

Purpose of Form 941

These instructions give you some background information about Form 941. They tell you who must file Form 941, how to complete it line by line, and when and where to file it.

If you want more in-depth information about payroll tax topics relating to Form 941, see Pub. 15 (Circular E), Employer's Tax Guide, or visit the IRS website at www.irs.gov/businesses and click on the *Employment Taxes* link.

Federal law requires you, as an employer, to withhold taxes from your employees' paychecks. Each time you pay wages, you must withhold – or take out of your employees' paychecks – certain amounts for federal income tax, social security tax, and Medicare tax. Under the withholding system, taxes withheld from your employees are credited to your employees in payment of their tax liabilities.

Federal law also requires you to pay any liability for the employer's portion of social security and Medicare taxes. This portion of social security and Medicare taxes is not withheld from employees.

Who Must File Form 941?

Use Form 941 to report the following amounts.

- Wages you have paid.
- Tips your employees have received.
- Federal income tax you withheld.
- Both the employer's and the employee's share of social security and Medicare taxes.
- Current quarter's adjustments to social security and Medicare taxes for fractions of cents, sick pay, tips, and group-term life insurance.
- Advance earned income tax credit (EIC) payments.
- Credit for COBRA premium assistance payments.

Do not use the Form 941 to report backup withholding or income tax withholding on **nonpayroll** payments such as pensions, annuities, and gambling winnings. Report these types of withholding on Form 945, Annual Return of Withheld Federal Income Tax.

After you file your first Form 941, you must file a return for each quarter, even if you have no taxes to report, unless

you filed a **final return** or one of the exceptions listed below applies.

Exceptions

Special rules apply to some employers.

- **Seasonal employers** do not have to file a Form 941 for quarters in which they have no tax liability because they have paid no wages. To tell the IRS that you will not file a return for one or more quarters during the year, check the box on line 19 **every quarter** you file Form 941. See section 12 of Pub. 15 (Circular E) for more information.
- Employers of **household employees** do not usually file Form 941. See Pub. 926, Household Employer's Tax Guide, and Schedule H (Form 1040), Household Employment Taxes, for more information.
- Employers of **farm employees** do not usually file Form 941. See Form 943, Employer's Annual Federal Tax Return for Agricultural Employees, and Pub. 51 (Circular A), Agricultural Employer's Tax Guide.

TIP If none of the above exceptions applies and you have not filed a final return, you **must** file Form 941 each quarter even if you did not pay wages during the quarter. Use IRS e-file, if possible.

What if you reorganize or close your business?

If you sell or transfer your business . . .

If you sell or transfer your business, you and the new owner must each file a Form 941 for the quarter in which the transfer occurred. Report only the wages you paid.

When two businesses merge, the continuing firm must file a return for the quarter in which the change took place and the other firm should file a **final return**.

Changing from one form of business to another—such as from a sole proprietorship to a partnership or corporation—is considered a transfer. If a transfer occurs, you may need a new EIN. See section 1 of Pub. 15 (Circular E). Attach a statement to your return with:

- The new owner's name (or the new name of the business);
- Whether the business is now a sole proprietorship, partnership, or corporation;
- The kind of change that occurred (a sale or transfer);
- The date of the change; and
- The name of the person keeping the payroll records and the address where those records will be kept.

If your business has closed . . .

If you go out of business or stop paying wages to your employees, you must file a **final return**. To tell the IRS that Form 941 for a particular quarter is your final return, check the box on line 18 and enter the date you last paid wages. Also attach a statement to your return showing the name of the person keeping the payroll records and the address where those records will be kept.

See the Instructions for Forms W-2, Wage and Tax Statement, and W-3, Transmittal of Wage and Tax Statement, for information about earlier dates for the expedited furnishing and filing of Forms W-2 when a final Form 941 is filed.

If you participated in a statutory merger or consolidation, or qualify for predecessor-successor status due to an acquisition, you should generally file Schedule D (Form 941), Report of Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations. See the Instructions for Schedule D (Form 941) to determine whether you should file Schedule D (Form 941) and when you should file it.

When Must You File?

File your initial Form 941 for the quarter in which you first paid wages that are subject to social security and Medicare

taxes or subject to federal income tax withholding. See the table below titled, *When To File Form 941*.

Then you must file for every quarter after that—every 3 months—even if you have no taxes to report, unless you are a seasonal employer or are filing your final return. See *Seasonal employers* and *If your business has closed . . .* above.

File Form 941 only once for each quarter. If you filed electronically, do not file a paper Form 941. For more information about filing Form 941 electronically, see *Electronic filing and payment* on page 1.

When To File Form 941

Your Form 941 is due by the last day of the month that follows the end of the quarter.		
The Quarter Includes . . .	Quarter Ends	Form 941 Is Due
1. January, February, March	March 31	April 30
2. April, May, June	June 30	July 31
3. July, August, September	September 30	October 31
4. October, November, December	December 31	January 31

For example, generally you must report wages you pay during the first quarter—which is January through March—by April 30th. If you made timely deposits in full payment of your taxes for a quarter, you have 10 more days after the due dates shown above to file your Form 941.

If we receive Form 941 after the due date, we will treat Form 941 as filed on time if the envelope containing Form 941 is properly addressed, contains sufficient postage, and is postmarked by the U.S. Postal Service on or before the due date, or sent by an IRS-designated private delivery service on or before the due date. If you do not follow these guidelines, we will consider Form 941 filed when it is actually received. See Pub. 15 (Circular E) for more information on IRS-designated private delivery services.

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.

How Should You Complete Form 941?

Review Your Business Information at the Top of the Form

If you are using a copy of Form 941 that has your business name and address preprinted at the top of the form, check to make sure the information is correct. Carefully review your EIN to make sure it exactly matches the EIN assigned to your business by the IRS. If any information is incorrect, cross it out and type or print the correct information. See *If you change your name or address . . .* on page 3.

If you use a tax preparer to fill out Form 941, make sure the preparer uses your business name and EIN **exactly** as they appear on the preprinted form we sent you.

If you are not using a preprinted Form 941, type or print your EIN, name, and address in the spaces provided. Also enter your name and EIN on the top of page 2. **Do not** use your social security number (SSN) or individual taxpayer identification number (ITIN). Generally, enter the business (legal) name you used when you applied for your EIN on Form SS-4, Application for Employer Identification Number. For example, if you are a sole proprietor, enter "Haleigh Smith" on the "Name" line and "Haleigh's Cycles" on the "Trade name" line. Leave the "Trade name" line blank if it is the same as your "Name."

Employer identification number (EIN). To make sure businesses comply with federal tax laws, the IRS monitors tax filings and payments by using a numerical system to identify taxpayers. A unique 9-digit employer identification

number (EIN) is assigned to all corporations, partnerships, and some sole proprietors. Businesses needing an EIN must apply for a number and use it throughout the life of the business on all tax returns, payments, and reports.

Your business should have only one EIN. If you have more than one and are not sure which one to use, write to the IRS office where you file your returns (using the *Without a payment* address on page 4) or call the IRS at 1-800-829-4933.

If you do not have an EIN, you may apply for one online. Go to the IRS website at www.irs.gov and click on the *Apply for an Employer Identification Number (EIN) Online* link. You may also apply for an EIN by calling 1-800-829-4933, or you can fax or mail Form SS-4 to the IRS. If you have applied for an EIN but do not have your EIN by the time a return is due, write "Applied For" and the date you applied in the space shown for the number.

TIP Always be sure the EIN on the form you file exactly matches the EIN the IRS assigned to your business. Do not use your social security number on forms that ask for an EIN. Filing a Form 941 with an incorrect EIN or using another business's EIN may result in penalties and delays in processing your return.

If you change your name or address... Notify the IRS immediately if you change your business name or address.

- Write to the IRS office where you file your returns (using the *Without a payment* address on page 4) to notify the IRS of any name change. Get Pub. 1635, Understanding Your Employer Identification Number (EIN), to see if you need to apply for a new EIN.
- Complete and mail Form 8822, Change of Address, for any address change.

Check the Box for the Quarter

Under "Report for this Quarter of 2010" at the top of Form 941, check the appropriate box of the quarter for which you are filing. Make sure the quarter checked is the same as shown on any attached Schedule B (Form 941), Report of Tax Liability for Semiweekly Schedule Depositors.

Completing and Filing Form 941

Make entries on Form 941 as follows to enable accurate scanning and processing.

- Use 12-point Courier font (if possible) for all entries if you are typing or using a computer to fill out your form.
- Omit dollar signs and decimal points. Commas are optional. Report dollars to the left of the preprinted decimal point and cents to the right of it.
- Leave blank any data field (except lines 1, 2, and 10) with a value of zero.
- Enter negative amounts using a minus sign (if possible). Otherwise, use parentheses.
- Enter your name and EIN on all pages and attachments. Filers using the IRS-preaddressed Form 941 do not have to enter their name and EIN on page 2.
- Staple multiple sheets in the upper left corner when filing.

Other Forms You Must Use

To notify employees about the earned income credit (EIC), you must give the employees one of the following:

- The IRS Form W-2, which has the required information about the EIC on the back of Copy B.
- A substitute Form W-2 with the same EIC information on the back of the employee's copy that is on Copy B of the IRS Form W-2.
- Notice 797, Possible Federal Tax Refund Due to the Earned Income Credit (EIC).
- Your written statement with the same wording as Notice 797.

Each eligible employee who wishes to receive any advance earned income credit payments must give you a completed Form W-5, Earned Income Credit Advance

Payment Certificate. For more information, see section 10 of Pub. 15 (Circular E) and Pub. 596, Earned Income Credit.

Reconciling Forms 941 and Form W-3

The IRS matches amounts reported on your four quarterly Forms 941 with Form W-2 amounts totaled on your yearly Form W-3, Transmittal of Wage and Tax Statements. If the amounts do not agree, you may be contacted by the IRS or the Social Security Administration (SSA). The following amounts are reconciled.

- Federal income tax withholding.
- Social security wages.
- Social security tips.
- Medicare wages and tips.
- Advance earned income credit (EIC) payments.

For more information, see section 12 of Pub. 15 (Circular E) and the Instructions for Schedule D (Form 941).

Depositing Your Taxes: When Must You Deposit Your Taxes?

Determine if you are a monthly or semiweekly schedule depositor for the quarter.

The IRS uses two different sets of deposit rules to determine when businesses must deposit their social security, Medicare, and withheld federal income taxes. These schedules tell you when a deposit is due after you have a payday.

Your deposit schedule is not determined by how often you pay your employees. Your deposit schedule depends on the total tax liability you reported on Form 941 during the previous four-quarter **lookback period** (July 1 of the second preceding calendar year through June 30 of last year). See section 11 of Pub. 15 (Circular E) for details. If you filed Form 944 in either 2008 or 2009, your lookback period is the 2008 calendar year.

Before the beginning of each calendar year, determine which type of deposit schedule you must use. If you reported:

- \$50,000 or less in taxes during the lookback period, you are a **monthly schedule depositor**.
- More than \$50,000 of taxes for the lookback period, you are a **semiweekly schedule depositor**.

TIP See section 11 of Pub. 15 (Circular E) for the Next Day Deposit Rule on taxes of \$100,000 or more accumulated on any day during the deposit period.

How Must You Deposit Your Taxes?

You may have to deposit the federal income taxes you withheld and both the employer and employee social security taxes and Medicare taxes. If your total taxes after adjustment for advance EIC (line 10) are:

- **Less than \$2,500 for the current quarter or the preceding quarter, and you did not incur a \$100,000 next-day deposit obligation during the current quarter.** You do not have to make a deposit. To avoid a penalty, you must pay the amount in full with a timely filed return or you must deposit the amount timely. However, if your taxes for the preceding quarter were less than \$2,500, you are unsure whether you will incur a \$100,000 next-day deposit obligation in the current quarter, and you are unsure your taxes will be less than \$2,500 in the current quarter, deposit your taxes using the appropriate rules (above) to avoid failure to deposit penalties.
- **\$2,500 or more for the current quarter and the preceding quarter.** You must deposit your taxes by using EFTPS or by depositing them at a financial institution that is authorized to accept federal tax deposits (that is, authorized

depository) with Form 8109, Federal Tax Deposit Coupon. See section 11 of Pub. 15 (Circular E).

You may reduce your deposits during the quarter by the amount of COBRA premium assistance payments reported on line 12a. See the instructions for line 12a on page 6.

TIP *EFTPS is an easy, safe, and convenient way for all employers to make their tax deposits. Using EFTPS helps eliminate errors commonly made on federal tax deposit (FTD) coupons. Some taxpayers are required to use EFTPS to deposit their taxes. See section 11 of Pub. 15 (Circular E) for details.*

What About Penalties and Interest?

Avoiding penalties and interest

You can avoid paying penalties and interest if you do all of the following:

- Deposit or pay your taxes when they are due, using EFTPS if required.
- File your fully completed Form 941 on time.
- Report your tax liability accurately.
- Submit valid checks for tax payments.
- Furnish accurate Forms W-2 to employees.
- File Form W-3 and Copies A of Form W-2 with the Social Security Administration (SSA) on time and accurately.

Penalties and interest are charged on taxes paid late and returns filed late at a rate set by law. See sections 11 and 12 of Pub. 15 (Circular E) for details.

Use Form 843, Claim for Refund and Request for Abatement, to request abatement of assessed penalties or interest. **Do not** request abatement of assessed penalties or interest on Form 941 or Form 941-X.

CAUTION *A trust fund recovery penalty may apply if federal income, social security, and Medicare taxes that must be withheld are not withheld or paid. The penalty is the full amount of the unpaid trust fund tax. This penalty may apply when these unpaid taxes cannot be collected from the employer. The trust fund recovery penalty may be imposed on all people the IRS determines to be responsible for collecting, accounting for, and paying these taxes, and who acted willfully in not doing so. For details, see section 11 of Pub. 15 (Circular E).*

Where Should You File?

Where you file depends on whether you include a payment with Form 941.

If you are in . . .	Without a payment . . .	With a payment . . .
Special filing addresses for exempt organizations; federal, state, and local governmental entities; and Indian tribal governmental entities; regardless of location	Department of the Treasury Internal Revenue Service Ogden, UT 84201-0005	Internal Revenue Service P.O. Box 105083 Atlanta, GA 30348-5083
Connecticut	New Jersey	Department of the Treasury
Delaware	New York	Internal Revenue Service
District of Columbia	North Carolina	P.O. Box 804522
Georgia	Ohio	Cincinnati, OH 45280-4522
Illinois	Pennsylvania	
Indiana	Rhode Island	
Kentucky	South Carolina	
Maine	Tennessee	
Maryland	Vermont	
Massachusetts	Virginia	
Michigan	West Virginia	
New Hampshire	Wisconsin	

If you are in . . .	Without a payment . . .	With a payment . . .
Alabama	Missouri	Department of the Treasury
Alaska	Montana	Internal Revenue Service
Arizona	Nebraska	Ogden, UT 84201-0005
Arkansas	Nevada	
California	New Mexico	
Colorado	North Dakota	
Florida	Oklahoma	
Hawaii	Oregon	
Idaho	South Dakota	
Iowa	Texas	
Kansas	Utah	
Louisiana	Washington	
Minnesota	Wyoming	
Mississippi		
No legal residence or principal place of business in any state	Internal Revenue Service P.O. Box 409101 Ogden, UT 84409	Internal Revenue Service P.O. Box 105273 Atlanta, GA 30348-5273

CAUTION *Your filing or payment address may have changed from prior years. If you are using an IRS-provided envelope, use only the labels and envelope provided with the tax package. Do not send Form 941 or any payments to the SSA.*

Specific Instructions:

Part 1: Answer these questions for this quarter.

1. Number of employees who received wages, tips, or other compensation this quarter

Enter the number of employees on your payroll for the pay period including March 12, June 12, September 12, or December 12, **for the quarter indicated** at the top of Form 941. Do not include:

- Household employees,
- Employees in nonpay status for the pay period,
- Farm employees,
- Pensioners, or
- Active members of the Armed Forces.

TIP *If you enter "250" or more on line 1, you must file Forms W-2 electronically. For details, call the SSA at 1-800-772-6270 or visit SSA's Employer W-2 Filing Instructions and Information website at www.socialsecurity.gov/employer.*

2. Wages, tips, and other compensation

Enter amounts on line 2 that would also be included in box 1 of your employees' Forms W-2. Include sick pay paid by a third party if you were given timely notice of the payments and transferred liability for the employees' taxes. See the Instructions for Forms W-2 and W-3 for details.

If you are a third-party payer of sick pay, do not include sick pay that you paid to policyholders' employees here if you gave the policyholders timely notice of the payments.

3. Income tax withheld from wages, tips, and other compensation

Enter the federal income tax you withheld (or were required to withhold) from your employees on this quarter's wages, tips, taxable fringe benefits, and supplemental unemployment compensation benefits. Do not include any income tax withheld by a third-party payer of sick pay even if you reported it on Form W-2. You will reconcile this difference on Form W-3. Also include here any excise taxes you were required to withhold on golden parachute payments (section 4999).

If you are a third-party payer of sick pay, enter the federal income tax you withheld (or were required to withhold) on third-party sick pay here.

4. If no wages, tips, and other compensation are subject to social security or Medicare tax . . .

If no wages, tips, and other compensation on line 2 are subject to social security or Medicare tax, check the box on line 4. If this question does not apply to you, leave the box blank. For more information about exempt wages, see section 15 of Pub. 15 (Circular E) and section 4 of Pub. 15-A.



If you are a government employer, wages you pay are not automatically exempt from social security and Medicare taxes. Your employees may be covered by law or by a voluntary Section 218 Agreement with the SSA. For more information, see Pub. 963, Federal-State Reference Guide.

5. Taxable social security and Medicare wages and tips

5a. Taxable social security wages. Report the total wages, sick pay, and fringe benefits subject to social security taxes you paid to your employees during the quarter. For this purpose, sick pay includes payments made by an insurance company to your employees for which you received timely notice from the insurance company. See Section 6 in Pub. 15-A for more information about sick pay reporting.

Enter the amount before deductions. **Do not** include tips on this line. For information on types of wages subject to social security taxes, see section 5 of Pub. 15 (Circular E).

The rate of social security tax on taxable wages is 6.2 percent (.062) each for the employer and employee or 12.4 percent (.124) for both. Stop paying social security tax on and reporting an employee's wages on line 5a when the employee's taxable wages (including tips) reach \$106,800 during 2010, unchanged from 2009. However, continue to withhold income and Medicare taxes for the whole year on wages and tips even when the social security wage base of \$106,800 has been reached.

$$\begin{array}{r} \text{line 5a (column 1)} \\ \times .124 \\ \hline \text{line 5a (column 2)} \end{array}$$

5b. Taxable social security tips. Enter all tips your employees reported to you during the quarter until the total of the tips and wages for an employee reach \$106,800 in 2010. Do this even if you were unable to withhold the employee tax of 6.2%.

An employee must report cash tips to you, including tips you paid the employee for charge customers, totaling \$20 or more in a month by the 10th of the next month. Employees may use Form 4070, Employee's Report of Tips to Employer (available only in Pub. 1244, Employee's Daily Record of Tips and Report to Employer), or submit a written statement or electronic tip record.

Do not include allocated tips on this line. Instead, report them on Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips. Allocated tips are not reportable on Form 941 and are not subject to withholding of federal income, social security, or Medicare taxes.

$$\begin{array}{r} \text{line 5b (column 1)} \\ \times .124 \\ \hline \text{line 5b (column 2)} \end{array}$$

5c. Taxable Medicare wages & tips. Report all wages, tips, sick pay, and taxable fringe benefits that are subject to Medicare tax. Unlike social security wages, there is no limit on the amount of wages subject to Medicare tax.

Include all tips your employees reported during the quarter, even if you were unable to withhold the employee tax of 1.45%.

$$\begin{array}{r} \text{line 5c (column 1)} \\ \times .029 \\ \hline \text{line 5c (column 2)} \end{array}$$

For more information on tips, see section 6 of Pub. 15 (Circular E).

5d. Total social security and Medicare taxes. Add the social security tax (line 5a), social security tips tax (line 5b), and Medicare tax (line 5c) and enter the result on line 5d.

6. Total taxes before adjustments

Add the total federal income tax withheld from wages, tips, and other compensation (line 3) and the total social security and Medicare taxes before adjustments (line 5d).

7. TAX ADJUSTMENTS

Enter **tax amounts** on lines 7a through 7c that result from current quarter adjustments. Use a minus sign (if possible) to show an adjustment that decreases the total taxes shown on line 6 instead of parentheses. Doing so enhances the accuracy of our scanning software. For example, report "-10.59" instead of "(10.59)." However, if your software only allows for parentheses in reporting negative amounts, you may use them.

Current quarter's adjustments. In certain cases, you must adjust the amounts you reported as social security and Medicare taxes in column 2 of lines 5a, 5b, and 5c to figure your correct tax liability for this quarter's Form 941. See section 13 of Pub. 15 (Circular E).

Prior quarter's adjustments. If you need to adjust any amount reported on lines 7a, 7b, or 7c from a previously filed Form 941, complete and file Form 941-X. Form 941-X is an adjusted return and is filed separately from Form 941. See section 13 of Pub. 15 (Circular E).

7a. Current quarter's fractions of cents. Enter adjustments for fractions of cents (due to rounding) relating to the employee share of social security and Medicare taxes withheld. The employee share (one-half) of amounts shown in column 2 of lines 5a, 5b, and 5c may differ slightly from amounts actually withheld from employees' paychecks due to the rounding of social security and Medicare taxes based on statutory rates.

7b. Current quarter's sick pay. Enter the adjustment for the employee share of social security and Medicare taxes that were withheld by your third-party sick pay payer.

7c. Current quarter's adjustments for tips and group-term life insurance. Enter adjustments for:

- Any uncollected employee share of social security and Medicare taxes on tips and
- The uncollected employee share of social security and Medicare taxes on group-term life insurance premiums paid for former employees.

7d. TOTAL ADJUSTMENTS. Combine all adjustments shown on lines 7a through 7c and enter the result here.

8. Total taxes after adjustments

Combine the amounts shown on lines 6 and 7d and enter the result here.

9. Advance earned income credit (EIC) payments made to employees

Enter the amount of the advance earned income credit (EIC) payments that you made to your employees. Eligible employees may choose to receive part of the EIC as an advance payment. Those who expect to have a qualifying child must give you a completed Form W-5 stating they expect to qualify for the EIC. Once the employee gives you a signed and completed Form W-5 you must make the advance EIC payments starting with the employee's next

wage payment. Advance EIC payments are generally made from withheld federal income tax and employee and employer social security and Medicare taxes.

If the amount of your advance EIC payments is more than your total taxes after adjustments (line 8) for the quarter, you may claim a refund of the overpayment or elect to have the credit applied to your return for the next quarter. Attach a statement to Form 941 identifying the amount of excess payments and the pay periods in which you paid it.

For more information on advance EIC, see section 10 of Pub. 15 (Circular E) and Pub. 596.

10. Total taxes after adjustment for advance EIC

Subtract line 9 from line 8.

- **Line 10 is less than \$2,500 or line 10 on the preceding quarterly return was less than \$2,500, and you did not incur a \$100,000 next-day deposit obligation during the current quarter.** You may pay the amount with Form 941 or you may deposit the amount. To avoid a penalty, you must pay the amount in full with a timely filed return or you must deposit the amount timely.
- **If line 10 is \$2,500 or more and line 10 on the preceding quarterly return was \$2,500 or more, or if you incurred a \$100,000 next-day deposit obligation during the current quarter.** You must deposit the amount by using EFTPS or at an authorized financial institution with Form 8109. The amount shown on line 10 must equal the "Total liability for quarter" shown on Form 941, line 17 or the "Total liability for the quarter" shown on Schedule B (Form 941).

For more information on federal tax deposits, see *Depositing Your Taxes* on page 3 of these instructions and section 11 of Pub. 15 (Circular E).



If you are a *semiweekly depositor*, you must complete Schedule B (Form 941). If you fail to complete and submit Schedule B (Form 941), the IRS will assert deposit penalties based on available information.

11. Total deposits for this quarter...

Enter your deposits for this quarter, including any overpayment that you applied from filing Form 941-X or Form 944-X in the current quarter. Also include in the amount shown any overpayment from a previous period that you applied to this return.

12a. COBRA premium assistance payments

Report on this line 65% of the COBRA premiums for assistance eligible individuals. Take the COBRA premium assistance credit on this line only after the assistance eligible individual's 35% share of the premium has been paid. For COBRA coverage provided under a self-insured plan, COBRA premium assistance is treated as having been made for each assistance eligible individual who pays 35% of the COBRA premium. Do not include the assistance eligible individual's 35% of the premium in the amount entered on this line. For more information on the COBRA premium assistance credit visit the IRS website at www.irs.gov and enter the keyword *COBRA*.

If you provided premium assistance in a prior quarter of the current year and did not report the amount of that premium assistance on Form 941 for that quarter, you may include the amount of that premium assistance in the amount entered on this line, or file form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund, to report the amount for the prior quarter of the current year.

12b. Number of individuals provided COBRA premium assistance on line 12a

Enter the total number of assistance eligible individuals provided COBRA premium assistance reported on line 12a. Count each assistance eligible individual who paid a reduced COBRA premium in the quarter as one individual, whether or not the reduced premium was for insurance that covered more than one assistance eligible individual. For example, if the reduced COBRA premium was for coverage for a former employee, spouse, and two children, you would include one individual in the number entered on line 12b for the premium assistance. Further, each individual is reported only once per quarter. For example, an assistance eligible individual who made monthly premium payments during the quarter would only be reported as one individual.

13. Total deposits and COBRA credit

Add lines 11 and 12a.

14. Balance due

If line 10 is more than line 13, write the difference in line 14. Otherwise, see *Overpayment* below. **You do not have to pay if line 14 is under \$1.** Generally, you should have a balance due only if your total taxes after adjustment for advance EIC (line 10), for the current quarter or preceding quarter are less than \$2,500, and you did not incur a \$100,000 next-day deposit obligation during the current quarter. However, see section 11 of Pub. 15 (Circular E) for information about payments made under the **accuracy of deposits rule**.

You may pay the amount shown on line 14 using EFTPS, a credit card, a check or money order, or electronic funds withdrawal (EFW). **Do not** use a credit card or EFW to pay taxes that were required to be deposited. For more information on paying your taxes with a credit card or EFW, visit the IRS website at www.irs.gov and click on the *Online Services* link.

If you pay by EFTPS, credit card, or EFW, file your return using the *Without a payment* address on page 4 under *Where Should You File?* and **do not** file Form 941-V, Payment Voucher.

If you pay by check or money order, make it payable to the *United States Treasury*. Enter your EIN, Form 941, and the tax period on your check or money order. Complete Form 941-V and enclose with Form 941.

If line 10 is \$2,500 or more and you have deposited all taxes when due, the balance due on line 14 should be zero.



If you do not deposit as required and, instead, pay the taxes with Form 941, you may be subject to a penalty.

15. Overpayment

If line 13 is more than line 10, write the difference in line 15. **Never make an entry in both lines 14 and 15.**

If you deposited more than the correct amount for the quarter, you can choose to have the IRS either refund the overpayment or apply it to your next return. Check only one box in line 15. If you do not check either box or if you check both boxes, generally we will apply the overpayment to your account. We may apply your overpayment to any past due tax account that is shown in our records under your EIN.

If line 15 is under \$1, we will send a refund or apply it to your next return only if you ask us in writing to do so.

Complete both pages.

You must complete both pages of Form 941 and sign on page 2. An incomplete return may delay processing.

Part 2: Tell us about your deposit schedule and tax liability for this quarter.

16. State abbreviation

In the spaces provided, write the two-letter U.S. Postal Service abbreviation for the bank branch in the state where you deposit your taxes using Form 8109 or initiate EFTPS transfers. The IRS uses the state shown to determine banking days for purposes of deposit due dates. Official state holidays for the state shown are not counted as banking days. If you deposit in multiple states, enter "MU" in the spaces provided.

When you deposit in multiple states, the IRS cannot determine what portion of your liability was affected by a state holiday and may propose a deposit penalty for one or more of the states where you made deposits. If you receive a notice and your deposit due date was extended because of a state bank holiday, respond to the notice citing the state holiday and applicable deposit amount.

17. Check one

- If line 10 is less than \$2,500 or line 10 on the preceding quarterly return was less than \$2,500, and you did not incur a \$100,000 next-day deposit obligation during the current quarter, check the appropriate box in line 17 and go to Part 3.
- If you reported \$50,000 or less in taxes during the lookback period (see below), you are a **monthly schedule depositor** unless the *\$100,000 Next-Day Deposit Rule* discussed in section 11 of Pub. 15 (Circular E) applies. Check the appropriate box on line 17 and enter your tax liability for each month in the quarter. Add the amounts for each month. Enter the result in the *Total liability for quarter* box.

Note that your total tax liability for the quarter must equal your total taxes shown on line 10. If it does not, your tax deposits and payments may not be counted as timely. **Do not** change your tax liability on line 17 by adjustments reported on any Forms 941-X.

You are a **monthly schedule depositor** for the calendar year if the amount of your Form 941 taxes reported for the lookback period is \$50,000 or less. The **lookback period** is the four consecutive quarters ending on June 30 of the prior year. For 2010, the lookback period begins July 1, 2008, and ends June 30, 2009. For details on the deposit rules, see section 11 of Pub. 15 (Circular E). If you filed Form 944 in either 2008 or 2009, your lookback period is the 2008 calendar year.



*The amounts reported on line 17 are a summary of your monthly **tax liability**, not a summary of deposits you made. If you do not properly report your liabilities when required or if you are a semiweekly schedule depositor and report your liabilities on line 17 instead of on Schedule B (Form 941), you may be assessed an "averaged" failure-to-deposit (FTD) penalty. See Deposit Penalties in section 11 of Pub. 15 (Circular E) for more information.*

- If you reported more than \$50,000 of taxes for the lookback period (see above), you are a **semiweekly schedule depositor**. Check the appropriate box on line 17.

You **must** complete Schedule B (Form 941) and submit it with your Form 941. **Do not** use Schedule B (Form 941) if you are a monthly schedule depositor.

Do not change your tax liability on Schedule B (Form 941) by adjustments reported on any Forms 941-X.

Part 3: Tell us about your business.

In Part 3, answer only those questions that apply to your business. If the questions do not apply, leave them blank and go to Part 4.

18. If your business has closed . . .

If you go out of business or stop paying wages, you must file a **final return**. To tell the IRS that a particular Form 941 is your final return, check the box on line 18 and enter the date you last paid wages in the space provided. For additional filing requirements, see *If your business has closed...* on page 2.

19. If you are a seasonal employer . . .

If you hire employees seasonally—such as for summer or winter only—check the box on line 19. Checking the box tells the IRS not to expect four Forms 941 from you throughout the year because you have not paid wages regularly.

Generally, we will not ask about unfiled returns if you file at least one return showing tax due each year. However, you must check the box **every time** you file a Form 941.

Also, when you fill out Form 941, be sure to check the box on the top of the form that corresponds to the quarter reported.

Part 4: May we speak with your third-party designee?

If you want to allow an employee, a paid tax preparer, or another person to discuss your Form 941 with the IRS, check the "Yes" box in Part 4. Then tell us the name, phone number, and the five-digit personal identification number (PIN) of the specific person to speak with—not the name of the firm who prepared your tax return. The designee may choose any five numbers as his or her PIN.

By checking "Yes," you authorize the IRS to talk to the person you named (your designee) about any questions we may have while we process your return. You also authorize your designee to:

- give us any information that is missing from your return,
 - call us for information about processing your return, and
 - respond to certain IRS notices that you have shared with your designee about math errors and return preparation.
- The IRS will not send notices to your designee.

You are not authorizing your designee to bind you to anything (including additional tax liability) or to otherwise represent you before the IRS. If you want to expand your designee's authorization, see Pub. 947, Practice Before the IRS and Power of Attorney.

The authorization will automatically expire 1 year from the due date (without regard to extensions) for filing your Form 941. If you or your designee want to terminate the authorization, write to the IRS office for your locality using the *Without a payment* address under *Where Should You File?* on page 4.

Part 5: Sign Here

Complete all information in Part 5 and sign Form 941 as follows.

- **Sole proprietorship**— The individual who owns the business.
- **Corporation (including a limited liability company (LLC) treated as a corporation)**— The president, vice president, or other principal officer duly authorized to sign.
- **Partnership (including an LLC treated as a partnership) or unincorporated organization**— A responsible and duly authorized member or officer having knowledge of its affairs.
- **Single member LLC treated as a disregarded entity for federal income tax purposes**— The owner of the LLC or a principal officer duly authorized to sign.
- **Trust or estate**— The fiduciary.

Form 941 may also be signed by a duly authorized agent of the taxpayer if a valid power of attorney has been filed.

Alternative signature method. Corporate officers or duly authorized agents may sign Form 941 by rubber stamp, mechanical device, or computer software program. For details and required documentation, see Rev. Proc. 2005-39, 2005-28 I.R.B. 82, at www.irs.gov/pub/irb/2005-28_IRB/ar16.pdf.

Paid Preparer's Use Only

A paid preparer must sign Form 941 and provide the information in the *Paid preparer's use only* section of Part 5 if the preparer was paid to prepare Form 941 and is not an employee of the filing entity. Paid preparers must sign paper returns with a manual signature. The preparer must give you a copy of the return in addition to the copy to be filed with the IRS.

If you are a paid preparer, write your SSN or your Preparer Tax Identification Number (PTIN) in the space provided. Include your complete address. If you work for a firm, write the firm's name and the EIN of the firm. You can apply for a PTIN using Form W-7P, Application for Preparer Tax Identification Number. You cannot use your PTIN in place of the EIN of the tax preparation firm.

Generally, do not complete this section if you are filing the return as a reporting agent and have a valid Form 8655, Reporting Agent Authorization, on file with the IRS. However, a reporting agent must complete this section if the reporting agent offered legal advice, for example, advising the client on determining whether its workers are employees or independent contractors for Federal tax purposes.

How to Order Forms and Publications from the IRS



Call 1-800-829-3676.



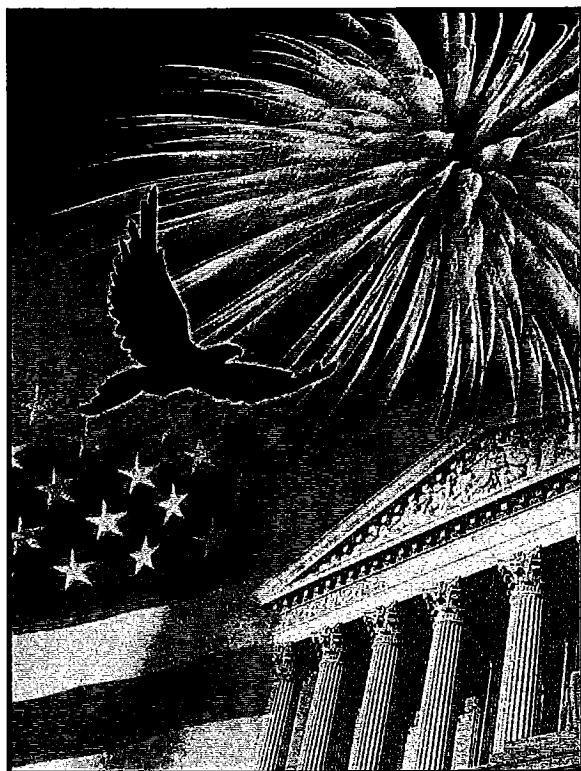
Visit the IRS website at www.irs.gov.

Other IRS Products You May Need

- Form SS-4, Application for Employer Identification Number
- Form W-2, Wage and Tax Statement
- Form W-2c, Corrected Wage and Tax Statement
- Form W-3, Transmittal of Wage and Tax Statements
- Form W-3c, Transmittal of Corrected Wage and Tax Statements
- Form W-4, Employee's Withholding Allowance Certificate
- Form W-5, Earned Income Credit Advance Payment Certificate
- Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return
- Form 943, Employer's Annual Federal Tax Return for Agricultural Employees
- Form 944, Employer's ANNUAL Federal Tax Return
- Form 4070, Employee's Report of Tips to Employer
- Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips
- Form 8655, Reporting Agent Authorization
- Notice 797, Possible Federal Tax Refund Due to the Earned Income Credit (EIC)
- Pub. 15 (Circular E), Employer's Tax Guide
- Pub. 15-A, Employer's Supplemental Tax Guide
- Pub. 15-B, Employer's Tax Guide to Fringe Benefits
- Pub. 596, Earned Income Credit
- Pub. 926, Household Employer's Tax Guide
- Schedule B (Form 941), Report of Tax Liability for Semiweekly Schedule Depositors
- Schedule D (Form 941), Report of Discrepancies Caused by Acquisitions, Statutory Mergers, or Consolidations
- Schedule H (Form 1040), Household Employment Taxes

Social Security and Other Information for Members of the Clergy and Religious Workers

For use in preparing
2009 Returns



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What's New

Increased earnings subject to social security. For 2009, the maximum wages and self-employment income subject to social security tax (6.2%) is increased to \$106,800. All wages and self-employment income are subject to Medicare tax (1.45%).

Modified AGI limit for retirement savings contribution credit increased. For 2009, you may be able to claim the retirement savings contribution credit if your modified adjusted gross income (AGI) is not more than:

- \$55,500 if your filing status is married filing jointly,
- \$41,625 if your filing status is head of household, or
- \$27,750 if your filing status is single, married filing separately, or qualifying widow(er).

See Publication 590, Individual Retirement Arrangements (IRAs), for more information.

Modified AGI limit for traditional IRA contributions increased. For 2009, you may be able to take an IRA deduction if you were covered by a retirement plan at work and your modified AGI is:

- Less than \$109,000 if married filing jointly or qualifying widow(er), or
- Less than \$65,000 if single or head of household.

If you file a joint return and either you or your spouse was not covered by a retirement plan at work, you may be able to take an IRA deduction if your modified AGI is less than \$176,000.

Modified AGI limit for Roth IRA contributions increased. For 2009, you may be able to contribute to your Roth IRA if your modified AGI is:

- Less than \$176,000 if married filing jointly or qualifying widow(er), or
- Less than \$120,000 if single, head of household, or married filing separately and did not live with your spouse at any time during the year.

Increased earned income credit (EIC). For 2009, your EIC may increase if you have three or more qualifying children.

Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

Social security and Medicare taxes are collected under two systems. Under the Self-Employment Contributions Act (SECA), the self-employed person pays all the taxes. Under the Federal Insurance Contributions Act (FICA), the employee and the employer each pay half of the taxes. No earnings are subject to both systems.

This publication covers the following topics about the collection of social security and Medicare taxes from members of the clergy and religious workers.

- Which earnings are taxed under FICA and which under SECA. See [Table 1](#).
- How a member of the clergy (minister, member of a religious order, or Christian Science practitioner) can apply for an exemption from self-employment tax.
- How to figure net earnings from self-employment.

This publication also covers certain income tax rules of interest to the clergy.

A [Comprehensive Example](#) shows filled-in forms for a minister who has income taxed under SECA, other income taxed under FICA, and income tax reporting of items specific to the clergy.



In the back of Publication 517 is a set of Worksheets that you can use to figure the amount of your taxable ministerial income and allowable deductions. You will find these worksheets right after the [Comprehensive Example](#).

Note. In this publication, the term "church" is generally used in its generic sense and not in reference to any particular religion.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

Table 1. Are You Covered Under FICA or SECA?

Find your occupation in the left column and read across the table to find if you are covered under FICA or SECA. Do not rely on this table alone. Also read the discussion for your occupation in the following pages.

Occupation	Covered under FICA?	Covered under SECA?
Minister	NO. You are exempt.*	YES, if you do not have an approved exemption from the IRS. NO, if you have an approved exemption.*
Member of a religious order who has not taken a vow of poverty	NO. You are exempt.*	YES, if you do not have an approved exemption from the IRS. NO, if you have an approved exemption.*
Member of a religious order who has taken a vow of poverty	YES, if: • Your order elected FICA coverage for its members, or • You worked outside the order and the work was not required by, or done on behalf of, the order. NO, if neither of the above applies.*	NO. You are exempt.*
Christian Science practitioner or reader	NO. You are exempt.*	YES, if you do not have an approved exemption from the IRS. NO, if you have an approved exemption.*
Religious worker (church employee)	YES, if your employer did not elect to exclude you. NO, if your employer elected to exclude you.	YES, if your employer elected to exclude you from FICA. NO, if you are covered under FICA.
Member of a recognized religious sect	YES, if you are an employee and do not have an approved exemption from the IRS. NO, if you have an approved exemption.	YES, if you are self-employed and do not have an approved exemption from the IRS. NO, if you have an approved exemption.

* The exemption applies only to qualified services, as defined later under [Qualified Services](#).

Internal Revenue Service
Individual Forms and Publications Branch
SE:W:CAR:MP:T:I
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can email us at taxforms@irs.gov. (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

Ordering forms and publications. Visit www.irs.gov/formspubs to download forms and publications, call 1-800-829-3676, or write to the address below and receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613

Tax questions. If you have a tax question, check the information available on www.irs.gov or call 1-800-829-1040. We cannot answer tax questions sent to either of the above addresses.

Useful Items

You may want to see:

Publication

- ☐ **54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- ☐ **525** Taxable and Nontaxable Income
- ☐ **529** Miscellaneous Deductions
- ☐ **535** Business Expenses
- ☐ **590** Individual Retirement Arrangements (IRAs)

❑ **596** Earned Income Credit (EIC)

Form (and instructions)

- ❑ **SS-8** Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding
- ❑ **SS-16** Certificate of Election of Coverage Under the Federal Insurance Contributions Act
- ❑ **Schedule SE (Form 1040)** Self-Employment Tax
- ❑ **1040-ES** Estimated Tax for Individuals
- ❑ **1040X** Amended U.S. Individual Income Tax Return
- ❑ **4029** Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits
- ❑ **4361** Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners
- ❑ **8274** Certification by Churches and Qualified Church-Controlled Organizations Electing Exemption From Employer Social Security and Medicare Taxes

Ordering publications and forms. See *How To Get Tax Help*, near the end of this publication, for information about getting these publications and forms.

Social Security Coverage

The services you perform in the exercise of your ministry are covered by social security and Medicare under SECA. Your earnings for these services are subject to self-employment (SE) tax unless one of the following applies.

- You are a member of a religious order who has taken a vow of poverty.
- You ask the Internal Revenue Service (IRS) for an exemption from SE tax for your services and the IRS approves your request. See *Exemption From Self-Employment (SE) Tax*, later.
- You are subject only to the social security laws of a foreign country under the provisions of a social security agreement between the United States and that country. For more information, see *Binational Social Security (Totalization) Agreements* in Publication 54.

Your earnings that are not from the exercise of your ministry may be subject to social security tax under FICA or SECA according to the rules that apply to taxpayers in general. See *Qualified Services*, later.

Ministers

If you are a minister of a church, your earnings for the services you perform in your capacity as a minister are subject to SE tax unless you have requested and received an exemption. See *Exemption From Self-Employment (SE) Tax*, later.

These earnings are subject to SE tax whether you are an employee of your church or a self-employed person under the common law rules. For the specific services covered, see *Qualified Services*, later.

Ministers Defined

Ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. They are given the authority to conduct religious worship, perform sacerdotal functions, and administer ordinances or sacraments according to the prescribed tenets and practices of that church or denomination.

If a church or denomination ordains some ministers and licenses or commissions others, anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister to be treated as a minister for social security purposes.

Employment Status for Other Tax Purposes

Even though, for social security tax purposes, you are considered a self-employed individual in performing your ministerial services, you may be considered an employee for income tax or retirement plan purposes. For income tax or retirement plan purposes, some of your income may be considered self-employment income and other income may be considered wages.

Common-law employee. Depending on all the facts and circumstances, under common-law rules you are considered either an employee or a self-employed person. Generally, you are an employee if your employer has the legal right to control both what you do and how you do it, even if you have considerable discretion and freedom of action. For more information about the common-law rules, see Publication 15-A, *Employer's Supplemental Tax Guide*.

If you are employed by a congregation for a salary, you are generally a common-law employee and income from the exercise of your ministry is considered wages for income tax purposes. However, amounts received directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services, are considered self-employment income.

Example. A church hires and pays you a salary to perform ministerial services subject to its control. Under the common-law rules, you are an employee of the church while performing those services.

Form SS-8. If you are not certain whether you are an employee or a self-employed person, you can get a determination from the IRS by filing Form SS-8.

Members of Religious Orders

If you are a member of a religious order who has not taken a vow of poverty, your earnings for qualified services you performed as a member of the order are subject to SE tax. See *Qualified Services*, later. This does not apply if you have

requested and received an exemption as discussed under *Exemption From Self-Employment (SE) Tax*, later.

Vow of poverty. If you are a member of a religious order who has taken a vow of poverty, you are exempt from paying SE tax on your earnings for qualified services (defined later) you perform as an agent of your church or its agencies. For income tax purposes, the earnings are tax free to you. Your earnings are considered the income of the religious order.

Services covered under FICA at the election of the order. Even if you have taken a vow of poverty, the services you perform for your church or its agencies may be covered under social security. Your services are covered if your order, or an autonomous subdivision of the order, elects social security coverage for its current and future vow-of-poverty members.

The order or subdivision elects coverage by filing Form SS-16. It can elect coverage for certain vow-of-poverty members for a retroactive period of up to 20 calendar quarters before the quarter in which it files the certificate. If the election is made, the order or subdivision pays both the employer's and employee's share of the tax. You do not pay any of the FICA tax.

Services performed outside the order. Even if you are a member of a religious order who has taken a vow of poverty and are required to turn over to the order amounts you earn, your earnings are subject to federal income tax withholding and employment (FICA) tax if you:

- Work for an organization outside your religious community, and
- Perform work that is not required by, or done on behalf of, the order.

In this case, you are considered an employee of that outside organization. You may, however, be able to take a charitable deduction for the amount you turn over to the order. See Publication 526, *Charitable Contributions*.

Lay employees. Lay employees generally are covered by social security. However, see *Election by Church To Exclude Their Employees From FICA Coverage*, later, under *Religious Workers (Church Employees)*.

Rulings. Organizations and individuals may request rulings from the IRS on whether they are religious orders, or members of a religious order, respectively, for FICA tax, SE tax, and federal income tax withholding purposes. To request a ruling, follow the procedures in Revenue Procedure 2009-1, 2009-1 I.R.B. 1, available at www.irs.gov/irb/2009-01_IRB/ar06.html.

Christian Science Practitioners and Readers

Your earnings from services you performed in your profession as a Christian Science practitioner or reader are generally subject to SE tax. However, you can request an exemption as discussed under *Exemption From Self-Employment (SE) Tax*, later.

Practitioners. Christian Science practitioners are members in good standing of the Mother Church, The First Church of Christ, Scientist, in Boston, Massachusetts, who practice healing according to the teachings of Christian Science. Christian Science practitioners are specifically exempted from licensing by state laws.

Some Christian Science practitioners also are Christian Science teachers or lecturers. Income from teaching or lecturing is considered the same as income from their work as practitioners.

Readers. Christian Science readers are considered the same as ordained, commissioned, or licensed ministers.

Religious Workers (Church Employees)

If you are a religious worker (a church employee) and are not in one of the classes already discussed, your wages are generally subject to social security and Medicare tax (FICA) and not to SE tax. Some exceptions are discussed next.

Election by Church To Exclude Their Employees From FICA Coverage

Churches and qualified church-controlled organizations (church organizations) that are opposed for religious reasons to the payment of social security and Medicare taxes can elect to exclude their employees from FICA coverage. If you are an employee of a church or church organization that makes this election and pays you \$108.28 or more in wages during the tax year, you must pay SE tax on those wages.

Churches and church organizations make this election by filing two copies of Form 8274. For more information about making this election, see Form 8274.

Election by Church Employees Who Are Opposed to Social Security and Medicare

You may be able to choose to be exempt from social security and Medicare taxes, including the SE tax, if you work for a church (or church-controlled nonprofit division) that does not pay the employer's part of the social security tax on wages. You can make the choice if you are a member of a religious sect or division opposed to social security and Medicare. This exemption does not apply to your service, if any, as a minister of a church or as a member of a religious order.

You can make this choice by filing Form 4029. See *Requesting Exemption—Form 4029*, later, under *Members of Recognized Religious Sects*.

U.S. Citizens and Resident and Nonresident Aliens

To be covered under the SE tax provisions (SECA), individuals generally must be citizens or resident aliens of the United States. Nonresident aliens are not covered under SECA.

To determine your alien status, see Publication 519, U.S. Tax Guide for Aliens.

Residents of Puerto Rico, the U.S. Virgin Islands, Guam, the CNMI, and American Samoa. If you are a resident of one of these U.S. possessions but not a U.S. citizen, for SE tax purposes you are treated the same as a citizen

or resident alien of the United States. For information on figuring the tax, see *Self-Employment Tax: Figuring Net Earnings*, later.

Exemption From Self-Employment (SE) Tax

You can request an exemption from SE tax if you are one of the following.

- A minister.
- A member of a religious order who has not taken a vow of poverty.
- A Christian Science practitioner.
- A member of a recognized religious sect.



TIP Generally, members of religious orders who have taken a vow of poverty are exempt from paying SE tax, as discussed earlier under *Members of Religious Orders*. They do not have to request the exemption.

Who cannot be exempt. You cannot be exempt from SE tax if you made one of the following elections to be covered under social security. These elections are irrevocable.

- You elected to be covered under social security by filing Form 2031, Revocation of Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders, and Christian Science Practitioners, for your 1986, 1987, 2000, or 2001 tax year.
- You elected before 1968 to be covered under social security for your ministerial services.

Requesting exemption. Table 2 briefly summarizes the procedure for requesting exemption from the SE tax. More detailed explanations follow.

Table 2. **The Self-Employment Tax Exemption Application and Approval Process**

	Who Can Apply	
	Ministers, Members of Religious Orders, and Christian Science Practitioners	Members of Recognized Religious Sects
How	File Form 4361	File Form 4029
When	File by the due date (including extensions) of your income tax return for the second tax year in which you had at least \$400 of net earnings from self-employment (at least part from qualified services)	File anytime
Approval	If approved, you will receive an approved copy of Form 4361	If approved, you will receive an approved copy of Form 4029
Effective Date	For all tax years after 1967 in which you have at least \$400 of net earnings from self-employment	First day of first quarter after the quarter in which Form 4029 was filed



CAUTION If you are a minister, member of a religious order, or Christian Science practitioner, an approved exemption only applies to earnings you receive for qualified services, discussed later. It does not apply to any other self-employment income.

Ministers, Members of Religious Orders, and Christian Science Practitioners

To claim the exemption from SE tax, you must meet all of the following conditions.

- You file Form 4361, described later under *Requesting Exemption—Form 4361*.
- You are conscientiously opposed to public insurance because of your individual religious considerations (not because of your general conscience), or you are opposed because of the principles of your religious denomination.
- You file for other than economic reasons.
- You inform the ordaining, commissioning, or licensing body of your church or order that you are opposed to public insurance if you are a minister or a member of a religious order (other than a vow-of-poverty member). This requirement does not apply to Christian Science practitioners.
- You establish that the organization that ordained, commissioned, or licensed you, or your religious order, is a tax-exempt religious organization.
- You establish that the organization is a church or a convention or association of churches.
- You did not make an election discussed earlier under *Who cannot be exempt*.
- You sign and return the statement the IRS mails to you to certify that you are requesting an exemption based on the grounds listed on the statement.

Requesting Exemption—Form 4361

To request exemption from SE tax, file Form 4361 in triplicate (original and two copies) with the IRS.



The IRS will return to you a copy of the Form 4361 that you filed indicating whether your exemption has been approved. If it is approved, keep the approved copy in your permanent records.

When to file. File Form 4361 by the date your income tax return is due, including extensions, for the second tax year in which you have net earnings from self-employment of at least \$400. This rule applies if any part of your net earnings for each of the 2 years came from your services as a:

- Minister,
- Member of a religious order, or
- Christian Science practitioner.

The 2 years do not have to be consecutive tax years.



The approval process can take some time, so you should file Form 4361 as soon as possible.

Example 1. Rev. Lawrence Jaeger, a clergyman ordained in 2009, has net self-employment earnings of \$450 in 2009 and \$500 in 2010. He must file his application for exemption by the due date, including extensions, for his 2010 income tax return. However, if Rev. Jaeger does not receive IRS approval for an exemption by April 15, 2011, his SE tax for 2010 is due by that date.

Example 2. Rev. Louise Wolfe has \$300 in net self-employment earnings as a minister in 2009, but earned more than \$400 in 2008 and expects to earn more than \$400 in 2010. She must file her application for exemption by the due date, including extensions, for her 2010 income tax return. However, if she does not receive IRS approval for an exemption by April 15, 2011, her SE tax for 2010 is due by that date.

Example 3. In 2007, Rev. David Moss was ordained a minister and had \$700 in net self-employment earnings as a minister. In 2008, he received \$1,000 as a minister, but his related expenses were over \$1,000. Therefore, he had no net self-employment earnings as a minister in 2008. Also in 2008, he opened a book store and had \$8,000 in net self-employment earnings from the store. In 2009, he had net earnings of \$1,500 as a minister and \$10,000 net self-employment earnings from the store.

Rev. Moss had net earnings from self-employment in 2007 and 2009 that were \$400 or more each year, and part of the earnings in each of those years was for his services as a minister, so he must file his application for exemption by the due date, including extensions, for his 2009 income tax return.

Death of individual. The right to file an application for exemption ends with an individual's death. A surviving spouse, executor, or administrator cannot file an exemption application for a deceased clergy member.

Effective date of exemption. An approved exemption is effective for all tax years after 1967

in which you have \$400 or more of net earnings from self-employment and any part of the earnings is for services as a member of the clergy. Once the exemption is approved, it is irrevocable.

Example. Rev. Trudy Austin, ordained in 2006, had \$400 or more in net self-employment earnings as a minister in both 2006 and 2009. She files an application for exemption on February 19, 2010. If an exemption is granted, it is effective for 2006 and the following years.

Refunds of SE tax. If, after receiving an approved Form 4361, you find that you overpaid SE tax, you can file a claim for refund on Form 1040X before the period of limitations ends. This is generally within 3 years from the date you filed the return or within 2 years from the date you paid the tax, whichever is later. A return you filed, or tax you paid, before the due date is considered to have been filed or paid on the due date.

If you file a claim after the 3-year period but within 2 years from the time you paid the tax, the credit or refund will not be more than the tax you paid within the 2 years immediately before you file the claim.

Members of Recognized Religious Sects

If you are a member of a recognized religious sect, or a division of a recognized religious sect, you can apply for an exemption from payment of social security and Medicare taxes on both your wages and self-employment income.

Exception. If you received social security benefits or payments, or anyone else received these benefits or payments based on your wages or self-employment income, you cannot apply. However, if you pay your benefits back, you may be considered for exemption. Contact your local Social Security Administration office to find out the amount to be paid back.

Eligibility requirements. To claim this exemption from SE tax, all the following requirements must be met.

1. You must file Form 4029, discussed later on this page under *Requesting Exemption—Form 4029*.
2. As a follower of the established teachings of the sect or division, you must be conscientiously opposed to accepting benefits of any private or public insurance that makes payments for death, disability, old age, retirement, or medical care, or provides services for medical care.
3. You must waive all rights to receive any social security payment or benefit and agree that no benefits or payments will be made to anyone else based on your wages and self-employment income.
4. The Commissioner of Social Security must determine that:
 - a. Your sect or division has the established teachings as in (2) above,
 - b. It is the practice, and has been for a substantial period of time, for members of the sect or division to provide for their dependent members in a manner that is reasonable in view of the members' general level of living, and

- c. The sect or division has existed at all times since December 31, 1950.

Requesting Exemption—Form 4029

To request the exemption, file Form 4029 in triplicate with the Social Security Administration at the address shown on the form. The sect or division must complete part of the form.



The IRS will return to you a copy of the Form 4029 that you filed indicating whether your exemption has been approved. If it is approved, keep the approved copy in your permanent records.

When to file. You can file Form 4029 at any time.

If you have an approved exemption from SE tax and for some reason that approved exemption ended, you must file a new Form 4029 if you subsequently meet the eligibility requirements, discussed earlier. See *Effective date of exemption*, below, for information on when the newly approved exemption would become effective.

If you have a previously approved exemption from SE tax and you change membership to another recognized religious sect, without any change to your eligibility requirements, then you do not need to file a new Form 4029.

Effective date of exemption. An approved exemption generally is effective on the first day of the first quarter after the quarter in which Form 4029 is filed. For example, if you meet all eligibility requirements and file Form 4029 on January 30, 2010, and your exemption is approved, it will become effective on April 1, 2010.

The exemption does not apply to any tax year beginning before you meet the eligibility requirements discussed earlier.

The exemption will end if you fail to meet the eligibility requirements or if the Commissioner of Social Security determines that the sect or division fails to meet them. You must notify the IRS within 60 days if you are no longer a member of the religious group, or if you no longer follow the established teachings of this group. The exemption will end on the date you notify the IRS.

Refunds of SE tax paid. To get a refund of any SE tax you paid while the exemption was in effect, file Form 1040X. For information on filing this form, see *Refunds of SE tax*, under *Requesting Exemption—Form 4361*, earlier.

Exemption From FICA Taxes

Generally, under FICA, the employer and the employee each pay half of the social security and Medicare tax. Both the employee and the employer, if they meet the eligibility requirements discussed earlier, can apply to be exempt from their share of FICA taxes on wages paid by the employer to the employee.

A partnership in which each partner holds a religious exemption from social security and Medicare is an employer for this purpose.



If the employer's application is approved, the exemption will apply only to FICA taxes on wages paid to employees who also received an approval of identical applications.

Information for employers. If you have an approved Form 4029 and you have an employee who has an approved Form 4029, do not report wages you paid to the employee as social security and Medicare wages.

If you have an employee who does not have an approved Form 4029, you must withhold the employee's share of social security and Medicare taxes and pay the employer's share.

Form W-2. When preparing a Form W-2 for an employee with an approved Form 4029, enter "Form 4029" in box 14, "Other." Do not make any entries in boxes 3, 4, 5, or 6.

Forms 941, 943, and 944. If both you and your employee have received approved Forms 4029, do not include these exempt wages on the following forms. Instead, follow the instructions given below.

- Form 941, Employer's QUARTERLY Federal Tax Return: check the box on line 4 and enter "Form 4029" in the empty space below the check box.
- Form 943, Employer's Annual Federal Tax Return for Agricultural Employees: enter "Form 4029" to the right of the wage entry spaces on lines 2 and 4.
- Form 944, Employer's ANNUAL Federal Tax Return: check the box on line 3 and enter "Form 4029" in the empty space below the check box.

Effective date. An approved exemption from FICA becomes effective on the first day of the first calendar quarter after the quarter in which Form 4029 is filed. The exemption will end on the last day of the calendar quarter before the quarter in which the employer, employee, sect, or division fails to meet the requirements.

Qualified Services

Qualified services, in general, are the services you perform in the exercise of your ministry or in the exercise of your duties as required by your religious order. Income you receive for performing qualified services is subject to SE tax unless you have an exemption as explained earlier. If you have an exemption, only the income you receive for performing qualified services is exempt. The exemption does not apply to any other self-employment income.

The following discussions provide more detailed information on qualified services of ministers, members of religious orders, and Christian Science practitioners and readers.

Ministers

Most services you perform as a minister, priest, rabbi, etc., are qualified services. These services include:

- Performing sacerdotal functions,
- Conducting religious worship, and
- Controlling, conducting, and maintaining religious organizations (including the religious boards, societies, and other integral agencies of such organizations) that are under the authority of a religious body that is a church or denomination.

You are considered to control, conduct, and maintain a religious organization if you direct, manage, or promote the organization's activities.

A religious organization is under the authority of a religious body that is a church or denomination if it is organized for and dedicated to carrying out the principles of a faith according to the requirements governing the creation of institutions of the faith.

Services for nonreligious organizations. Your services for a nonreligious organization are qualified services if the services are assigned or designated by your church. Assigned or designated services qualify even if they do not involve performing sacerdotal functions or conducting religious worship.

If your services are not assigned or designated by your church, they are qualified services only if they involve performing sacerdotal functions or conducting religious worship.

Services that are not part of your ministry. Income from services that are not qualified services is generally subject to social security and Medicare tax withholding (not self-employment tax) under the rules that apply to employees in general. The following are not qualified services.

- Services you perform for nonreligious organizations other than the services stated earlier.
- Services you perform as a duly ordained, commissioned, or licensed minister of a church as an employee of the United States, the District of Columbia, a foreign government, or any of their political subdivisions. This is true even if you are performing sacerdotal functions or conducting religious worship. (For example, if you perform services as a chaplain in the Armed Forces of the United States, those services are not qualified services.)
- Services you perform in a government-owned and operated hospital. (These services are considered performed by a government employee, not by a minister as part of the ministry.) However, services that you perform at a church-related hospital or health and welfare institution, or a private nonprofit hospital, are considered to be part of the ministry and are considered qualified services.

Books or articles. Writing religious books or articles is considered to be in the exercise of your ministry and is considered a qualified service.

This rule also applies to members of religious orders and to Christian Science practitioners.

Members of Religious Orders

Services you perform as a member of a religious order in the exercise of duties required by the order are qualified services. The services are qualified because you perform them as an agent of the order.

For example, if you are directed to perform services for another agency of the supervising church or an associated institution, you are considered to perform the services as an agent of the order.

However, if you are directed to work outside the order, the employment will not be considered a duty required by the order unless:

- Your services are the kind that are ordinarily performed by members of the order, and
- Your services are part of the duties that must be exercised for, or on behalf of, the religious order as its agent.

Effect of employee status. Ordinarily, if your services are not considered directed or required of you by the order, you and the outside party for whom you work are considered employee and employer. In this case, your earnings from the services are taxed under the rules that apply to employees in general, not under the rules for services provided as agent for the order. This is true even if you have taken a vow of poverty.

Example. Pat Brown and Chris Green are members of a religious order and have taken vows of poverty. They renounce all claims to their earnings. The earnings belong to the order.

Pat is a licensed attorney. The superiors of the order instructed her to get a job with a law firm. Pat joined a law firm as an employee and, as she requested, the firm made the salary payments directly to the order.

Chris is a secretary. The superiors of the order instructed him to accept a job with the business office of the church that supervises the order. Chris took the job and gave all his earnings to the order.

Pat's services are not duties required by the order. Her earnings are subject to social security and Medicare tax under FICA and to federal income tax.

Chris' services are considered duties required by the order. He is acting as an agent of the order and not as an employee of a third party. He does not include the earnings in gross income, and they are not subject to income tax withholding, social security and Medicare tax, or SE tax.

Christian Science Practitioners and Readers

The exemption from SE tax, discussed earlier, applies only to the services a Christian Science practitioner or reader performs in the exercise of his or her profession. If you do not have an exemption, amounts you receive for performing these qualified services are subject to SE tax.

Self-Employment Tax: Figuring Net Earnings

There are two methods for figuring your net earnings from self-employment as a minister, member of a religious order, Christian Science practitioner, or church employee.

- Regular method.
- Nonfarm optional method.



You may find Worksheets 1 through 4 helpful in figuring your net earnings from self-employment. Blank worksheets are in the back of this publication, after the Comprehensive Example.

Regular Method

Most people use the regular method. Under this method, figure your net earnings from self-employment by totaling your gross income for services you performed as a minister, a member of a religious order who has not taken a vow of poverty, or a Christian Science practitioner. Then, subtract your allowable business deductions and multiply the difference by 92.35% (.9235). Use Schedule SE (Form 1040) to figure your net earnings and SE tax.

If you are an employee of a church that elected to exclude you from FICA coverage, figure net earnings by multiplying your church wages shown on Form W-2 by 92.35% (.9235). Do not reduce your wages by any business deductions when making this computation. Use Schedule SE (Form 1040), Section B, to figure your net earnings and SE tax.



If you have an approved exemption, or you are automatically exempt, do not include the income or deductions from qualified services in figuring your net earnings from self-employment.

Amounts included in gross income. To figure your net earnings from self-employment (on Schedule SE (Form 1040)), include in gross income:

1. Salaries and fees for your qualified services (discussed earlier),
2. Offerings you receive for marriages, baptisms, funerals, masses, etc.,
3. The value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience,
4. The fair rental value of a parsonage provided to you (including the cost of utilities that are furnished) and the rental allowance (including an amount for payment of utilities) paid to you, and
5. Any amount a church pays toward your income tax or SE tax, other than withholding the amount from your salary. This amount is also subject to income tax.

For the income tax treatment of items (2) and (4), see *Income Tax: Income and Expenses*, later.

Example. Pastor Roger Adams receives an annual salary of \$39,000 as a full-time minister. The \$39,000 includes \$5,000 that is designated as a rental allowance to pay utilities. His church owns a parsonage that has a fair rental value of \$12,000 per year. Pastor Adams is given the use of the parsonage. He is not exempt from SE tax. He must include \$51,000 (\$39,000 plus \$12,000) when figuring net earnings from self-employment.

The results would be the same if, instead of the use of the parsonage and receipt of the rental allowance for utilities, Pastor Adams had received an annual salary of \$51,000 of which \$17,000 (\$5,000 plus \$12,000) per year was designated as a rental allowance.

Overseas duty. Your net earnings from self-employment are determined without any foreign earned income exclusion or the foreign housing exclusion or deduction if you are a U.S. citizen or resident alien serving abroad and living in a foreign country.

For information on excluding foreign earned income or the foreign housing amount, see Publication 54.

Example. Paul Jones was the minister of a U.S. church in Mexico. He earned \$35,000 in that position and was able to exclude it all for income tax purposes under the foreign earned income exclusion. The United States does not have a social security agreement with Mexico, so Mr. Jones is subject to U.S. SE tax and must include \$35,000 when figuring net earnings from self-employment.

Specified U.S. possessions. The exclusion from gross income for amounts derived from American Samoa or Puerto Rico does not apply in computing net earnings from self-employment. Also see *Residents of Puerto Rico, the U.S. Virgin Islands, Guam, the CNMI, and American Samoa*, earlier, under *U.S. Citizens and Resident and Nonresident Aliens*.

Amounts not included in gross income. Do not include the following amounts in gross income when figuring your net earnings from self-employment.

- Offerings that others made to the church.
- Contributions by your church to a tax-sheltered annuity plan set up for you, including any salary reduction contributions (elective deferrals) that are not included in your gross income.
- Pension payments or retirement allowances you receive for your past qualified services.
- The rental value of a parsonage or a parsonage allowance provided to you after you retire.

Allowable deductions. When figuring your net earnings from self-employment, deduct all your nonemployee ministerial expenses. Also, deduct all your allowable unreimbursed trade or business expenses that you incur in performing ministerial services as a common-law employee of the church. Include this net amount on Schedule SE (Form 1040), Section A, line 2, or Section B, line 2. Attach an explanation.

Nonemployee ministerial expenses. These are qualified expenses you incurred while not working as a common-law employee of the church. They include expenses incurred in performing marriages and baptisms, and in delivering speeches.

Reimbursement arrangements. If you received an advance, allowance, or reimbursement for your expenses, how you report this amount and your expenses depends on whether the reimbursement was paid to you under an accountable plan or a nonaccountable plan. If you are not sure if you are reimbursed from an accountable plan or a nonaccountable plan, ask your employer.

Accountable plans. To be an accountable plan, your employer's reimbursement arrangement must include all three of the following rules.

- Your expenses must have a business connection—that is, you must have paid or incurred deductible expenses while performing services as an employee of your employer.

- You must adequately account to your employer for these expenses within a reasonable period of time.
- You must return any excess reimbursement or allowance within a reasonable period of time.

The reimbursement is not reported on your Form W-2. Generally, if your expenses equal your reimbursement, you have no deduction. If your expenses are more than your reimbursement, you can deduct your excess expenses for SE tax and income tax purposes.

Nonaccountable plan. A nonaccountable plan is a reimbursement arrangement that does not meet all three of the rules listed under *Accountable plans*. In addition, even if your employer has an accountable plan, the following payments will be treated as being paid under a nonaccountable plan.

- Excess reimbursements you fail to return to your employer.
- Reimbursement of nondeductible expenses related to your employer's business.

Your employer will combine any reimbursement paid to you under a nonaccountable plan with your wages, salary, or other compensation and report the combined total in box 1 of your Form W-2. You can deduct your related expenses (for SE tax and income tax purposes) regardless of whether they are more than, less than, or equal to your reimbursement.

For more information on accountable and nonaccountable plans, see Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

Husband and Wife Missionary Team

If a husband and wife are both duly ordained, commissioned, or licensed ministers of a church and have an agreement that each will perform specific services for which they are paid jointly or separately, they must divide the self-employment income according to the agreement.

If the agreement is with one spouse only and the other spouse is not paid for any specific duties, amounts received for their services are included only in the self-employment income of the spouse having the agreement.

Maximum Earnings Subject to SE Tax

For 2009, the maximum net earnings from self-employment subject to social security (old age, survivors, and disability insurance) tax is \$106,800 minus any wages and tips you earned that were subject to social security tax. The tax rate for the social security part is 12.4%. In addition, all of your net earnings are subject to the Medicare (hospital insurance) part of the SE tax. This tax rate is 2.9%. The combined self-employment tax rate is 15.3%.

Nonfarm Optional Method

You may be able to use the nonfarm optional method for figuring your net earnings from self-employment. In general, the nonfarm optional method is intended to permit continued

coverage for social security and Medicare purposes when your income for the tax year is low.

You may use the nonfarm optional method if you meet all the following tests.

1. You are self-employed on a regular basis. This means that your actual net earnings from self-employment were \$400 or more in at least 2 of the 3 tax years before the one for which you use this method. The net earnings can be from either farm or nonfarm earnings or both.
2. You have used this method less than 5 years. (There is a 5-year lifetime limit.) The years do not have to be consecutive.
3. Your net nonfarm profits were:
 - a. Less than \$4,721, and
 - b. Less than 72.189% of your gross nonfarm income.

If you meet the three tests, use Table 3 to figure your net earnings from self-employment under the nonfarm optional method.

Table 3. Figuring Nonfarm Net Earnings

IF your gross nonfarm income is ...	THEN your net earnings are equal to ...
\$6,540 or less	Two-thirds of your gross nonfarm income.
More than \$6,540	\$4,360.

Actual net earnings. Multiply your total earnings subject to SE tax by 92.35% (.9235) to get actual net earnings. Actual net earnings are equivalent to net earnings under the "Regular Method."

More information. For more information on the nonfarm optional method, see Publication 334, Tax Guide for Small Business, and the Schedule SE (Form 1040) instructions.

Income Tax: Income and Expenses

Some income and expense items are treated the same for both income tax and SE tax purposes and some are treated differently.

Income Items

The tax treatment of offerings and fees, outside earnings, rental allowances, rental value of parsonage, earnings of members of religious orders, and foreign earned income is discussed here.

Offerings and Fees

If you are a member of the clergy, you must include in your income offerings and fees you receive for marriages, baptisms, funerals, masses, etc., in addition to your salary. If the offering is made to the religious institution, it is not taxable to you.

Outside Earnings

If you are a member of a religious organization and you give your outside earnings to the organization, you still must include the earnings in your income. However, you may be entitled to a charitable contribution deduction for the amount paid to the organization. For more information, see Publication 526.

Exclusion of Rental Allowance and Fair Rental Value of a Parsonage

Ordained, commissioned, or licensed ministers of the gospel may be able to exclude the rental allowance or fair rental value of a parsonage that is provided to them as pay for their services. Services include:

- Qualified services, discussed earlier,
- Administrative duties and teaching at theological seminaries, and
- The ordinary duties of a minister performed as an employee of the United States (other than as a chaplain in the Armed Forces), a state, possession, political subdivision, or the District of Columbia.

This exclusion applies only for income tax purposes. It does not apply for SE tax purposes, as discussed earlier under *Self-Employment Tax: Figuring Net Earnings*.

Designation requirement. The church or organization that employs you must officially designate the payment as a housing allowance before the payment is made. A definite amount must be designated. The amount of the housing allowance cannot be determined at a later date.

If you are employed and paid by a local congregation, a resolution by a national church agency of your denomination does not effectively designate a housing allowance for you. The local congregation must officially designate the part of your salary that is to be a housing allowance. However, a resolution of a national church agency can designate your housing allowance if you are directly employed by the national agency. If no part has been officially designated, you must include your total salary in your income.

Rental allowances. If you receive in your salary an amount officially designated as a rental allowance (including an amount to pay utility costs), you can exclude the allowance from your gross income if:

- The amount is used to provide or rent a home, and
- The amount is not more than reasonable pay for your services.

The amount you exclude cannot be more than the fair rental value of the home, including furnishings, plus the cost of utilities.

Fair rental value of parsonage. You can exclude from gross income the fair rental value of a house or parsonage, including utilities, furnished to you as part of your earnings. However, the exclusion cannot be more than the reasonable pay for your services. If you pay for the utilities, you can exclude any allowance designated for utility costs, up to your actual cost.

Example. Rev. Joanna Baker is a full-time minister. The church allows her to use a parsonage that has an annual fair rental value of \$24,000. The church pays her an annual salary of \$67,000, of which \$7,500 is designated for utility costs. Her actual utility costs during the year were \$7,000.

For income tax purposes, Rev. Baker excludes \$31,000 from gross income (\$24,000 fair rental value of the parsonage plus \$7,000 from the allowance for utility costs). She will report \$60,000 (\$59,500 salary plus \$500 of unused utility allowance). Her income for SE tax purposes, however, is \$91,000 (\$67,000 salary + \$24,000 fair rental value of the parsonage).

Home ownership. If you own your home and you receive as part of your salary a housing or rental allowance, you may exclude from gross income the smallest of:

- The amount actually used to provide a home,
- The amount officially designated as a rental allowance, or
- The fair rental value of the home, including furnishings, utilities, garage, etc.

Excess rental allowance. You must include in gross income the amount of any rental allowance that is more than the smallest of:

- Your reasonable salary,
- The fair rental value of the home plus utilities, or
- The amount actually used to provide a home.

Include in the total on Form 1040, line 7. On the dotted line next to line 7, enter "Excess allowance" and the amount.



You may deduct the home mortgage interest and real estate taxes you pay on your home even though all or part of the mortgage is paid with funds you get through a tax-free rental or parsonage allowance. However, these expenses can be deducted only as itemized deductions on Schedule A (Form 1040).

Retired ministers. If you are a retired minister, you can exclude from your gross income the rental value of a home (plus utilities) furnished to you by your church as a part of your pay for past services, or the part of your pension that was designated as a rental allowance. However, a minister's surviving spouse cannot exclude the rental value unless the rental value is for ministerial services he or she performs or performed.

Teachers or administrators. If you are a minister employed as a teacher or administrator by a church school, college, or university, you are performing ministerial services for purposes of the housing exclusion. However, if you perform services as a teacher or administrator on the faculty of a nonchurch college, you cannot exclude from your income a housing allowance or the value of a home that is provided to you.



If you live in faculty lodging as an employee of an educational institution or academic health center, all or part of the value of that lodging may be nontaxable under a different rule. In Publication 525, see Faculty lodging in the discussion on meals and lodging under Fringe Benefits.

If you serve as a minister of music or minister of education, or serve in an administrative or other function of your religious organization, but are not authorized to perform substantially all of the religious duties of an ordained minister in your church (even if you are commissioned as a minister of the gospel), the housing exclusion does not apply to you.

Theological students. If you are a theological student serving a required internship as a part-time or assistant pastor, you cannot exclude a parsonage or rental allowance from your income unless you are ordained, commissioned, or licensed as a minister.

Traveling evangelists. You can exclude a designated rental allowance from out-of-town churches if you meet all of the following requirements.

- You are an ordained minister.
- You perform qualified services at churches located away from your community.
- You actually use the rental allowance to maintain your permanent home.

Cantors. If you have a bona fide commission and your congregation employs you on a full-time basis to perform substantially all the religious functions of the Jewish faith, you can exclude a rental allowance from your gross income.

Earnings—Members of Religious Orders

Your earnings may be exempt from both income tax and SE tax if you are a member of a religious order who:

- Has taken a vow of poverty,
- Receives earnings for services performed as an agent of the order and in the exercise of duties required by the order, and
- Renounces the earnings and gives them to the order.

See *Members of Religious Orders*, earlier, under *Social Security Coverage*.

Foreign Earned Income

Certain income may be exempt from income tax if you work in a foreign country or in a specified U.S. possession. Publication 54 discusses the foreign earned income exclusion. Publication 570, *Tax Guide for Individuals With Income From U.S. Possessions*, covers the rules for taxpayers with income from U.S. possessions. You can get these free publications from the Internal Revenue Service or from most U.S. Embassies or consulates.

Expense Items

The tax treatment of ministerial trade or business expenses, expenses allocable to tax-free income, and health insurance costs is discussed here.

Ministerial Trade or Business Expenses as an Employee

When you figure your income tax, you must itemize your deductions on Schedule A (Form 1040) to claim allowable deductions for ministerial trade or business expenses incurred while working as an employee. You also may have to file Form 2106, *Employee Business Expenses* (or Form 2106-EZ, *Unreimbursed Employee Business Expenses*).

These expenses are claimed as miscellaneous itemized deductions and are subject to the 2%-of-adjusted-gross-income (AGI) limit. See Publication 529 for more information on this limit.

However, any of your employee business expenses that are allocable to tax-free income will not be deductible (discussed next).

Expenses Allocable to Tax-Free Income

If you receive a rental or parsonage allowance that is exempt from income tax (tax free), you must allocate a portion of the expenses of operating your ministry to that tax-free income. You cannot deduct the portion of your expenses that is allocated to your tax-free rental or parsonage allowance.

Exception. This rule does not apply to your deductions for home mortgage interest or real estate taxes on your home.

Figuring the allocation. Figure the portion of your otherwise deductible expenses that you cannot deduct (because that portion must be allocated to tax-free income) by multiplying the expenses by the following fraction:

$$\frac{\text{Tax-free rental or parsonage allowance}}{\text{All income (taxable and tax free) earned from your ministry}}$$

When figuring the allocation, include the income and expenses related to the ministerial duties you perform both as an employee and as a self-employed person.



Reduce your otherwise deductible expenses only in figuring your income tax, not your SE tax.

Example. Rev. Charles Ashford received \$40,000 in ministerial earnings consisting of a \$28,000 salary for ministerial services, \$2,000 for weddings and baptisms, and a \$10,000 tax-free parsonage allowance. He incurred \$4,000 of unreimbursed expenses connected with his ministerial earnings. \$3,500 of the \$4,000 is related to his ministerial salary, and \$500 is related to the weddings and baptisms he performed as a self-employed person.

The nondeductible (tax-free) portion of expenses related to Rev. Ashford's ministerial salary is figured as follows:

$$(\$10,000 \div \$40,000) \times \$3,500 = \$875$$

The nondeductible (tax-free) portion of expenses related to Rev. Ashford's wedding and baptism income is figured as follows:

$$(\$10,000 \div \$40,000) \times \$500 = \$125$$

Required statement. If you receive a tax-free rental or parsonage allowance and have ministerial expenses, attach a statement to your tax return. The statement must contain all of the following information.

- A list of each item of taxable ministerial income by source (such as wages, salary, weddings, baptisms, etc.) plus the amount.
- A list of each item of tax-free ministerial income by source (parsonage allowance) plus the amount.
- A list of each item of otherwise deductible ministerial expenses plus the amount.
- How you figured the nondeductible part of your otherwise deductible expenses.
- A statement that the other deductions claimed on your tax return are not allocable to your tax-free income.

See the *attachments* prepared for the *Comprehensive Example*, later. Following the example, you will find blank worksheets for your own use.

Health Insurance Costs of Self-Employed Ministers

If you are self-employed, you may be able to deduct the amount you paid in 2009 for medical and dental insurance and qualified long-term care insurance for you, your spouse, and your dependents.

If you qualify, you can take this deduction as an adjustment to income on Form 1040, line 29. See the instructions for Form 1040 to figure your deduction.

The following special rules apply to the self-employed health insurance deduction.

- The expenses taken into account for purposes of this deduction are not allowed as a medical expense deduction on Schedule A.
- The deduction is not allowed for any month you are eligible to participate in a subsidized plan of your (or your spouse's) employer.
- The deduction is not used to reduce your net earnings for SE tax.
- The deduction cannot exceed your net earnings from the business under which the insurance plan is established. Your net earnings under this rule do not include the income you earned as a common-law employee (discussed earlier) of a church.

More information. For more information about the self-employed health insurance deduction, see chapter 6 in Publication 535.

Deduction for SE Tax

You can deduct one-half of your SE tax in figuring adjusted gross income. This is an income tax deduction only, on Form 1040, line 27.



This is not a deduction in figuring net earnings from self-employment subject to SE tax.

Income Tax Withholding and Estimated Tax

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. An employee usually has income tax withheld from his or her wages or salary. However, your salary generally is not subject to federal income tax withholding if both of the following conditions apply.

- You are a duly ordained, commissioned, or licensed minister, a member of a religious order (who has not taken a vow of poverty), or a Christian Science practitioner.
- Your salary is for qualified services (see *Qualified Services*, earlier).

If your salary is not subject to withholding, or if you do not pay enough tax through withholding, you may need to make estimated tax payments to avoid penalties for not paying enough tax as you earn your income.

You generally must make estimated tax payments if you expect to owe taxes, including SE tax, of \$1,000 or more, when you file your return.

Determine your estimated tax by using the worksheet in Form 1040-ES. Then, using the Form 1040-ES payment voucher, pay the entire estimated tax for 2010 or the first installment by April 15, 2010. The April 15 date applies whether or not your tax home and your abode are outside the United States and Puerto Rico. For more information, see chapter 2 of Publication 505, *Tax Withholding and Estimated Tax*.

If you perform your services as a common-law employee of the church and your salary is not subject to income tax withholding, you can enter into a voluntary withholding agreement with the church to cover any income and SE tax that may be due.

Filing Your Return

You must file an income tax return for 2009 if your gross income was at least the amount shown in the third column of Table 4.

Additional requirements. Even if your income was less than the amount shown in Table 4, you must file an income tax return on Form 1040, and attach a completed Schedule SE (Form 1040), if:

- You are not exempt from SE tax, and you have net earnings from self-employment (discussed earlier under *Self-Employment Tax: Figuring Net Earnings*) of \$400 or more in the tax year,
- You are exempt from SE tax on earnings from qualified services and you have \$400 or more of other net earnings subject to SE tax, or
- You had wages of \$108.28 or more from an electing church or church-controlled organization (see *Religious Workers (Church Employees)*, earlier, under *Social Security Coverage*).

Self-employment tax. If you are liable for SE tax, you must file Schedule SE (Form 1040) with your return.

Exemption from SE tax. If you filed Form 4361 and received IRS approval not to be taxed on those earnings, and you do not have any other income subject to SE tax, do not file Schedule SE (Form 1040). Instead, enter "Exempt—Form 4361" on the dotted line next to Form 1040, line 56.

If you filed Form 4029 and received IRS approval not to be taxed on those earnings, and you do not have any other income subject to SE tax, do not file Schedule SE (Form 1040). Instead, enter "Exempt—Form 4029" on the dotted line next to Form 1040, line 56.

More information. For more information on filing your return, including when and where to file it, see the instructions for Form 1040.

Retirement Savings Arrangements

Retirement savings arrangements are plans that offer you a tax-favored way to save for your retirement. You generally can deduct your contributions to the plan. Your contributions and the earnings on them are not taxed until they are distributed.

Retirement plans for the self-employed. To set up one of the following plans you must be self-employed.

- Qualified retirement plan (also called a Keogh or H.R. 10 plan).
- SEP (simplified employee pension plan).
- SIMPLE (savings incentive match plan for employees) plan.

The common-law rules determine whether you are an employee or a self-employed person for purposes of setting up a retirement plan. See *Employment Status for Other Tax Purposes*, earlier, under *Social Security Coverage*. This is true even if your compensation for qualified services (discussed earlier) is subject to SE tax.

For example, if a congregation pays you a salary for performing qualified services, and you are subject to the congregation's control, you are a common-law employee. You are not a self-employed person for purposes of setting up a retirement plan. This is true even if your salary is subject to SE tax.

On the other hand, amounts received directly from members of the congregation, such as fees for performing marriages, baptisms, or other personal services that are reported on Schedule C or C-EZ, are earnings from self-employment for all tax purposes.

For more information on establishing a SEP, SIMPLE, or qualified retirement plan, see Publication 560, *Retirement Plans for Small Business*.

Individual retirement arrangements (IRAs).

The traditional IRA and the Roth IRA are two individual retirement arrangements you can use to save money for your retirement. Generally, your maximum contribution for 2009 to either of these plans (or to a combination of the two) is the smaller of your taxable compensation, or \$5,000 (6,000 if you are age 50 or older).

However, your contributions to a Roth IRA may be further limited if your adjusted gross income is above a certain amount. Roth IRA contributions are not deductible, but if you satisfy certain requirements, all earnings in the Roth IRA are tax free and neither your nondeductible contributions nor any earnings on them are taxable when withdrawn.

If you contribute to a traditional IRA, your deduction may be reduced or eliminated if you or your spouse is covered by an employer retirement plan (including, but not limited to, a SEP, SIMPLE, or qualified retirement plan).

For more information on IRAs, see Publication 590.

Tax-sheltered annuity plans. Church employees, members of religious orders, and duly ordained, commissioned, or licensed ministers working as ministers or chaplains can participate in tax-sheltered annuity (403(b)) plans. For more information, see Publication 571, *Tax-Sheltered Annuity Plans (403(b) Plans)* For

Table 4. 2009 Filing Requirements for Most Taxpayers

IF your filing status is ...	AND at the end of 2009 you were ...*	THEN file a return if your gross income was at least ...**
single	under age 65 65 or older	\$ 9,350 10,750
married filing jointly***	under 65 (both spouses) 65 or older (one spouse) 65 or older (both spouses)	\$18,700 19,800 20,900
married filing separately	any age	\$ 3,650
head of household	under 65 65 or older	\$12,000 13,400
qualifying widow(er) with dependent child	under 65 65 or older	\$15,050 16,150

* If you were born on January 1, 1945, you are considered to be age 65 at the end of 2009.

** **Gross income** means all income you received in the form of money, goods, property, and services that is not exempt from tax, including any income from sources outside the United States (even if you can exclude part or all of it). Do not include any social security benefits unless (a) you are married filing a separate return and you lived with your spouse at any time in 2009, or (b) one-half of your social security benefits plus your other gross income is more than \$25,000 (\$32,000 if married filing jointly). If (a) or (b) applies, see the instructions for Form 1040, lines 20a and 20b, to figure the taxable part of social security benefits you must include in gross income.

*** If you did not live with your spouse at the end of 2009 (or on the date your spouse died) and your gross income was at least \$3,650, you must file a return regardless of your age.

Employees of Public Schools and Certain Tax-Exempt Organizations.

Deducting contributions to tax-sheltered annuity plans. If you are an employee, your employer may exclude allowable contributions to a 403(b) plan from your income. These contributions will not be included in your total wages on your Form W-2, but you will pay tax on distributions from your plan. However, if you choose to have contributions made to a Roth contribution program, they will not be excluded from your income, but will be distributed tax free.

An exception to the above applies if you are a minister or chaplain and, in the exercise of your ministry, you are either self-employed or employed by an organization that is not exempt from tax under section 501(c)(3) of the Internal Revenue Code. If the exception applies to you, you can deduct your contributions to a 403(b) plan as explained next.

- If you are self-employed, deduct your contributions on Form 1040, line 28.
- If you are not self-employed and your employer does not exclude your contributions from your earned income, deduct your contributions on Form 1040, line 36. Enter the amount of your deduction and "403(b)" on the dotted line next to line 36.

Retirement savings contributions credit. You may be able to take a tax credit of up to \$1,000 (up to \$2,000 if filing jointly) for certain contributions you make to any of the retirement plans or IRAs discussed above. The credit is based on the contributions you make and your credit rate. The credit rate can be as low as 10% or as high as 50%, depending on your adjusted gross income. Figure the credit on Form 8880, Credit for Qualified Retirement Savings Contributions.

You cannot take the credit if any of the following apply.

1. You were born after January 1, 1992.
2. You were a full-time student in 2009.
3. Someone, such as your parent(s), claims an exemption for you on his or her 2009 tax return.
4. Your adjusted gross income for 2009 is more than:
 - a. \$55,500, if your filing status is married filing jointly,
 - b. \$41,625, if your filing status is head of household, or
 - c. \$27,750, if your filing status is single, married filing separately, or qualifying widow(er) with dependent child.

When figuring adjusted gross income, you must add back any exclusion or deduction claimed for the year for:

1. Foreign earned income,
2. Foreign housing costs,
3. Income of bona fide residents of American Samoa, and
4. Income of bona fide residents of Puerto Rico.

More information. For more information about the credit, see Publication 590.

Earned Income Credit

The earned income credit is a credit for certain people who work. If you qualify for it, the earned income credit reduces the tax you owe. Even if you do not owe tax, you can get a refund of the credit. Also, you may be able to get part of the credit added to your wages or salary instead of waiting until after the end of the year.

You cannot take the credit if your earned income (or adjusted gross income) is:

- \$13,440 or more (\$18,440 or more if married filing jointly) and you do not have a qualifying child,
- \$35,463 or more (\$40,463 or more if married filing jointly) and you have one qualifying child,
- \$40,295 or more (\$45,295 or more if married filing jointly) and you have two qualifying children, or
- \$43,279 or more (\$48,279 if married filing jointly) and you have three or more qualifying children.

Earned income. Earned income includes your:

- Wages, salaries, tips, and
- Net earnings from self-employment minus the amount you claimed (or should have claimed) on Form 1040, line 27, for one-half of your SE tax.

Earned income for a minister with an approved Form 4361. If you have earnings from qualified services that are exempt from SECA (because you have an approved Form 4361), amounts you received for performing ministerial duties as an employee are earned income. This includes wages, salaries, tips, and other taxable employee compensation.

Amounts you received for nonemployee ministerial duties are not earned income. This includes fees for performing marriages and baptisms, and honoraria for delivering speeches.

If you had nonministerial duties, any net earnings from self-employment, minus one-half of your SE tax, and any compensation received as an employee is earned income.

Earned income for a minister whose income from qualified services is not exempt from SECA. Earned income includes your net earnings from self-employment plus any compensation you received for nonministerial duties minus your Form 1040, line 27, amount for one-half of SE tax.

Your net earnings from self-employment include those net earnings from qualified services. See *Self-Employment Tax: Figuring Net Earnings*, earlier. Net earnings also include net earnings from self-employment related to nonministerial duties.

Earned income for a member of a recognized religious sect with an approved Form 4029. If you have an approved Form 4029, all wages, salaries, tips, and other taxable employee compensation are earned income. Amounts you received as a self-employed individual are not earned income. Also, in figuring earned income, losses from Schedules C, C-EZ, or F cannot be subtracted from wages on Form 1040, line 7.

More information. For detailed rules on this credit, see Publication 596. To figure the amount of your credit, you can either fill out a worksheet or have the IRS compute the credit for you. You may need to complete Schedule EIC and attach it to your tax return. For details on getting part of the credit added to your wages or salary, get Form W-5, Earned Income Credit Advance Payment Certificate, from your employer or the IRS.

Comprehensive Example

Rev. John White is the minister of the First United Church. He is married and has one child. The child is considered a qualifying child for the child tax credit. Mrs. White is not employed outside the home. Rev. White is a common-law employee of the church, and he has not applied for an exemption from SE tax.

The church paid Rev. White a salary of \$31,000. In addition, as a self-employed person, he earned \$4,000 during the year for weddings, baptisms, and honoraria. He made estimated tax payments during the year totaling \$7,000. He taught a course at the local community college, for which he was paid \$3,400.

Rev. White owns a home next to the church. He makes a \$650 per month mortgage payment of principal and interest only. He paid \$1,800 in real estate taxes for the year on the home. The church paid him \$800 per month as his parsonage allowance (excluding utilities). The home's fair rental value for the year (excluding utilities) is \$9,840. The utility bills for the year totaled \$960. The church paid him \$100 per month designated as an allowance for utility costs.

The parts of Rev. and Mrs. White's income tax return are explained in the order they are completed. They are illustrated in the order that Rev. White will assemble the return to send it to the IRS.

Form W-2 From Church

The church completed its Form W-2 for Rev. White as follows.

Box 1. The church entered Rev. White's \$31,000 salary.

Box 2. The church left this box blank because Rev. White did not request federal income tax withholding.

Boxes 3 through 6. Rev. White is considered a self-employed person for purposes of social security and Medicare tax withholding, so the church left these boxes blank.

Box 14. The church entered Rev. White's total parsonage and utilities allowance for the year and identified them.

Form W-2 From College

The community college gave Rev. White a Form W-2 that showed the following.

Box 1. The college entered Rev. White's \$3,400 salary.

Box 2. The college withheld \$272 in federal income tax on Rev. White's behalf.

Boxes 3 and 5. As an employee of the college, Rev. White is subject to social security and

Medicare withholding on his full salary from the college.

Box 4. The college withheld \$210.80 in social security taxes.

Box 6. The college withheld \$49.30 in Medicare taxes.

Schedule C-EZ (Form 1040)

Some of Rev. White's entries on Schedule C-EZ are explained here.

Line 1. Rev. White reports the \$4,000 from weddings, baptisms, and honoraria.

Line 2. Rev. White reports his expenses related to the line 1 amount. He paid \$87 for marriage and family booklets and drove his car 445 miles for business, mainly in connection with honoraria. Rev. White used the standard mileage rate to figure his car expense, as follows.

$$445 \text{ miles} \times 55 \text{ cents} = \underline{\$245}$$

These expenses total \$332 (\$245 + \$87). However, he cannot deduct the part of his expenses allocable to his tax-free parsonage allowance.

First, Rev. White uses Worksheet 1 (see page 21) to figure what percentage of his business expenses are not deductible. Then he completes Worksheet 2 (see page 22) to show that 23% (or \$76) of his business expenses are not deductible because they are allocable to his tax-free allowance. He subtracts the \$76 from the \$332, enters the \$256 difference on line 2, and adds a note at the bottom of the page to see the attached statement.

Rev. White attaches Worksheets 1 and 2 to his return. This is part of his required statement, Attachment 1 (see pages 21 and 22).

Line 3. He enters his net profit of \$3,744 on both line 3 and Form 1040, line 12.

Lines 4 through 8b. Rev. White fills out these lines to report information about his car.

Form 2106-EZ

Rev. White fills out Form 2106-EZ to report the unreimbursed business expenses he had as a common-law employee of First United Church.

Line 1. Before completing line 1, Rev. White fills out Part II because he used his car for church business. His records show that he drove 2,521 business miles, which he reports in Part II. Then, he figures his car expense for his line 1 entry.

$$2,521 \text{ miles} \times 55 \text{ cents} = \underline{\$1,387}$$

Line 4. He enters \$231 for his professional publications and booklets.

Line 6. Before entering the total expenses on line 6, Rev. White must reduce them by the amount allocable to his tax-free parsonage allowance. After completing Worksheet 3 (see page 22), he finds that \$372 (23%) of his employee business expenses are not deductible. He subtracts \$372 from \$1,618 and enters the result, \$1,246, on line 6, adding a note at the

bottom of the page about the attached statement. He also enters \$1,246 on Schedule A (Form 1040), line 21.

Schedule A (Form 1040)

Rev. White fills out Schedule A as explained here.

Line 5. Rev. White checks the box on line 5b for "General sales tax" and deducts \$722.

Line 6. He deducts \$1,800 in real estate taxes.

Line 10. He deducts \$5,572 of home mortgage interest.

Line 16. Rev. and Mrs. White contributed \$4,800 in cash during the year to various qualifying charities. Each individual contribution was less than \$250 and they have the required records for all donations.

Line 21. Rev. White enters his unreimbursed employee business expenses from Form 2106-EZ, line 6.

Lines 25, 26, and 27. He can deduct only the part of his employee business expenses that exceeds 2% of his adjusted gross income. After he completes page 1 of Form 1040, he fills out these lines to figure the amount he can deduct.

Line 29. The total of all the Whites' itemized deductions is \$13,434, which he enters here and on Form 1040, line 40a.

Schedule SE (Form 1040)

After Rev. White prepares Schedule C-EZ and Form 2106-EZ, he fills out Schedule SE (Form 1040). He reads the chart on page 1 of the schedule and determines that he can use *Section A—Short Schedule SE* to figure his self-employment tax. Rev. White is a minister, so his salary from the church is not considered church employee income. Thus, he does not have to use *Section B—Long Schedule SE*. He fills out the following lines in Section A.

Line 2. Rev. White attaches a statement (see Attachment 2, Worksheet 4, on page 23) that explains how he figures the amount (\$43,850) to enter.

Line 4. He multiplies \$43,850 by 92.35% (.9235) to get his net earnings from self-employment (\$40,495).

Line 5. The amount on line 4 is less than \$106,800, so Rev. White multiplies the amount on line 4 (\$40,495) by 15.3% (.153) to get his self-employment tax of \$6,196. He enters that amount here and on Form 1040, line 56.

Line 6. Rev. White multiplies the amount on line 5 by 50% (.50) to get his deduction for one-half of self-employment tax of \$3,098. He enters that amount here and on Form 1040, line 27.

Schedule M (Form 1040)

Rev. White fills out Form 1040, Schedule M, to claim the making work pay credit as follows:

Line 1a. Rev. White checks the "Yes" box to indicate that he had earnings of more than \$12,903 and enters \$800 on line 4.

Line 5. He enters his adjusted gross income from Form 1040, line 38.

Line 6. He enters \$150,000 for married filing jointly.

Line 7. He checks the "No" box on line 7 and enters \$800 on line 9.

Lines 10 and 11. He checks the "No" boxes on both lines 10 and 11 and enters -0-.

Line 13. He subtracts line 12 from line 9 and enters the result of \$800 on line 13.

Line 14. Rev. White enters \$800 as his making work pay credit on line 14 and includes this amount on Form 1040, line 63.

Form 1040

After Rev. White prepares Form 2106-EZ and the other schedules, he fills out Form 1040. He files a joint return with his wife. First, he fills out the address area and completes the appropriate lines for his filing status and exemptions. Then, he fills out the rest of the form as follows.

Line 7. Rev. White reports \$34,640. This amount is the total of his \$31,000 church salary, \$3,400 college salary, and \$240, his excess allowance. The two salaries were reported to him in box 1 of the Forms W-2 he received.

Line 12. He reports his net profit of \$3,744 from Schedule C-EZ, line 3.

Line 27. He enters \$3,098, half his SE tax from Schedule SE, line 6.

Line 40a. He enters the total itemized deductions from Schedule A, line 28.

Line 51. The Whites can take the child tax credit for their daughter, Jennifer. Rev. White figures the credit by completing the Child Tax Credit Worksheet (not shown) in the instructions for Form 1040. He enters \$1,000 credit on line 51.

Line 56. He enters the self-employment tax from Schedule SE, line 5.

Line 61. He enters the federal income tax withheld, as shown in box 2 of his Form W-2 from the college.

Line 62. He enters the \$7,000 estimated tax payments he made for the year.

Line 63. He enters \$800 for the making work pay credit.

Line 74. He wants to have any overpayment of tax applied to his 2010 estimated tax.

Attachment 1

Attachment 1 (Worksheets 1, 2, and 3) shows the computation of expenses that are nondeductible because they are allocable to tax-free ministerial income and the allowance deductions.

Attachment 2

Attachment 2 (Worksheet 4) shows the computation of net self-employment income.

Instructions for Form SS-4



Department of the Treasury
Internal Revenue Service

(Rev. January 2010)

Application for Employer Identification Number

Section references are to the Internal Revenue Code unless otherwise noted.

What's New

Name of responsible party. The instructions for Line 7a–b have been changed to request the name of the responsible party. See *Lines 7a–b, Name of responsible party* on page 3 for details.

Election to file Form 944. Eligible employers may now elect to file Form 944 annually instead of Forms 941 quarterly. See *Line 14. Do you want to file Form 944?* on page 5 for details.

General Instructions

Use these instructions to complete Form SS-4, Application for Employer Identification Number. Also see *Do I Need an EIN?* on page 2 of Form SS-4.

Purpose of Form

Use Form SS-4 to apply for an employer identification number (EIN). An EIN is a nine-digit number (for example, 12-3456789) assigned to sole proprietors, corporations, partnerships, estates, trusts, and other entities for tax filing and reporting purposes. The information you provide on this form will establish your business tax account.



An EIN is for use in connection with your business activities only. Do not use your EIN in place of your social security number (SSN).

Reminders

Apply online. Generally, you can apply for and receive an EIN online using the Internet. See *How To Apply* later.



This is a free service offered by the Internal Revenue Service at www.irs.gov. Beware of websites on the Internet that charge for this free service.

File only one Form SS-4. Generally, a sole proprietor should file only one Form SS-4 and needs only one EIN, regardless of the number of businesses operated as a sole proprietorship or trade names under which a business operates. However, if the proprietorship incorporates or enters into a partnership, a new EIN is required. Also, each corporation in an affiliated group must have its own EIN.

EIN applied for, but not received. If you do not have an EIN by the time a return is due, write "Applied For" and the date you applied in the space shown for the number. Do not show your SSN as an EIN on returns.

If you do not have an EIN by the time a tax deposit is due, send your payment to the Internal Revenue Service Center for your filing area as shown in the instructions for the form that you are filing. Make your check or money order payable to the "United States Treasury" and show your name (as shown on Form SS-4), address, type of tax, period covered, and date you applied for an EIN.

Electronic filing and payment. Now, more than ever before, businesses can enjoy the benefits of filing and

paying their federal taxes electronically. Whether you rely on a tax professional or handle your own taxes, IRS offers you convenient programs to make filing and paying easier. Spend less time and worry on taxes and more time running your business. Use e-file and the Electronic Federal Tax Payment System (EFTPS) to your benefit.

- For e-file, visit www.irs.gov for additional information.
- For EFTPS, visit www.eftps.gov or call EFTPS Customer Service at 1-800-555-4477, 1-800-733-4829 (TDD), or 1-800-244-4829 (Spanish).

Federal tax deposits. New employers that have a federal tax obligation will be pre-enrolled in the Electronic Federal Tax Payment System (EFTPS). EFTPS allows you to make all of your federal tax payments online at www.eftps.gov or by telephone. Shortly after we have assigned you your EIN, you will receive instructions by mail for activating your EFTPS enrollment. You will also receive an EFTPS Personal Identification Number (PIN) that you will use to make your payments, as well as instructions for obtaining an Internet password you will need to make payments online.

If you are not required to make deposits by EFTPS, you can use Form 8109, Federal Tax Deposit (FTD) Coupon, to make deposits at an authorized depository. If you would like to receive Form 8109, call 1-800-829-4933. Allow 5 to 6 weeks for delivery. For more information on federal tax deposits, see Pub. 15 (Circular E), Employer's Tax Guide.

How To Apply

You can apply for an EIN online, by telephone, by fax, or by mail depending on how soon you need to use the EIN. Use only one method for each entity so you do not receive more than one EIN for an entity.

Online. Taxpayers and authorized third party designees located within the United States and U.S. possessions can receive an EIN online and use it immediately to file a return or make a payment. Go to the IRS website at www.irs.gov/businesses and click on *Employer ID Numbers*.



Taxpayers who apply online have an option to view, print, and save their EIN assignment notice at the end of the session. (Authorized third party designees will receive the EIN but the notice will be mailed to the applicant.)



Applicants who are not located within the United States or U.S. possessions cannot use the online application to obtain an EIN. Please use one of the other methods to apply.

Telephone. You can receive your EIN by telephone and use it immediately to file a return or make a payment. Call the IRS at 1-800-829-4933. The hours of operation are 7:00 a.m. to 10:00 p.m. local time (Pacific time for Alaska and Hawaii). The person making the call must be authorized to sign the form or be an authorized designee. See *Third Party Designee* and *Signature* on page 6. Also see the *TIP* on page 2.

Note. International applicants must call 215-516-6999.

If you are applying by telephone, it will be helpful to complete Form SS-4 before contacting the IRS. An IRS representative will use the information from the Form SS-4 to establish your account and assign you an EIN. Write the

number you are given on the upper right corner of the form and sign and date it. Keep this copy for your records.

If requested by an IRS representative, mail or fax the signed Form SS-4 (including any Third Party Designee authorization) within 24 hours to the IRS address provided by the IRS representative.



Taxpayer representatives can apply for an EIN on behalf of their client and request that the EIN be faxed to their client on the same day. *Note.* By using this procedure, you are authorizing the IRS to fax the EIN without a cover sheet.

Fax. Under the Fax-TIN program, you can receive your EIN by fax within 4 business days. Complete and fax Form SS-4 to the IRS using the appropriate Fax-TIN number listed below. A long-distance charge to callers outside of the local calling area will apply. Fax-TIN numbers can only be used to apply for an EIN. The numbers may change without notice. Fax-TIN is available 24 hours a day, 7 days a week.

Be sure to provide your fax number so the IRS can fax the EIN back to you.

Note. By using this procedure, you are authorizing the IRS to fax the EIN without a cover sheet.

Mail. Complete Form SS-4 at least 4 to 5 weeks before you will need an EIN. Sign and date the application and mail it to the service center address for your state. You will receive your EIN in the mail in approximately 4 weeks. See also *Third Party Designee* on page 6.

Call 1-800-829-4933 to verify a number or to ask about the status of an application by mail.

Where to File or Fax

If your principal business, office or agency, or legal residence in the case of an individual, is located in:	File or fax with the "Internal Revenue Service Center" at:
One of the 50 states or the District of Columbia	Attn: EIN Operation Cincinnati, OH 45999 Fax-TIN: 859-669-5760
If you have no legal residence, principal place of business, or principal office or agency in any state:	Attn: EIN Operation Philadelphia, PA 19255 Fax-TIN: 215-516-1040

How To Get Forms and Publications

Internet. You can access the IRS website 24 hours a day, 7 days a week at www.irs.gov to download forms, instructions, and publications.

Phone. Call 1-800-TAX-FORM (1-800-829-3676) to order forms, instructions, and publications. You should receive your order or notification of its status within 10 workdays.

DVD for Tax Products. For small businesses, return preparers, or others who may frequently need tax forms or publications, a DVD containing over 2,000 tax products (including many prior year forms) can be purchased from the National Technical Information Service (NTIS).

To order Pub.1796, IRS Tax Products CD, call 1-877-233-6767 or connect to www.irs.gov/cdorders.

Tax Help for Your Business

IRS-sponsored Small Business Workshops provide information about your federal and state tax obligations. For

information about workshops in your area, call 1-800-829-4933.

Related Forms and Publications

The following forms and instructions may be useful to filers of Form SS-4.

- Form 990-T, Exempt Organization Business Income Tax Return.
- Instructions for Form 990-T.
- Schedule C (Form 1040), Profit or Loss From Business.
- Schedule F (Form 1040), Profit or Loss From Farming.
- Instructions for Form 1041 and Schedules A, B, D, G, I, J, and K-1, U.S. Income Tax Return for Estates and Trusts.
- Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons.
- Instructions for Form 1065, U.S. Return of Partnership Income.
- Instructions for Form 1066, U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return.
- Instructions for Forms 1120.
- Form 2553, Election by a Small Business Corporation.
- Form 2848, Power of Attorney and Declaration of Representative.
- Form 8821, Tax Information Authorization.
- Form 8832, Entity Classification Election.

For more information about filing Form SS-4 and related issues, see:

- Pub. 51 (Circular A), Agricultural Employer's Tax Guide;
- Pub. 15 (Circular E), Employer's Tax Guide;
- Pub. 538, Accounting Periods and Methods;
- Pub. 542, Corporations;
- Pub. 557, Tax-Exempt Status for Your Organization;
- Pub. 583, Starting a Business and Keeping Records;
- Pub. 966, The Secure Way to Pay Your Federal Taxes for Business and Individual Taxpayers;
- Pub. 1635, Understanding Your EIN;
- Package 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code; and
- Package 1024, Application for Recognition of Exemption Under Section 501(a).

Specific Instructions

Print or type all entries on Form SS-4. Follow the instructions for each line to expedite processing and to avoid unnecessary IRS requests for additional information. Enter "N/A" (nonapplicable) on the lines that do not apply.

Line 1. Legal name of entity (or individual) for whom the EIN is being requested. Enter the legal name of the entity (or individual) applying for the EIN exactly as it appears on the social security card, charter, or other applicable legal document. An entry is required.

Individuals. Enter your first name, middle initial, and last name. If you are a sole proprietor, enter your individual name, not your business name. Enter your business name on line 2. Do not use abbreviations or nicknames on line 1.

Trusts. Enter the name of the trust as it appears on the trust instrument.

Estate of a decedent. Enter the name of the estate. For an estate that has no legal name, enter the name of the decedent followed by "Estate."

Partnerships. Enter the legal name of the partnership as it appears in the partnership agreement.

Corporations. Enter the corporate name as it appears in the corporate charter or other legal document creating it.

Plan administrators. Enter the name of the plan administrator. A plan administrator who already has an EIN should use that number.

Line 2. Trade name of business. Enter the trade name of the business if different from the legal name. The trade name is the "doing business as" (DBA) name.



Use the full legal name shown on line 1 on all tax returns filed for the entity. (However, if you enter a trade name on line 2 and choose to use the trade name instead of the legal name, enter the trade name on all returns you file.) To prevent processing delays and errors, always use the legal name only (or the trade name only) on all tax returns.

Line 3. Executor, administrator, trustee, "care of" name. Trusts enter the name of the trustee. Estates enter the name of the executor, administrator, or other fiduciary. If the entity applying has a designated person to receive tax information, enter that person's name as the "care of" person. Enter the individual's first name, middle initial, and last name.

Lines 4a–b. Mailing address. Enter the mailing address for the entity's correspondence. If the entity's address is outside the United States or its possessions, you must enter the city, province or state, postal code, and the name of the country. Do not abbreviate the country name. If line 3 is completed, enter the address for the executor, trustee or "care of" person. Generally, this address will be used on all tax returns.

If the entity is filing the Form SS-4 only to obtain an EIN for the Form 8832, use the same address where you would like to have the acceptance or nonacceptance letter sent.



File Form 8822, Change of Address, to report any subsequent changes to the entity's mailing address.

Lines 5a–b. Street address. Provide the entity's physical address only if different from its mailing address shown in lines 4a–b. Do not enter a P.O. box number here. If the entity's address is outside the United States or its possessions, you must enter the city, province or state, postal code, and the name of the country. Do not abbreviate the country name.

Line 6. County and state where principal business is located. Enter the entity's primary physical location.

Lines 7a–b. Name of responsible party. Enter the full name (first name, middle initial, last name, if applicable) and SSN, ITIN, or EIN of the entity's responsible party as defined below.

Responsible party defined. For entities with shares or interests traded on a public exchange, or which are registered with the Securities and Exchange Commission, "responsible party" is (a) the principal officer, if the business is a corporation, (b) a general partner, if a partnership, (c) the owner of an entity that is disregarded as separate from its owner (disregarded entities owned by a corporation enter the corporation's name and EIN), or (d) a grantor, owner, or trustor, if a trust.

For all other entities, "responsible party" is the person who has a level of control over, or entitlement to, the funds or assets in the entity that, as a practical matter, enables the individual, directly or indirectly, to control, manage, or direct the entity and the disposition of its funds and assets. The ability to fund the entity or the entitlement to the property of the entity alone, however, without any corresponding authority to control, manage, or direct the entity (such as in the case of a minor child beneficiary), does not cause the individual to be a responsible party.

If the person in question is an alien individual with a previously assigned individual taxpayer identification number (ITIN), enter the ITIN in the space provided and submit a copy of an official identifying document. If necessary, complete Form W-7, Application for IRS Individual Taxpayer Identification Number, to obtain an ITIN.

You must enter an SSN, ITIN, or EIN on line 7b unless the only reason you are applying for an EIN is to make an entity classification election (see Regulations sections 301.7701-1 through 301.7701-3) and you are a nonresident alien or other foreign entity with no effectively connected income from sources within the United States.

Lines 8a–c. Limited liability company (LLC) information. An LLC is an entity organized under the laws of a state or foreign country as a limited liability company. For federal tax purposes, an LLC may be treated as a partnership or corporation or be disregarded as an entity separate from its owner.

By default, a domestic LLC with only one member is disregarded as an entity separate from its owner and must include all of its income and expenses on the owner's tax return (for example, Schedule C (Form 1040)). Also by default, a domestic LLC with two or more members is treated as a partnership. A domestic LLC may file Form 8832 to avoid either default classification and elect to be classified as an association taxable as a corporation. For more information on entity classifications (including the rules for foreign entities), see the instructions for Form 8832.

If the answer to line 8a is "Yes," enter the number of LLC members. If the LLC is owned solely by a husband and wife in a community property state and the husband and wife choose to treat the entity as a disregarded entity, enter "1" on line 8b.



Do not file Form 8832 if the LLC accepts the default classifications above. If the LLC is eligible to be treated as a corporation that meets certain tests and it will be electing S corporation status, it must timely file Form 2553. The LLC will be treated as a corporation as of the effective date of the S corporation election and does not need to file Form 8832. See the Instructions for Form 2553.

Line 9a. Type of entity. Check the box that best describes the type of entity applying for the EIN. If you are an alien individual with an ITIN previously assigned to you, enter the ITIN in place of a requested SSN.



This is not an election for a tax classification of an entity. See Disregarded entities on page 4.

Sole proprietor. Check this box if you file Schedule C, C-EZ, or F (Form 1040) and have a qualified plan, or are required to file excise, employment, alcohol, tobacco, or firearms returns, or are a payer of gambling winnings. Enter your SSN (or ITIN) in the space provided. If you are a nonresident alien with no effectively connected income from sources within the United States, you do not need to enter an SSN or ITIN.

Corporation. This box is for any corporation other than a personal service corporation. If you check this box, enter the income tax form number to be filed by the entity in the space provided.



If you entered "1120S" after the "Corporation" checkbox, the corporation must file Form 2553 no later than the 15th day of the 3rd month of the tax year the election is to take effect. Until Form 2553 has been received and approved, you will be considered a Form 1120 filer. See the Instructions for Form 2553.

Personal service corporation. Check this box if the entity is a personal service corporation. An entity is a personal service corporation for a tax year only if:

- The principal activity of the entity during the testing period (prior tax year) for the tax year is the performance of personal services substantially by employee-owners, and
- The employee-owners own at least 10% of the fair market value of the outstanding stock in the entity on the last day of the testing period.

Personal services include performance of services in such fields as health, law, accounting, or consulting. For more information about personal service corporations, see the Instructions for Form 1120 and Pub. 542.



If the corporation is recently formed, the testing period begins on the first day of its tax year and ends on the earlier of the last day of its tax year, or the last day of the calendar year in which its tax year begins.

Other nonprofit organization. Check this box if the nonprofit organization is other than a church or church-controlled organization and specify the type of nonprofit organization (for example, an educational organization).



If the organization also seeks tax-exempt status, you must file either Package 1023 or Package 1024. See Pub. 557 for more information.

If the organization is covered by a group exemption letter, enter the four-digit group exemption number (GEN) in the last entry. (Do not confuse the GEN with the nine-digit EIN.) If you do not know the GEN, contact the parent organization. Get Pub. 557 for more information about group exemption numbers.

If the organization is a section 527 political organization, check the box for *Other nonprofit organization* and specify "section 527 organization" in the space to the right. To be recognized as exempt from tax, a section 527 political organization must electronically file Form 8871, Political Organization Notice of Section 527 Status, within 24 hours of the date on which the organization was established. The organization may also have to file Form 8872, Political Organization Report of Contributions and Expenditures. See www.irs.gov/polorgs for more information.

Plan administrator. If the plan administrator is an individual, enter the plan administrator's taxpayer identification number (TIN) in the space provided.

REMIC. Check this box if the entity has elected to be treated as a real estate mortgage investment conduit (REMIC). See the Instructions for Form 1066 for more information.

State/local government. If you are a government employer and you are not sure of your social security and Medicare coverage options, go to www.ncsssa.org/ssaframes.html to obtain the contact information for your state's Social Security Administrator.

Other. If not specifically listed, check the "Other" box, enter the type of entity and the type of return, if any, that will be filed (for example, "Common Trust Fund, Form 1065" or "Created a Pension Plan"). Do not enter "N/A." If you are an alien individual applying for an EIN, see the *Lines 7a–b* instructions on page 3.

• **Household employer.** If you are an individual that will employ someone to provide services in your household, check the "Other" box and enter "Household Employer" and your SSN. If you are a trust that qualifies as a household employer, you do not need a separate EIN for reporting tax information relating to household employees; use the EIN of the trust.

• **Household employer agent.** If you are an agent of a household employer that is a disabled individual or other welfare recipient receiving home care services through a state or local program, check the "Other" box and enter "Household Employer Agent." (See Rev. Proc. 80-4, 1980-1 C.B. 581 and Notice 2003-70, 2003-43 I.R.B. 916.) If you are a state or local government also check the box for state/local government.

• **QSub.** For a qualified subchapter S subsidiary (QSub) check the "Other" box and specify "QSub."

• **Withholding agent.** If you are a withholding agent required to file Form 1042, check the "Other" box and enter "Withholding Agent."

Disregarded entities. A disregarded entity is an eligible entity that is disregarded as separate from its owner for federal income tax purposes. Disregarded entities include single-member limited liability companies (LLCs) that are disregarded as separate from their owners, qualified subchapter S subsidiaries (qualified subsidiaries of an S corporation), and certain qualified foreign entities. See the instructions for Form 8832 and Regulations section 301.7701-3 for more information on domestic and foreign disregarded entities.

A disregarded entity must have an EIN if it is subject to employment taxes or certain excise taxes. For wages paid during 2008 and in prior years, the reporting and payment of employment taxes for employees could be made using the name and EIN of either the owner or the disregarded entity (as explained in Notice 99-6, 1999-3 I.R.B. 12).

For wages paid on or after January 1, 2009, the disregarded entity is required to use its name and EIN for reporting and payment of employment taxes. A disregarded entity is also required to use its name and EIN to register for excise tax activities on Form 637, pay and report excise taxes reported on Forms 720, 730, 2290, and 11-C, and claim any refunds, credits, and payments on Form 8849. This requirement for reporting and paying excise taxes became effective after December 31, 2007. See the instructions for the employment and excise tax returns for more information.

Complete Form SS-4 for disregarded entities as follows.

- If a disregarded entity is filing Form SS-4 to obtain an EIN because it is required to report and pay employment and excise taxes (see above) or for non-federal purposes such as a state requirement, check the "Other" box for line 9a and write "disregarded entity" (or "disregarded entity-sole proprietorship" if the owner of the disregarded entity is an individual).
- If the disregarded entity is requesting an EIN for purposes of filing Form 8832 to elect classification as an association taxable as a corporation, or Form 2553 to elect S corporation status, check the "Corporation" box for line 9a and write "single-member" and the form number of the return that will be filed (Form 1120 or 1120S).
- If the disregarded entity is requesting an EIN because it has acquired one or more additional owners and its classification has changed to partnership under the default rules of Regulations section 301.7701-3(f), check the "Partnership" box for line 9a.

Line 10. Reason for applying. Check only one box. Do not enter "N/A." A selection is required.

Started new business. Check this box if you are starting a new business that requires an EIN. If you check this box, enter the type of business being started. Do not apply if you already have an EIN and are only adding another place of business.

Hired employees. Check this box if the existing business is requesting an EIN because it has hired or is hiring employees and is therefore required to file employment tax returns. Do not apply if you already have an EIN and are only hiring employees. For information on employment taxes (for example, for family members), see Pub. 15 (Circular E).



You may have to make electronic deposits of all depository taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Federal Tax Payment System (EFTPS). See Federal tax deposits on page 1; section 11, Depositing Taxes, of Pub. 15 (Circular E); and Pub. 966.

Banking purpose. Check this box if you are requesting an EIN for banking purposes only, and enter the banking purpose (for example, a bowling league for depositing dues or an investment club for dividend and interest reporting).

Changed type of organization. Check this box if the business is changing its type of organization. For example, the business was a sole proprietorship and has been incorporated or has become a partnership. If you check this box, specify in the space provided (including available space immediately below) the type of change made. For example, "From Sole Proprietorship to Partnership."

Purchased going business. Check this box if you purchased an existing business. Do not use the former owner's EIN unless you became the "owner" of a corporation by acquiring its stock.

Created a trust. Check this box if you created a trust, and enter the type of trust created. For example, indicate if the trust is a nonexempt charitable trust or a split-interest trust.

Exception. Do not file this form for certain grantor-type trusts. The trustee does not need an EIN for the trust if the trustee furnishes the name and TIN of the grantor/owner and the address of the trust to all payers. However, grantor trusts that do not file using Optional Method 1 and IRA trusts that are required to file Form 990-T, Exempt Organization Business Income Tax Return, must have an EIN. For more information on grantor trusts, see the Instructions for Form 1041.



Do not check this box if you are applying for a trust EIN when a new pension plan is established. Check "Created a pension plan."

Created a pension plan. Check this box if you have created a pension plan and need an EIN for reporting purposes. Also, enter the type of plan in the space provided.



Check this box if you are applying for a trust EIN when a new pension plan is established. In addition, check the "Other" box on line 9a and write "Created a Pension Plan" in the space provided.

Other. Check this box if you are requesting an EIN for any other reason; and enter the reason. For example, a newly-formed state government entity should enter "Newly-Formed State Government Entity" in the space provided.

Line 11. Date business started or acquired. If you are starting a new business, enter the starting date of the business. If the business you acquired is already operating, enter the date you acquired the business. If you are changing the form of ownership of your business, enter the date the new ownership entity began. Trusts should enter the date the trust was funded. Estates should enter the date of death of the decedent whose name appears on line 1 or the date when the estate was legally funded.

Line 12. Closing month of accounting year. Enter the last month of your accounting year or tax year. An accounting or tax year is usually 12 consecutive months, either a calendar year or a fiscal year (including a period of 52 or 53 weeks). A calendar year is 12 consecutive months ending on December 31. A fiscal year is either 12 consecutive months ending on the last day of any month other than December or a 52-53 week year. For more information on accounting periods, see Pub. 538.

Individuals. Your tax year generally will be a calendar year.

Partnerships. Partnerships must adopt one of the following tax years.

- The tax year of the majority of its partners.
- The tax year common to all of its principal partners.

- The tax year that results in the least aggregate deferral of income.
- In certain cases, some other tax year.

See the Instructions for Form 1065 for more information.

REMICs. REMICs must have a calendar year as their tax year.

Personal service corporations. A personal service corporation generally must adopt a calendar year unless it meets one of the following requirements.

- It can establish a business purpose for having a different tax year.
- It elects under section 444 to have a tax year other than a calendar year.

Trusts. Generally, a trust must adopt a calendar year except for the following trusts.

- Tax-exempt trusts.
- Charitable trusts.
- Grantor-owned trusts.

Line 13. Highest number of employees expected in the next 12 months. Complete each box by entering the number (including zero ("0-")) of "Agricultural," "Household," or "Other" employees expected by the applicant in the next 12 months.

If no employees are expected, skip line 14.

Line 14. Do you want to file Form 944? If you expect your employment tax liability to be \$1,000 or less in a full calendar year, you are eligible to file Form 944 annually (once each year) instead of filing Form 941 quarterly (every three months). Your employment tax liability generally will be \$1,000 or less if you expect to pay \$4,000 or less in total wages subject to social security and Medicare taxes and federal income tax withholding. If you qualify and want to file Form 944 instead of Forms 941, check the box on line 14. If you do not check the box, then you must file Form 941 for every quarter.



For employers in the U.S. possessions, generally, if you pay \$6,536 or less in wages subject to social security and Medicare taxes, you are likely to pay \$1,000 or less in employment taxes.

For more information on employment taxes, see Pub. 15 (Circular E); or Pub. 51 (Circular A) if you have agricultural employees (farmworkers).

Line 15. First date wages or annuities were paid. If the business has employees, enter the date on which the business began to pay wages. If the business does not plan to have employees, enter "N/A."

Withholding agent. Enter the date you began or will begin to pay income (including annuities) to a nonresident alien. This also applies to individuals who are required to file Form 1042 to report alimony paid to a nonresident alien.

Line 16. Check the one box on line 16 that best describes the principal activity of the applicant's business. Check the "Other" box (and specify the applicant's principal activity) if none of the listed boxes applies. You must check a box.

Construction. Check this box if the applicant is engaged in erecting buildings or engineering projects (for example, streets, highways, bridges, tunnels). The term "Construction" also includes special trade contractors (for example, plumbing, HVAC, electrical, carpentry, concrete, excavation, etc. contractors).

Real estate. Check this box if the applicant is engaged in renting or leasing real estate to others; managing, selling, buying, or renting real estate for others; or providing related real estate services (for example, appraisal services). Also check this box for mortgage real estate investment trusts (REITs). Mortgage REITs are engaged in issuing shares of funds consisting primarily of portfolios of real estate

mortgage assets with gross income of the trust solely derived from interest earned.

Rental and leasing. Check this box if the applicant is engaged in providing tangible goods such as autos, computers, consumer goods, or industrial machinery and equipment to customers in return for a periodic rental or lease payment. Also check this box for equity real estate investment trusts (REITS). Equity REITS are engaged in issuing shares of funds consisting primarily of portfolios of real estate assets with gross income of the trust derived from renting real property.

Manufacturing. Check this box if the applicant is engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products. The assembling of component parts of manufactured products is also considered to be manufacturing.

Transportation & warehousing. Check this box if the applicant provides transportation of passengers or cargo; warehousing or storage of goods; scenic or sight-seeing transportation; or support activities related to transportation.

Finance & insurance. Check this box if the applicant is engaged in transactions involving the creation, liquidation, or change of ownership of financial assets and/or facilitating such financial transactions; underwriting annuities/insurance policies; facilitating such underwriting by selling insurance policies; or by providing other insurance or employee-benefit related services.

Health care & social assistance. Check this box if the applicant is engaged in providing physical, medical, or psychiatric care or providing social assistance activities such as youth centers, adoption agencies, individual/family services, temporary shelters, daycare, etc.

Accommodation & food services. Check this box if the applicant is engaged in providing customers with lodging, meal preparation, snacks, or beverages for immediate consumption.

Wholesale-agent/broker. Check this box if the applicant is engaged in arranging for the purchase or sale of goods owned by others or purchasing goods on a commission basis for goods traded in the wholesale market, usually between businesses.

Wholesale-other. Check this box if the applicant is engaged in selling goods in the wholesale market generally to other businesses for resale on their own account, goods used in production, or capital or durable nonconsumer goods.

Retail. Check this box if the applicant is engaged in selling merchandise to the general public from a fixed store; by direct, mail-order, or electronic sales; or by using vending machines.

Other. Check this box if the applicant is engaged in an activity not described above. Describe the applicant's principal business activity in the space provided.

Line 17. Use line 17 to describe the applicant's principal line of business in more detail. For example, if you checked the "Construction" box on line 16, enter additional detail such as "General contractor for residential buildings" on line 17. An entry is required. For mortgage REITS indicate mortgage REIT and for equity REITS indicate what type of real property is the principal type (residential REIT, nonresidential REIT, miniwarehouse REIT).

Line 18. Check the applicable box to indicate whether or not the applicant entity applying for an EIN was issued one previously.

Third Party Designee. Complete this section only if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of Form

SS-4. The designee's authority terminates at the time the EIN is assigned and released to the designee. You must complete the signature area for the authorization to be valid.

Signature. When required, the application must be signed by (a) the individual, if the applicant is an individual, (b) the president, vice president, or other principal officer, if the applicant is a corporation, (c) a responsible and duly authorized member or officer having knowledge of its affairs, if the applicant is a partnership, government entity, or other unincorporated organization, or (d) the fiduciary, if the applicant is a trust or an estate. Foreign applicants may have any duly-authorized person (for example, division manager) sign Form SS-4.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. We need it to comply with section 6109 and the regulations thereunder, which generally require the inclusion of an employer identification number (EIN) on certain returns, statements, or other documents filed with the Internal Revenue Service. If your entity is required to obtain an EIN, you are required to provide all of the information requested on this form. Information on this form may be used to determine which federal tax returns you are required to file and to provide you with related forms and publications.

We disclose this form to the Social Security Administration (SSA) for their use in determining compliance with applicable laws. We may give this information to the Department of Justice for use in civil and/or criminal litigation, and to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, and to federal law enforcement and intelligence agencies to combat terrorism.

We will be unable to issue an EIN to you unless you provide all of the requested information that applies to your entity. Providing false information could subject you to penalties.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103. Section 6109 requires paid preparers to provide their identifying number.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	8 hrs., 36 min.
Learning about the law or the form	42 min.
Preparing, copying, assembling, and sending the form to the IRS	52 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, IR-6526, 1111 Constitution Avenue, NW, Washington, DC 20224. Do not send the form to this address. Instead, see *Where to File or Fax* on page 2.

Form

SS-4

(Rev. January 2010)

Department of the Treasury
Internal Revenue Service**Application for Employer Identification Number**

(For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.)

▶ See separate instructions for each line. ▶ Keep a copy for your records.

OMB No. 1545-0003

EIN

Type or print clearly.	1 Legal name of entity (or individual) for whom the EIN is being requested					
	2 Trade name of business (if different from name on line 1)		3 Executor, administrator, trustee, "care of" name			
	4a Mailing address (room, apt., suite no. and street, or P.O. box)		5a Street address (if different) (Do not enter a P.O. box.)			
	4b City, state, and ZIP code (if foreign, see instructions)		5b City, state, and ZIP code (if foreign, see instructions)			
	6 County and state where principal business is located					
	7a Name of responsible party		7b SSN, ITIN, or EIN			
8a	Is this application for a limited liability company (LLC) (or a foreign equivalent)? ☐ Yes ☐ No		8b If 8a is "Yes," enter the number of LLC members			
8c	If 8a is "Yes," was the LLC organized in the United States? ☐ Yes ☐ No					
9a	Type of entity (check only one box). Caution. If 8a is "Yes," see the instructions for the correct box to check. <table style="width:100%; border:none;"> <tr> <td style="width:50%; vertical-align:top;"> ☐ Sole proprietor (SSN) _____ ☐ Partnership ☐ Corporation (enter form number to be filed) ▶ _____ ☐ Personal service corporation ☐ Church or church-controlled organization ☐ Other nonprofit organization (specify) ▶ _____ ☐ Other (specify) ▶ _____ </td> <td style="width:50%; vertical-align:top;"> ☐ Estate (SSN of decedent) _____ ☐ Plan administrator (TIN) _____ ☐ Trust (TIN of grantor) _____ ☐ National Guard ☐ State/local government ☐ Farmers' cooperative ☐ Federal government/military ☐ REMIC ☐ Indian tribal governments/enterprises Group Exemption Number (GEN) if any ▶ _____ </td> </tr> </table>			☐ Sole proprietor (SSN) _____ ☐ Partnership ☐ Corporation (enter form number to be filed) ▶ _____ ☐ Personal service corporation ☐ Church or church-controlled organization ☐ Other nonprofit organization (specify) ▶ _____ ☐ Other (specify) ▶ _____	☐ Estate (SSN of decedent) _____ ☐ Plan administrator (TIN) _____ ☐ Trust (TIN of grantor) _____ ☐ National Guard ☐ State/local government ☐ Farmers' cooperative ☐ Federal government/military ☐ REMIC ☐ Indian tribal governments/enterprises Group Exemption Number (GEN) if any ▶ _____	
☐ Sole proprietor (SSN) _____ ☐ Partnership ☐ Corporation (enter form number to be filed) ▶ _____ ☐ Personal service corporation ☐ Church or church-controlled organization ☐ Other nonprofit organization (specify) ▶ _____ ☐ Other (specify) ▶ _____	☐ Estate (SSN of decedent) _____ ☐ Plan administrator (TIN) _____ ☐ Trust (TIN of grantor) _____ ☐ National Guard ☐ State/local government ☐ Farmers' cooperative ☐ Federal government/military ☐ REMIC ☐ Indian tribal governments/enterprises Group Exemption Number (GEN) if any ▶ _____					
9b	If a corporation, name the state or foreign country (if applicable) where incorporated	State	Foreign country			
10	Reason for applying (check only one box) <table style="width:100%; border:none;"> <tr> <td style="width:50%; vertical-align:top;"> ☐ Started new business (specify type) ▶ _____ ☐ Hired employees (Check the box and see line 13.) ☐ Compliance with IRS withholding regulations ☐ Other (specify) ▶ _____ </td> <td style="width:50%; vertical-align:top;"> ☐ Banking purpose (specify purpose) ▶ _____ ☐ Changed type of organization (specify new type) ▶ _____ ☐ Purchased going business ☐ Created a trust (specify type) ▶ _____ ☐ Created a pension plan (specify type) ▶ _____ </td> </tr> </table>			☐ Started new business (specify type) ▶ _____ ☐ Hired employees (Check the box and see line 13.) ☐ Compliance with IRS withholding regulations ☐ Other (specify) ▶ _____	☐ Banking purpose (specify purpose) ▶ _____ ☐ Changed type of organization (specify new type) ▶ _____ ☐ Purchased going business ☐ Created a trust (specify type) ▶ _____ ☐ Created a pension plan (specify type) ▶ _____	
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11	Date business started or acquired (month, day, year). See instructions.					
12	Closing month of accounting year					
13	Highest number of employees expected in the next 12 months (enter -0- if none). If no employees expected, skip line 14. <table style="width:100%; border:none;"> <tr> <td style="width:33%; text-align:center;">Agricultural</td> <td style="width:33%; text-align:center;">Household</td> <td style="width:33%; text-align:center;">Other</td> </tr> </table>			Agricultural	Household	Other
Agricultural	Household	Other				
14	If you expect your employment tax liability to be \$1,000 or less in a full calendar year and want to file Form 944 annually instead of Forms 941 quarterly, check here. (Your employment tax liability generally will be \$1,000 or less if you expect to pay \$4,000 or less in total wages.) If you do not check this box, you must file Form 941 for every quarter. ☐					
15	First date wages or annuities were paid (month, day, year). Note. If applicant is a withholding agent, enter date income will first be paid to nonresident alien (month, day, year) ▶					
16	Check one box that best describes the principal activity of your business. <table style="width:100%; border:none;"> <tr> <td style="width:33%; vertical-align:top;"> ☐ Construction ☐ Rental & leasing ☐ Transportation & warehousing ☐ Real estate ☐ Manufacturing ☐ Finance & insurance </td> <td style="width:33%; vertical-align:top;"> ☐ Health care & social assistance ☐ Accommodation & food service ☐ Other (specify) _____ </td> <td style="width:33%; vertical-align:top;"> ☐ Wholesale-agent/broker ☐ Wholesale-other ☐ Retail </td> </tr> </table>			☐ Construction ☐ Rental & leasing ☐ Transportation & warehousing ☐ Real estate ☐ Manufacturing ☐ Finance & insurance	☐ Health care & social assistance ☐ Accommodation & food service ☐ Other (specify) _____	☐ Wholesale-agent/broker ☐ Wholesale-other ☐ Retail
☐ Construction ☐ Rental & leasing ☐ Transportation & warehousing ☐ Real estate ☐ Manufacturing ☐ Finance & insurance	☐ Health care & social assistance ☐ Accommodation & food service ☐ Other (specify) _____	☐ Wholesale-agent/broker ☐ Wholesale-other ☐ Retail				
17	Indicate principal line of merchandise sold, specific construction work done, products produced, or services provided.					
18	Has the applicant entity shown on line 1 ever applied for and received an EIN? ☐ Yes ☐ No If "Yes," write previous EIN here ▶ _____					
Third Party Designee	Complete this section only if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.					
	Designee's name		Designee's telephone number (include area code) ()			
	Address and ZIP code		Designee's fax number (include area code) ()			
Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.			Applicant's telephone number (include area code) ()			
Name and title (type or print clearly) ▶			Applicant's fax number (include area code) ()			
Signature ▶			Date ▶			

PENNSYLVANIA

SALES TAX

EXEMPTION REQUEST

LOCAL CHURCH SALES TAX EXEMPTION

To apply for a Pennsylvania Sales Tax Exempt Number for your local church, the Conference Center, 724-776-2300, and speak with:

Jervais, ext. 235 or

Sally, ext. 245

You will need to have the following information when you call:

Church Name

Church Mailing Address

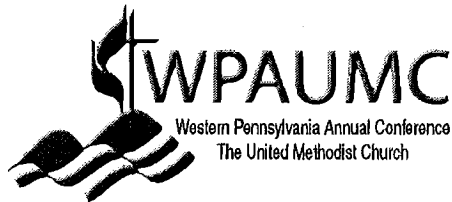
Church Federal EIN Number

DO NOT CALL THE STATE DIRECTLY! This will slow the process because they will have to call us to obtain a letter stating that your church is a part of our Annual Conference.



REMITTANCE FORM

LOCAL CHURCH REMITTANCE FORM



1204 FREEDOM ROAD, CRANBERRY TWP., PA 16066
PHONE: 724-776-2300

CHURCH INFORMATION

Church Number:	Date
Church Name:	
Street Address:	
City:	ST Zip:

MISSION SHARE, SPECIAL SUNDAYS & BENEVOLENCES	ITEM NO.	AMOUNT
MISSION SHARE	1	
YOUTH SERVICE FUND	6	
ONE GREAT HOUR OF SHARING	7	
WORLD COMMUNION	8	
U M STUDENT DAY	9	
HUMAN RELATIONS DAY	10	
CHRISTIAN EDUCATION SUNDAY	11	
HOMES/GOLDEN CROSS/RED STOCKINGS	12	
PEACE WITH JUSTICE SUNDAY	13	
NATIVE AMERICAN MINISTRY SUNDAY	14	
RURAL LIFE SUNDAY	15	
DISABILITY AWARENESS SUNDAY	16	
CAMPING SUNDAY	25	

DIRECTIONS

Please return one copy with your payment. This form may be used to submit payments for more than one area of ministry. For example, you can pay Mission Share and One Great Hour of Sharing on one sheet, with one check. It is not necessary to write a separate check for each item.

SPECIAL OFFERINGS	ADVANCE NO	AMOUNT
UMCOR - GENERAL	999895	
CONFERENCE DISASTER RELIEF	SS001500F	

Make payments payable to WPAUMC and mail to:
**UNITED METHODIST CENTER
TREASURER'S OFFICE
1204 FREEDOM ROAD
CRANBERRY TWP., PA
16066-4914**

CHECK NUMBER:	TOTAL REMITTANCE	\$0.00

Sumit one check for page total - unless remitting from more than one checking account

SUBMITTED BY

Name:	Phone:
Street Address:	
City:	St Zip:
Please check this box if any of the above information is new. ☐	

WORKERS COMPENSATION

**Western PA Annual Conference of the UMC
2010 Workers' Compensation Worksheet**

Church: _____

Pastor: _____

Church ID: _____

(as listed in the Conference Journal)

Line Number	Item Description	Estimated Current Year Payroll
CLERGY SALARIES:		
1a	Pastor	
1b	Associate	
1c	Associate	
1d	Associate	
1e	Associate	
1f	Associate	
Line 1 Sum	Total Clergy Salaries	
Line 2	Rental Value of Parsonage (\$3,600 for each clergy member provided a parsonage. If a pastor serves more than one church divide \$3,600 equally)	
OTHER SALARIES:		
3a	Youth Directors	
3b	Custodians	
3c	Music Directors/Organists	
3d	Choir Directors	
3e	Financial Secretary	
3f	Treasurer	
3g	Business Manager	
3h	Church Secretaries	
3i	Day Care Center	
3j	All Other	
Line 3 Sum	Total Other Salaries	
4	Total Regular Salaries (Sum Lines 1, 2 and 3)	
5	Volunteer Salaries (Mandatory 10% of Regular Salaries)	
6	GRAND TOTAL SALARIES (Sum Lines 4 and 5)	
7	PREMIUM RATE	0.1
8	PREMIUM DUE FOR CURRENT YEAR (Line 6 TIMES Line 7)	
9	ASSESSMENT - SHORT TERM INCAPACITY FUND (See 2009 Conference Journal - RS404, Page 300)	\$25.00
10	TOTAL PAYMENT DUE (Sum Line 8 and 9)	

PAYMENT PROCEDURE

Send a check payable to WPAUMC for the aTotal Amount Due (Line 10) to: Western PA Annual Conference, c/o Treasurers Office,
P.O. BOX 6002, Cranberry Twp., PA 16066-0002

Prepared by: _____

Check Number: _____

Phone: _____

Email: _____

RS 404 FUNDING FOR MINISTRY FOR 2010
Local Church Short Term Incapacity Support Funding
(Adopted 06/13/2009)

WHEREAS, our clergy members provide spiritual guidance for members of local churches and also shepherd the mission and ministry of the local church.

WHEREAS, currently the local church is called upon to pay the pastor during a short term incapacity.

WHEREAS, the cost of paying a pastor and providing payment to a supply pastor during the short term incapacity period can be prohibitive. This may place an undue burden and financial hardship upon affected congregations.

WHEREAS, the 2008 meeting of the Western PA Conference commissioned a study of this problem and directed that the Conference Council on Finance & Administration include this report in its recommendations for funding ministry in 2010 to the 2009 meeting of the Western PA Conference.

THEREFORE BE IT RESOLVED, that beginning January 1, 2010 The Western PA Conference establish a Short Term Incapacity Fund to benefit and assist churches whose pastors experience short term disability situations. The fund will be monitored and administrated by the Conference Treasurer's Office in accordance with provisions of this resolution and policies of the Conference Council on Finance & Administration.

THEREFORE BE IT FURTHER RESOLVED, that the Short Term Incapacity Fund be initially funded in the following manner. Beginning in 2010 each local church will be assessed a fee of \$25 as part of their Worker's Compensation billing. In addition, beginning in January 2010, each pastor in the annual conference will be asked to contribute a one-time offering of \$25 for the establishment of this fund. Subsequent funding shall be provided for through assessment as part of the Worker's Compensation billing as presented by the Conference Council on Finance & Administration and adopted by the Western PA Conference as part of its plan for funding for ministry.

BE IT FURTHER RESOLVED, that disbursements from this fund shall be in accordance to the plan of ministry developed by the local church or charge and district superintendent in accordance with ¶¶ 421.1 and 421.3 of the 2008 *Book of Discipline*. The plan of ministry shall be reviewed by the cabinet and if necessary modified. The plan of ministry must include continued payment of salary, pension, hospitalization, retirement, and housing for the clergy person placed on short term disability by the local charge. No plan of ministry shall include payments from the Short Term Incapacity Fund for more than 18 months.

BE IT FURTHER RESOLVED, that prior to any disbursements from the Short Term Incapacity Fund all review provisions of ¶ 357 of the 2008 *Book of Discipline* must be completed and placed in the supervisory and personnel files.

BE IT FURTHER RESOLVED, that the conference treasurer shall make disbursements from this account to the local church or charge treasurer as designated in the plan of ministry.

BE IT FURTHER RESOLVED, that the conference treasurer may not disburse funds from the Short Term Incapacity Fund if the balance of the fund is depleted.

Council on Finance & Administration, Howard F. Burrell, Chair
Conference Connectional Network, Greg Cox, Chair

UNITED METHODIST
FOUNDATION

Financial and Educational Services Important to You

The United Methodist Foundation of Western Pennsylvania is a ministry established to provide United Methodists with the resources to accomplish collectively more than can be accomplished alone.



As a nonprofit corporation offering a variety of stewardship services, we are a supporting organization of the Western Pennsylvania Annual Conference. As such, we understand what funding ministry really means, and how it works within a Christian setting.

Since 1970, we have served churches, agencies, clergy, and individuals as they participate in the mission and ministry of Jesus Christ.

For Churches



We offer financial services and educational assistance that enhance church ministries – whether the needs be for current funding, funding for a special project, or permanent long-term funding.

Annual Giving Programs stress the need to give out of discipleship. We provide a variety of unique resources that assist congregations in funding their ministry on a consistent basis.

Capital Campaigns at many churches have benefited from our Planning Studies and campaign materials. With our assistance, churches have raised significant funds to expand and repair buildings, launch new programs, and retire debt.

Endowment Development can provide a stable source of income for ministry. From creating policy to providing sample promotional materials, our experienced staff can help you develop an endowment fund tailored for your church.

Funds Management is a service in which the Foundation has long been a leader, by using professionally managed accounts with a commitment to socially responsible investing. Through the leverage gained by a common investment pool, your church can more effectively achieve a competitive rate of return with long-term growth.

Gift Planning is an area of particular importance to many people. We offer seminars that could help you and others in your church.

For Individuals

By working with any individual seeking to support a United Methodist ministry, we offer gift-planning services that are based on the principle of lifelong stewardship, and provide educational assistance with respect to current gift giving. We can help you determine the kind of gift that might be best for your individual situation.

Permanent Gifts perpetuate one's Christian influence and offer support for ministry through a permanent endowment fund.

Non-cash Gifts, restricted or unrestricted, can be made through the Foundation to support local churches or other United Methodist agencies.

Life-Income Gifts are "gifts that keep on giving," providing a regular income to a beneficiary, while ultimately providing a particular United Methodist ministry with funds.

Bequests, gifts made through a will, can help fund multiple ministries. As these gifts can take many forms, we can explain the advantages of available options.



For Clergy

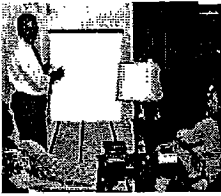


We offer educational assistance that will enhance personal and professional aspects of ministry. **Clergy Tax Seminars** are sponsored in the early weeks of each year to assist clergy members in understanding their unique tax treatment under Federal law.

Financial Planning Seminars are presented to assist clergy in charting their own financial plan, and are focused on the financial needs of pastors who live in parsonages and who are often burdened with high educational debt.

Financial and Educational Services Important to You

Seminars



Each year, we offer several seminars that may benefit you, your church, your church's leadership team, your specific-interest group, or Conference agencies.

We offer seminars that: assess readiness for capital campaigns; advance awareness of various forms of giving programs; and develop multi-year in-depth programs to enhance clergy and laity leadership of Christian stewardship. We have also developed and presented seminars concerning permanent endowment programs that can be established in order to fund future ministries.

Grants

Each year, we award grants to churches or agencies of the Western Pennsylvania Annual Conference for programs and activities. Through these awards of grants of dollars and Foundation staff time, we seek to enhance and expand the ministries of these churches and agencies. The ultimate goal is to provide sufficient counsel such that these ministries become self-sustaining and reflect the highest levels of Christian stewardship.



Grant-Writing and Workshops



Obtaining major gifts from individuals; corporations, or foundations requires a well-thought-out, finely crafted proposal. We can help you research funding sources and prepare proposals and supporting materials to aid your church or agency. Our experienced personnel provide counsel as to the likelihood that a grant would be awarded to you, as well as the editing of material necessary to comply with the guidelines of a specific grant application. We also offer a Grants Workshop to help you understand the processes involved in seeking funding.

Whether through attention to financial issues facing individuals and groups, through educational seminars, through managing permanent funds for churches or agencies, or through Foundation grants—we are here to help Western Pennsylvania Annual Conference church members multiply the talents we all have been given, and to answer God's call to total, intentional, and responsible stewardship.



United Methodist Foundation of Western Pennsylvania
Benedum-Trees Building, Suite 707
223 Fourth Avenue
Pittsburgh, PA 15222
E-mail: info@umfoundation.org
Phone: (412) 232 0650 or (800) 743 2128
Fax: (412) 232 0675
Web site: www.UMFoundation.org

The United Methodist Foundation
Providing resources for stewardship witness to our faith



501 C-3

**GROUP RULING
REQUEST**

501C3 GROUP RULING REQUEST FORM

The attached form can be completed and used by Local Churches to request documentation showing that your specific church is covered under the Denominations Group Ruling.

Please complete the attached form (copies can be made) and fax the form directly to GCFA's Legal Department as per instructions at the bottom of the form.

You do not need to enter anything in the "Comments" area, but your date of incorporation must be entered.

If you have questions, please call our office and ask for Jervais or Cooky.



GROUP RULINGS AND CHARITABLE CONTRIBUTIONS

IRS Publication 4573 (Group Exemptions) (<http://www.irs.gov/pub/irs-tege/p4573.pdf>) provides information on group tax exemption rulings such as the one covering United Methodist local churches, annual conferences, general agencies, and certain other United Methodist affiliated organizations.

In 1974, GCFA, acting on behalf of The United Methodist Church, applied for and received a group tax exemption ruling from the IRS. In the language of the IRS, GCFA is referred to as the “central organization” of the group ruling and the other covered entities are referred to as “subordinate organizations”. (For information purposes, the IRS Group Exemption Number for The United Methodist Church Group Tax Exemption Ruling is: 2573.)

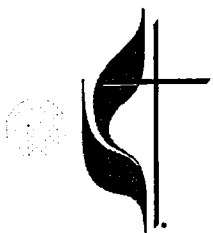
The 1974 group ruling from the IRS is still valid today and by its terms, it provides that all subordinate organizations covered by the group ruling are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

However, from time to time, potential donors have raised questions about verifying the tax-exempt status of our organizations covered under our group ruling. Their interest, of course, is to insure that their contributions to our organizations will be tax deductible. Publication 4573 provides helpful guidance to donors in this regard.

Specifically, Publication 4573 states that to establish the deductibility of their contributions to a subordinate organization, donors may rely on:

- (1) the central organization’s (in this case, GCFA’s) listing in IRS Publication 78 (which is online at www.irs.gov); together with
- (2) the central organization’s (in this case, GCFA’s) verification that the subordinate organization is included in the group ruling.

If you have potential donors who have expressed concerns about the deductibility of their contributions, please feel free to direct them to Publication 4573 or to GCFA’s Legal Department.



General Council on Finance and Administration GROUP RULING REQUEST FORM

DATE: _____

MY ORGANIZATION IS A:

GROUP 1 ☐

(Church, Agency, Conference, etc.)

* GROUP 2 ☐

(Other - see below)

(Please print or type)

CHURCH / ORGANIZATION NAME: _____

PASTOR / DIRECTOR'S NAME: _____

ADDRESS: _____

PHONE NUMBER: _____ FAX NUMBER: _____

E-MAIL ADDRESS: _____

EMPLOYER IDENTIFICATION NUMBER (EIN): _____

(9 digit number- **REQUIRED, CANNOT BE PROCESSED WITHOUT THIS NUMBER**)

CHARTER / INCORPORATION DATE: _____

REQUESTED BY: _____

PHONE NUMBER: _____

E-MAIL ADDRESS: _____

COMMENTS: _____

* Generally, the "Group 2" designation applies to an organization that is a subsidiary of or otherwise related to a "Group 1" organization. Common examples of Group 2 organizations are: Wesley Foundations, church preschools/child-care centers, community centers, annual conference retreat centers/camps, church foundations, community ministries (e.g., missions, shelters, food distribution centers).

If your organization falls under the Group 2 category, you must attach a copy of the organization's governing documents for review (i.e., Articles of Incorporation, By-Laws, etc.). If your Group 2 organization does not have these documents, please note that in the "Comments" section of this Request Form and we will contact you for more information.

Fax your completed request to GCF's Legal Department - 866-246-2516 or
E-mail to legal@gcfa.org

