

5 Hot Compliance Topics Facing Churches Today

Presented by:

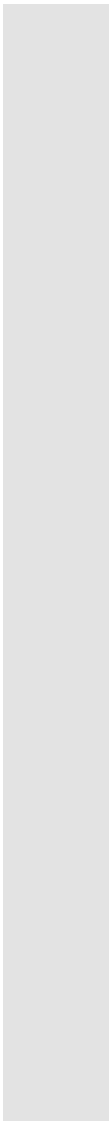
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Objectives

To review five areas of compliance commonly overlooked by churches that may result in operational complications in the future



Issue #1

Documentation issues may result in potential threats to the church and/or employees

- Inadequate Governing Documents: Old and outdated governing documents may threaten tax exempt status or invalidate actions taken by the church.
- Lack of Minutes: Major decisions are not documented due to inadequate minutes of meetings of the governing bodies. If it isn't written down – then it wasn't approved.
- Support for Reasonable Compensation: Both deliberations and outside data used to establish compensation must be documented when working with executive leadership positions to avoid potential challenges under IRC Section 4958.
- Expenses: Failure to document expenses, especially those incurred through credit cards, may create payments under nonaccountable expense plans or create excess benefit transactions under IRC Section 4958.

Issue #2

Classification of workers is often a struggle for churches and may lead to substantial penalties.

- Employee versus independent contractor: Common errors are often made in classifying musicians, childcare workers and maintenance workers.
- FLSA: Working through classification for FLSA has an additional nuance with the addition of consideration of the ministerial exception. More importantly is the overuse of the “exempt” classification.
- Ministers: Payroll rules are unique for ministers and classification of this group of workers is critical to applying these rules.

POLL 1 - What fun filled holiday occurs in October?

a.Christmas

b.St. Patrick's Day

c.Halloween

Issue #3

Ministers and everything that goes with them

- Classification: Both credentials and duties tests must be met to be a minister for IRS payroll purposes.
- Taxation:
 - Federal tax withholding – optional
 - FICA/Medicare withholding and matching – prohibited
 - Self-Employment tax under IRC Section 1402 – mandatory to follow these rules
- Housing allowance IRC Section 107:
 - Church responsibility – designate in advance of payment
 - Minister responsibility – determine how much is taxed for both federal income tax and self-employment tax

Issue #3

A Bit More

IRC Section 107 Benefits

- Provides for the parsonage or a housing allowance
- Can only be provided to those properly classified as ministers
- Exclusion of cash allowances has its limits for the minister:
 - Amount designated
 - Amount spent
 - Fair rental value of the home as furnished plus utilities
- May be provided through both current employers and through qualifying church retirement plans as long as received by a minister

Poll #2 - Most people associate what kind of pie with Thanksgiving?

a. Lemon Meringue

b. Pumpkin

c. Key Lime

Issue #4

Overlooked income and fringe benefits are often either not taxed or provided correctly

- If it doesn't go through the paycheck – it tends not be reported as income
- All benefits are not reviewed annually to determine how they should be treated
- Written plan documentation is often overlooked
- Nondiscrimination requirements are ignored as benefits are provided to one or a few employees
- Amounts treated as gifts are not properly included in taxable income

Issue #5

Structuring Outreach Programs

- Every outreach program must be structured to:
 - Define the charitable class to be reached
 - Determine how to document the need
 - Determine how to meet the need while complying with regulatory requirements

Poll #3 - Preparing one's individual tax return is:

a. A fun filled family activity

b. A dreaded annual event

c. Not really required – so why worry about it



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