Church Financial Issues Update January 2026

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Current Financial Issues for Churches

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- Rental of Parsonage
- Rental Income for Churches
- Tax Exempt Status of Church
- Use of Facilities by Outside Groups
- TN Sales and Use Tax
- Internal Controls

- **Rental of Parsonage**

  - *IRC Section 512* exempts rents from real property from the definition of unrelated business income, with exceptions relating to debt-financed property
    - Church can earn rents on the rental of the parsonage without paying taxes on the rent received

  - Other considerations:
    - Potential loss of property tax exemption
    - Liability insurance

- **Rental Income for Churches**

  - **Issues** to be aware of when considering renting church property to for-profit entites:
    - **Fair Market Rental Rate**
      - Charging below market rent seen as improper use of church assets which could lead to potential legal and tax consequences
        - Private benefit issues
    - **Unrelated Business Income Tax (UBIT)**
      - IRC 512 exempts rents from real property from the definition of unrelated business income, with exceptions relating to debt-financed property
    - **Property Tax Exemptions**
    - **Insurance**

(Excerpt-How Is Rental Income Taxed for Churches? Elaine Sommerville, CPA for ChurchLaw&Tax)

Church is considering renting church parking lot to city.

- Will parking lot revenue be taxable as unrelated business income?

- No. Rental income is exempt from Unrelated Business Income (UBI) unless property debt-financed.

- **Tax Exempt Status of Church**

  - **Do churches need to apply for their own 501c3 status?**
    - Churches that have obtained an EIN (Employer Identification Number) and are recognized as churches are automatically granted tax-exempt status without the need to apply for a "Letter of Determination" (IRS Form 1123). (IRC Section 508)

  - **Why might a church obtain a Letter of Determination from the IRS?**
    - Some churches may choose to obtain a Letter of Determination to aid in fundraising, grant applications, or supporting affiliated ministries

SEE HANDOUT

Understanding the IRS and Church Tax Exemption Status

- **Use of church facility by outside groups**

  - **Issues** to consider if allowing groups not related to tax-exempt purpose of the church:
    - Potential property tax exemption loss
    - Liability insurance concerns
    - Potential sales tax concerns depending on facts and circumstances of use

  - **Best case scenario**
    - Event or use is related to tax-exempt purposes of church
      - i.e., weddings, Christian concerts, 501c3 organizations with compatible mission to church

(Excerpt-Use of Church Facilities By Outside Groups – Frank Sommerville, J.D., CPA)

- **Tennessee Sales & Use Tax**

Certificate of Exemption for Nonprofit Organizations
[Tenn. Code Ann. Section 67-6-322]

This certificate is used by non-governmental organizations, that have been issued a certificate of exemption by the Commissioner of Revenue to purchase free of tax goods and taxable services that the organization will use, consume, or give away. The certificate will contain an exemption

https://www.tn.gov/content/dam/tn/revenue/documents/forms/sales/f1306901.pdf (Link to apply for sales tax exemption)

- **Tennessee Sales & Use Tax**
  - **Using the sales tax exemption certificate for purchases made for the church:**
    - The sale must be made directly to the exempt organization
    - Must be paid for with exempt organization's funds
    - Use of personal funds to make the purchase may not receive the exemption, even if they will be reimbursed for the purchase.
  - **How many fundraisers is a church allowed to have in a year?**
    - Churches can have up to two (2) fundraisers per year without charging sales tax
      - **Per TN Sales & Use Tax Guide**
        - *Occasional and isolated sales…are sales of tangible personal property taking place only during temporary sales periods of 30 days or less and occurring no more than twice per year.*

Church desires to assist widow in the community by making repairs on her home after the husband dies.

- Can the church use the TN Sales tax exemption to purchase goods to make the repair?

- Yes, in the context of the benevolent ministry of the church.
- The purchase of goods must be used in the ministry of the church.

- **What are Internal Controls?**

  - Internal controls are the habits and guardrails that help a church handle its money wisely. They answer questions like:
    - Who counts the money?
    - Who signs the checks?
    - Who reconciles the bank account?
    - Who reviews the reports?

- RED FLAG #1: One person does all the money jobs.
- RED FLAG #2: The numbers don't make sense and no one can explain why.
- RED FLAG #3: People resist outside review, even when it would help.

(*Excerpt from Series:Financial Transparency for Churches-3 financial warning signs your church shouldn't ignore. Tim Samuel , CPA and Church Chief Financial Officer-ChurchLaw&Tax)*

(Link to full article: https://www.churchlawandtax.com/manage-finances/internal-controls/series-financial-transparency-for-churches/

SEE HANDOUT

Segregation of Duties Checklist

Year-End Update & Review

- What's New
- Contributions
- Payroll Issues
- Tax Reporting
- Year-End Checklist and Due Dates

WHAT'S NEW IN 2025

ONE BIG BEAUTIFUL BILL ACT

(OBBBA)

Impact of OBBBA to Churches

❖ **New Non-Itemizer Charitable Contribution Deduction**

- Limited to $2,000 for married filing jointly; $1,000 for single filers
- Cash contributions
- Effective "after" 2025
- Written acknowledgement rules still apply
- Permanent deduction, no scheduled expiration

"This new provision is expected to serve as incentive for more taxpayers to give charitably. Nonprofit leaders should plan to educate their constituents about this significant new tax benefit associated with charitable giving as early as possible in 2026." (Michael Batts, CPA-Batts Morrison Wales & Lee PA)

Impact of OBBBA to Churches

❖**1099 Reporting Threshold**

- Increases from $600 to $2,000
- Effective "after" 2025
- Permanent change, will be adjusted for inflation after 2026

Impact of OBBBA to Churches

❖ **Unreimbursed Employee Moving Expenses**

- Permanently eliminates tax exclusion for employee moving expenses paid or reimbursed by employers
- Permanently eliminates deduction for qualified employee moving expenses

Impact of OBBBA to Churches

❖ Deduction For Overtime Pay

- New deduction for non-exempt employees earning qualified overtime required by Fair Labor Standards Act (FLSA)
  - Pay that exceeds their regular rate of pay
    - The "half" portion of "time-and-a-half" compensation
- Effective 2025 – 2028
- Maximum annual deduction is $12,500 for single filers, $25,000 for joint filers
- W-2 will be revised in 2026 for overtime reporting
- IRS will not revise 2025 W-2
  - IRS has issued transition penalty relief for 2025 for information reporting
    - Honor system this year – no reporting required to IRS for 2025
  - Encourage employers to report qualified overtime to employees in writing
    - Use Box 14 on 2025 W-2 – Miscellaneous Box

Other OBBBA Changes

(not inclusive of all OBBBA changes)

Senior Deduction

- Above-the-line deduction - $6,000 for single filers, $12,000 for married filing jointly

New "floor" on charitable contribution deductions taken on Schedule A – ½ of 1% of AGI not deductible

Educator expense deduction increased to $300 for qualified expenses

Increased standard deductions under TCJA made permanent

For 2025, standard deduction is $15,750 for single filers, $31,500 for married taxpayers filing jointly

Car interest deduction – effective 2025 – 2028 (lease payments do not apply).

Tips – Effective 2025-2028 – qualified tip deduction

IRS Standard Mileage Rates- Business

70 cents per mile

2025

2026

72.5 cents per mile

CONTRIBUTIONS

The Basics

Contributions: General Rules for Tax Deductibility

- Must be given to or for the use of qualified 501c3 organization.
- Received, postmarked, or processed (online) by 12/31.
- Proper substantiation – in writing, "no goods or services" statement, received by date of tax return filed.
  - *Example – IRS disallowed all of $25,171 donation because acknowledgement did not state "no goods or services received in exchange for donation".*
  - *Example – IRS disallowed donation because written substantiation was not "contemporaneous".*
- Deductible only to extent donation exceeds value of good received.
- Contributions to individuals are never tax deductible.
- Value of personal services never tax deductible.
- Value of rent-free space never tax deductible.
- Noncash contributions should not be included in donor statements, should be acknowledged separately.

Designated Contributions

Definition

Contributions made to a church with the stipulation the donations are to be used for a specific purpose.

- Allowable as deductible if made to on-going program or ministry of the church that the church administers.
  - Examples – Benevolence, capital, missions, etc.

Redirecting Designated Contributions

Can a church use remaining designated funds for other purposes?

Because of the risk and liability involved, church leaders should proceed carefully before using designated funds for other purposes.

NOTE - See Richard Hammar's *Church & Clergy Tax Guide* for a comprehensive analysis of this very complicated and legal subject.

Contributions Designated for Individuals

- ❑Per IRS, if contributions that are earmarked by the donor for a particular individual, they are treated, in effect, as being gifts to the designated individual and are not deductible. (IRS Revenue Ruling 62-113)
  - ❑**Love offering taken for individual**
  - ❑**Contribution designating an individual**
  - ❑**Love offering for small church staff**

Love Gifts

- Rules – Church MUST approve love gift and take control of contributions
- Four (4) Types of Love Gifts:
  - Benevolent love gifts
    - Not taxable to recipient
  - Visiting speaker love gift
    - Taxable
  - Love gift to employees
    - Taxable
  - Love gift for another ministry – tax-exempt organization

Contributions Designated for Short-Term Missions

Tax-deductibility of contributions from donors for mission trip

- The mission trip is a church-sponsored mission trip.
- The mission trip is sponsored by an affiliated organization of the church.
  - State Convention
  - Local Association
- The church administers all funds received and disbursed for the mission trip or sends all mission funds to the affiliated organization.
- Donors are informed that contributions to support specific individuals for the mission trip are donations to the church, not to the individual. No funds will go directly to the individual.
- Unused funds will be retained by the church to be used in tax-exempt purposes as determined by the church.

The IRS has two general tests to determine deductibility:

- Intended benefit test
- Control test

SEE HANDOUT

Donations for Missions Trips

Designated Contributions for Missionaries

- ❑Contributions made for a missionary could be deductible if it can be established that the contribution was for the use of a charitable organization (church)
  - ❑Church must act as “missions agency”

A church receives a donation from a donor designated for the pastor.

- Is the donation deductible?
- Is the amount given to the pastor taxable?

- Not Deductible
- Yes, taxable to the pastor

A church takes up a love offering for a mission trip.

- Is the donation deductible?

- Yes, if given to the church for missions.
  - Mission policy helps donors understand they are supporting mission of the church even if supporting an individual to go on the mission trip.

A church member going on a church-sponsored mission trip gives funds to the church for the cost of the trip.

- Is the amount the participant pays to go on the mission trip a tax-deductible contribution?

- Yes.
  - Tax law allows a charitable contribution for amounts paid for travel, lodging, and meals to participate in volunteer work

A church takes up a love offering for a revival speaker.

- Is the donation deductible?
- Is the amount paid to speaker taxable?
- What is a better way to handle the payment for a revival speaker?

- No, given for a specific individual.
- Yes, paid for services rendered.
- The church should enter into an agreed upon amount to pay the revival speaker. Offerings taken during revival are to be recorded as general offerings and would be deductible to the donor.

Church receives a designated donation specifically for the use of a Sunday School class. The class determines how to spend the funds.

- Is the donation deductible?

- No, Sunday School class is not the 501c3 organization. Church must administer the funds.

A donor makes a donation to the church designated for a specific fund that has not been approved and established by the church:

- Is the donation deductible?
- How should the church handle these funds?

- Technically, no.
- Churches should approve all designated funds beforehand; donors should not dictate to church how funds are to be spent.
- Speak to donor, move funds to established designated fund or general fund or, return donation.

A church member volunteers their time to work in a position for the church that is normally a paid position.

- Is the value of their time donated a tax deductible contribution?

- No.
- The value of personal services is never tax-deductible.

A church member purchases supplies for VBS, turns in receipts and instructs church to include in donor contribution records.

- Is this a cash or a noncash contribution?
- Can the church include the amount spent in the donor contribution record?
- How can donor get contribution credit?

- A noncash contribution – supplies donated, not cash.
- No. Noncash contributions cannot be included with cash contributions.
- Church can reimburse the donor and the donor then give the cash back to the church.

QCD: Qualified Charitable Distribution

1. Special provision for individuals to make contributions directly from Individual Retirement Account (IRA) to a church or qualifying charity.
2. Contribution can be considered part of individual's Required Minimum Distribution (RMD). (Ages 73 or older.)
3. Individual over 70 ½ can direct IRA custodian to make distribution directly to a church or qualifying charity. (2025 $ limit = $108,000)
4. Donor making the QCD does not receive a tax deduction for donation because distribution is not treated as taxable income.
5. Donation should not be included in church's donor system.
6. Church should acknowledge contribution to donor noting it is a non-deductible contribution.

Contribution Acknowledgement

- **Cash**
  - $250 or more one-time gift must have written acknowledgement from charity
    - **Written acknowledgement must include**
    - Church Name
    - Name of donor
    - Amount contributed
    - **Statement of whether goods or services were provided to donor in exchange for the gift**
      - Contribution can be disallowed without this statement in acknowledgement
    - Date the donation was made
    - Date the receipt was issued

- **Property** – Includes contribution of shares of stock
  - Written acknowledgement required
    - Acknowledgement should **NOT** place monetary value on property receive

NOTE – Only cash contributions should be included in the member's contribution record. Noncash contributions are not included in the member's contribution record.

- ***(See IRS Publication 1771 – Charitable Contribution – Substantiation and Disclosure Requirements)***

Church member requests a written record of their donations.

- Are churches required to send contribution acknowledgements to members?
- Should churches send contribution acknowledgements?

- No. The IRS rule states only that donors (taxpayers) must have written acknowledgement for contributions of $250 or more when filing tax return.
- Most churches do send at least annual written acknowledgements that list amounts given per week.

Payroll Issues

How are Ministers treated for tax purposes?

Employee for Federal tax purposes

- Receive a W-2
- Church is not required to withhold federal income tax
  - Minister can voluntarily request church to withhold income tax
- Can designate a portion of salary to housing allowance
  - Housing allowance not taxable for federal income tax purposes

Self-employed for Social Security purposes

- Church cannot withhold Social Security or Medicare Tax
  - Therefore, church does not match Social Security or Medicare tax like non-minister employees
- Minister is responsible to pay SECA tax – 15.3%
  - Housing allowance is taxable for SECA tax purposes

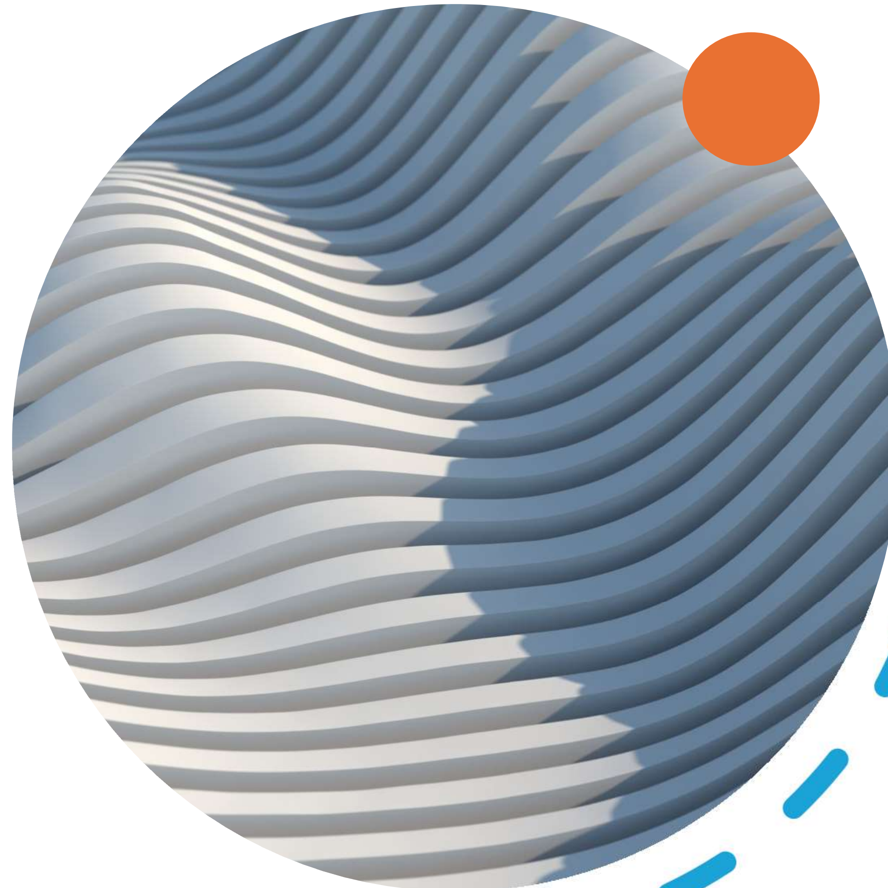
How are Non-Minister Employees treated for tax purposes?

Employee for Federal tax purposes

- Receive a W-2
- Church is required to withhold federal income tax based on tax withholding tables

Employee for Social Security purposes

- Church withholds Social Security (6.2%) and Medicare (1.45%) taxes
- Church matches Social Security (6.2%) and Medicare (1.45%) taxes



Can Ministers choose to be treated as a non-minister?

No

- The Internal Revenue Code defines and governs who can pay into *FICA* and into *SECA* (*IRC Sections 3121 and 1402)*
- Ministers can only pay into SECA

Housing Allowance for Ministers - Requirements & Reporting

Housing Allowance – IRC Section 107

- Is **NOT** taxable for federal income tax purposes
- **IS** taxable for Social Security (SECA) purposes

Requirements

- Must be in **writing**
- Must be **approved by church prospectively-before it is paid**

Housing allowance amount

- Housing is equal to **lesser of 3 amounts**
  - Housing approved by church
    - Church must approve a **reasonable amount**
  - Actual housing expenses
  - Fair rental value of home, furnished with utilities
- NOTE – The IRS does NOT place a maximum $ or % in the tax code for housing. Lesser of these 3 amounts.

Housing is not required to be reported on Form W-2

- Can be reported in Box 14 of Form W-2

Housing allowance is NOT reported on the Form 941

Designating a Housing Allowance

Parsonage

- *Value of parsonage is income to minister for Social Security purposes*
  - *Rental value plus utilities, if paid by church*
  - ***Church MUST inform minister of this value****; must be reported on tax return of minister*
    - *Church can put value in writing or report on W-2 in Box 14 as "Parsonage Allowance"*

- *Out of pocket cash expenses incurred by minister for living in the parsonage can be designated as a "cash" housing allowance*

Designating a Housing Allowance

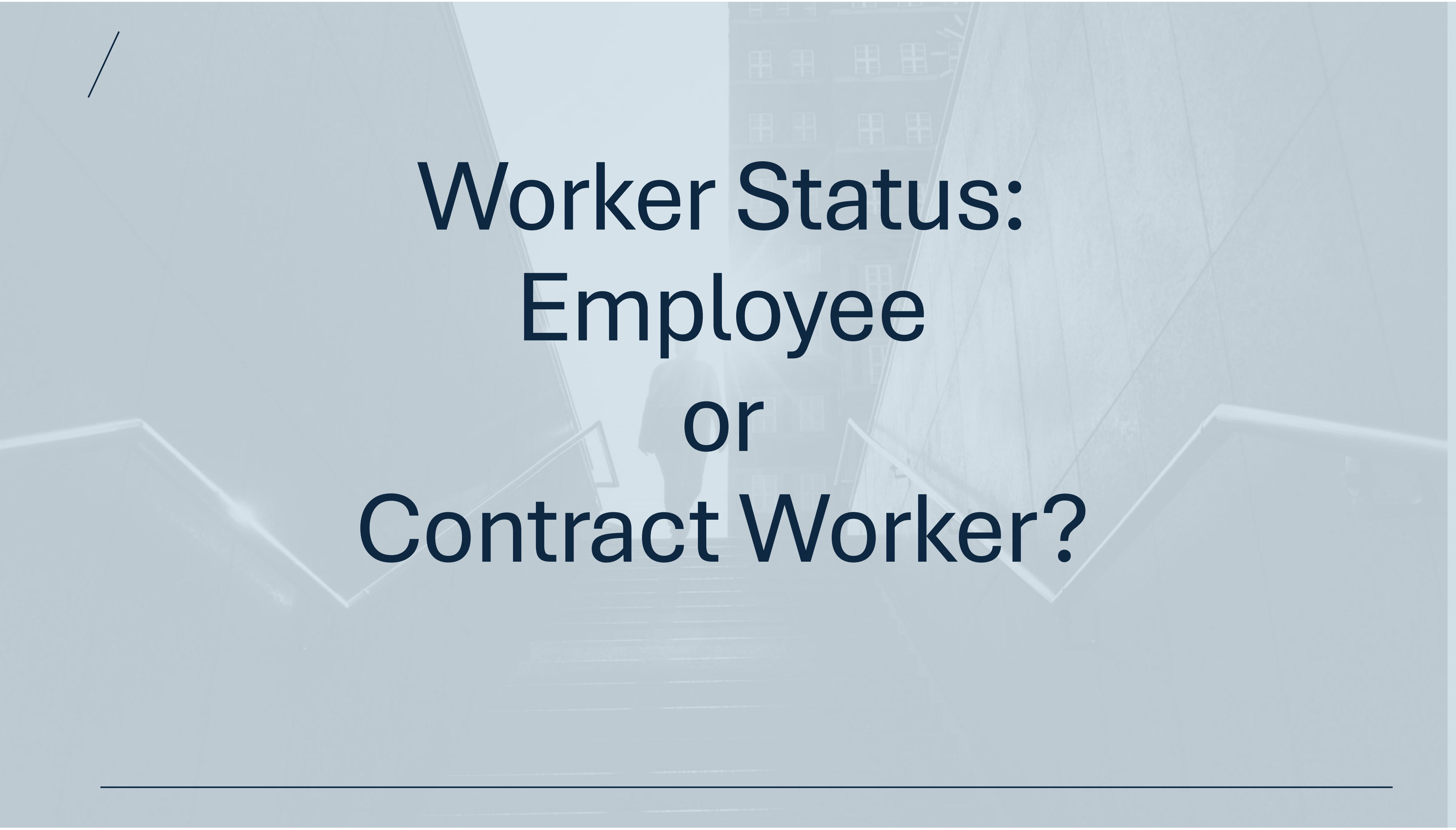
Minister owns or rents a home

- *Church designates a portion of cash salary to housing allowance*
  - *Church should designate a reasonable amount*
    - *Annual Fair rental value of home, furnished, plus utilities is MAXIMUM church should designate*
- *It is the responsibility of the minister to determine if the housing allowance designated by the church has been used for qualifying housing expenses*
  - *Any unused housing allowance is reported as income on the tax return of the minister*

Designating a Housing Allowance

Housing Allowance Approval

- *Church action or approval of governing body given authority to approve housing, i.e., personnel, finance, deacons, etc.*
- *Approval must be in writing and designated in advance*



Worker Status: Employee or Contract Worker?

See handout

IRS Worker Status-3 Main Tests

Employee vs. Contract Worker Bottom line

- The more control the church has over the worker, the more likely that worker is an employee.
  - Behavorial control
  - Financial control
  - Relationship control

Taxable income of church employees

<u>Internal Revenue Code (IRC) 61 defines gross income as ALL income except unless specifically exempted</u>

- Salary
- Love Offerings – *IRC Section 102*
- Gift Cards – *IRC Section 102*
- Retirement gifts – *IRC Section 102*
- Social Security offset for ministers
- Non-accountable expense reimbursements
- Group term life insurance provided by church over $50,000
- Benevolence paid to employees or family members of employee – *IRC Section 102*
- Severance Pay
- Payments or reimbursement of moving expenses by employer

Church members give gift cards directly to the pastor for pastor appreciation.

- Is the value of the gift cards given directly to the pastor reportable by the church and taxable to the pastor?

- No, with some assumptions:
  - The church did not direct church members to give gifts directly to circumvent the taxability issue.
- If meet the definition of a gift according to IRC Section 102, not taxable income.

The personnel team decides to give the church staff the annual Christmas bonuses in gift cards instead of cash.

- Is the value of the gift cards given to the staff taxable?
- How is the value of the gift card reported to non-ministerial employees on their W-2?

- Yes. Gift cards to employees would not meet the definition of a "gift" under IRC Section 102.
- The value of the gift card must be "grossed-up" to include the the payment of the employee's portion of FICA tax.

Non-taxable fringe benefits to church employees

- Qualified accident and health benefits *(IRC Sec. 105)* provided under qualified group plan
- QSEHRA or ICHRA – reimbursement for individual health insurance
- Group term life insurance $50,000 or less
- Employer contributions to employer qualified 403(b) retirement plan
- Working condition benefits
- Employer education assistance- up to $5,250
- De minimis (minimal) benefits
- Employer-provided cell phones
- Tuition discounts – if meet requirements of educational organization

Healthcare Benefits

- Affordable Care Act (ACA) requires that any medical benefit provided to employees must comply with ACA.
    - The ACA does not allow employers to reimburse for individual health insurance on a non-taxable basis unless under ACA-compliant plan.
        - **EXCEPTION - One-participant**
  - Stand-alone Health Reimbursement Arrangement (HRA) no longer allowed as tax-free benefit.
  - Health Savings Account (HSA) must be integrated with plan compliant with ACA. Cannot be stand-alone as tax-free benefit.

How can the church provide health benefits to employees?

- **A church can provide health benefits in one of the following ways:**
  - Employer group plan compliant with ACA
  - GuideStone health plan
  - Qualified Small Employer Health Reimbursement Arrangement (QSEHRA)
  - Individual Coverage Health Reimbursement Arrangements (ICHRA)

Other Health Benefit Issues To Consider

- Church cannot reimburse health insurance premiums as a non-taxable benefit if purchased with a premium tax credit on the healthcare exchange.

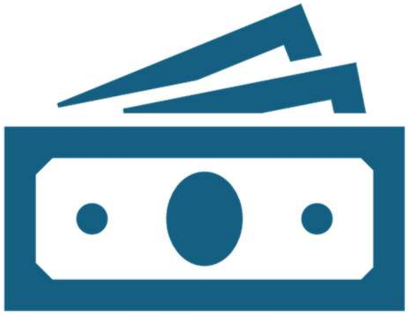
- Medicare premiums are not considered health insurance premiums for purposes of *IRC Section 105* (amounts received under accident and health plans).
  - Must be integrated into ACA compliant plan to be non-taxable benefit
  - Otherwise, taxable income to the employee

- Medi-Share plans are not health insurance.
  - Reimbursement to employee is taxable.

Reporting of Health Benefits

- Insurance benefits provided under ACA-compliant plan are not taxable income and not required to be reported on the W-2.
  - Large employers are required to report health benefits
- Payment or reimbursement of individual health insurance under the ACA one-participant exception is not taxable income and not required to be reported on the W-2.
- Payment or reimbursement of individual health insurance that is not in compliance with the ACA for 2 or more employees:
  - Taxable income to the employee, reported in Box 1 of W-2
  - Could subject employer to ACA penalties
- Payment or reimbursement of premiums for insurance purchased on the marketplace cannot be tax-free if the employee has elected the "premium tax credit".
  - Must be reported as taxable income on W-2.

Accountable Reimbursements



Accountable Reimbursement Plan for Ministry-Related Expenses

Should be funded by employer apart from the salary of employee

- Budgeted expense funds not used for accountable expenses are retained by the church
- Increased church understanding of expenses as "expenses", not "salary"
  - Minister cannot set aside part of "lump-sum" compensation for expenses

Allowable expenses need to be consistent with IRS rules

Specific recordkeeping and expense account reporting expectations

Written plan

Requirements for an ARP

- All expenses must have a business purpose related to the minister's or employee's duties.
- Expenses must be verified with documentation of the amount, date, place and business purpose.
- Documentation should be provided within 60 days of incurring the expense, and any excess reimbursements should be returned to the church within 120 days.
- The church should consider using the IRS standard mileage rate for transportation and per diem rates for meals. These rates can be accessed at *IRS.gov/tax-professionals/standard-milage-rates and www.irs.gov/pub/irs-drop/n-18-77.pdf.*
- Unused ARP money should not be given as a bonus or additional income.
- All reimbursements must come from employer funds, not by reducing salary or allowing a minister to rearrange his salary package.

Documenting Business Expenses

- For expenses to be reimbursed under ARP, evidence must show that the money was spent for a legitimate business reason.
  - State business purpose – ordinary and necessary expense of the ministry
  - Substantiation -Receipts, credit card slips, cancelled checks
- The IRS is satisfied if the following five “Ws” are noted on the expense report or receipt
  - Why (business purpose)
  - What (description, including itemized accounting of cost)
  - When (date)
  - Where (location)
  - Who (names of those for whom expense was incurred, i.e., meals and entertainment)

What is required for a lunch to be considered a business expense?

For lunches to qualify as a business expense, they need to have a legitimate business purpose, and that purpose has to be documented. Similar to needing receipts whenever there's a meal involved, you also need to document who participated and the ministry purpose for the lunch.

You have to be honest and legitimate about your claim, and if it were ever challenged, the standard would be: "What would a reasonable person say?" If a youth pastor is claiming they've got a business lunch every day, a reasonable person may look at that and say, "That's abusive." A youth pastor may have a number of meetings outside of the church with students who are near the church: at a high school, a college campus, or somewhere similar. But would a reasonable person look at it and say, "That seems prudent to me"?

There isn't a hard-and-fast rule or a checklist you can complete. But you need to make sure you can legitimately document a lunch's purpose and that if other people look at it, they'd determine the expense was reasonable.

Excerpt:Should All Meal Expenses for Church Pastors and Staff Get Reimbursed? – Church Law & Tax – Vonna Laue, CPA

Any balance remaining in expense account at year-end cannot be paid out to employee. If paid to employee, all expense reimbursements made during year are treated as "non-accountable" and taxable to employee

The Tax Cuts and Jobs Act (TCJA) repealed the taxpayer's deduction for unreimbursed employee business expense. The OBBBA made this repeal permanent.

See Handouts

Sample Expense Report and
Sample Mileage Reimbursement Form

Sample Expense Report

Reporting Period

Starting Date	Ending Date	Name of Employee

Expense Details (Examples)

Date	Type of Expense	Vendor	Amount	Business Purpose of Expense
	Business Meal	(Name of restaurant	$-	*(Lunch with Chairman of Finance (name) to discuss next year budget)*
	Lodging	(Name of hotel)	$-	*(Lodging at TBC annual convention in Jckson)*
	Office Supplies	(Name of store)	$-	*(Binders for church office)*
	Business Meal	(Name of restaurant	$-	*(Met with prospective church member (name) to discuss church membership)*
	Parking	(Name)	$-	*(Parking fee at convention center in Jackson for TBC convention)*
	Technology	(Name of vendor)	$-	*(Website subscription for reporting)*
	Meal-Lunch	(Name of restaurant	$-	*(Met with staff (name) for annual review)*
	Ministry supplies	(Name of vendor)	$-	*(Supplies for Vacation Bible School)*
			$-	
			$-	
			$-	
		Total Expenses	$-	

2026 Mileage Reimbursement Form

Month/Year:________________

Day	Miles	Purpose of Destination
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
29		
30		
31		
Total Miles	0	
Rate	72.5	
Total Amount		
Signature:		
Approved By:		

Church staff turns in mileage report without stating the business purpose of the miles

- Can the church reimburse the mileage as a tax-free reimbursement under an ARP?
- How is the reimbursement reported?

- No. The purpose of the mileage must substantiate that the miles are related to the ministry of the church to be a tax-free reimbursement.
- Non-accountable reimbursements are reported as taxable income on the W-2 of the employee.

Pastor and wife take a trip to the Holy Land.

- Can the church reimburse the travel expenses for purposes of enrichment of his ministry?
- No. *IRC Section 274* states…*no deduction shall be allowed…for expenses for travel as a form of education.”*
- Can the church reimburse the travel expenses if primary purpose of trip is business related to the church, i.e., speaking, teaching?
- Facts and circumstances should conclude that the trip is business-related. Factors to include are the length of the trip and the time devoted to business and personal purposes.

Tax Reporting Requirements and Forms

Internal Revenue Service Forms

- Form 941 – Employer's Quarterly Federal Tax Return
  - Report wages paid, payroll tax liability and tax deposits
- Form 944 – Employer's Annual Federal Tax Return
  - Report wages paid, payroll tax liability and tax deposits once a year – Only allowable if IRS instructs to use this form.
- Forms W-2/W-3 – Annual reporting of wages paid
- Form 1099-NEC – Compensation paid to independent contractors for services provided
- Form 1099-MISC – Rents, royalties, other income, etc.

Reminder– Year-End Electronic Filing of Information Returns

E-filing required for 10 or more returns

As of tax year 2023, if you have 10 or more information returns, you must file them electronically. This includes Forms W-2, e-filed with the Social Security Administration.

Year-End Filing Requirements & Due Dates

Form 941 – Due **2/2/2026**

Form **944** – Due **2/2/2026**

Form W-2 – Due to both employee and SSA by **2/2/2026**

Form W-3 – Due to SSA by **2/2/2026**

Form 1099-NEC – Due to both independent contractor and IRS by **2/2/2026**

Form 1099-MISC – Due to recipient by **2/2/2026**; due to IRS by **3/2/2026** (paper), **3/31/26** (electronically)

Form 1096 – Separate Form 1096 due with 1099-NEC & 1099-MISC

See handout

Postal Service Moves to Clarify the Postmark

The tax code imposes penalties on employers, including churches, that fail to issue information returns to employees and contractors, and these penalties are significantly increased if the failure is willful.

- $60 per form if filed within 30 days of due date.
- $130 per form if filed between 30 days and August 1
- $330 per form if filed after August 1
- Willful disregard - $630 per form

Other Forms Required

- W-4 – Employee Withholding Certificate – Employees
- W-9 – Request for Taxpayer Identification Number and Certification – Contract Workers
- Form I-9 – Employee
  - Employment Eligibility Verification www.uscis.gov/i-9
- New Hire Reporting - Tennessee

  www.tnnewhire.com

22222	VOID ☐	a Employee's social security number	**For Official Use Only** **OMB No. 1545-0029**

b Employer identification number (EIN)	1 Wages, tips, other compensation	2 Federal income tax withheld
c Employer's name, address, and ZIP code	3 Social security wages	4 Social security tax withheld
	5 Medicare wages and tips	6 Medicare tax withheld
	7 Social security tips	8 Allocated tips
d Control number	9	10 Dependent care benefits
e Employee's first name and initial / Last name / Suff.	11 Nonqualified plans	12a See instructions for box 12 (Code)
	13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b (Code)
Include qualified overtime in Box 14	14 Other	12c (Code)
f Employee's address and ZIP code		12d (Code)

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** **Wage and Tax Statement** **2025**

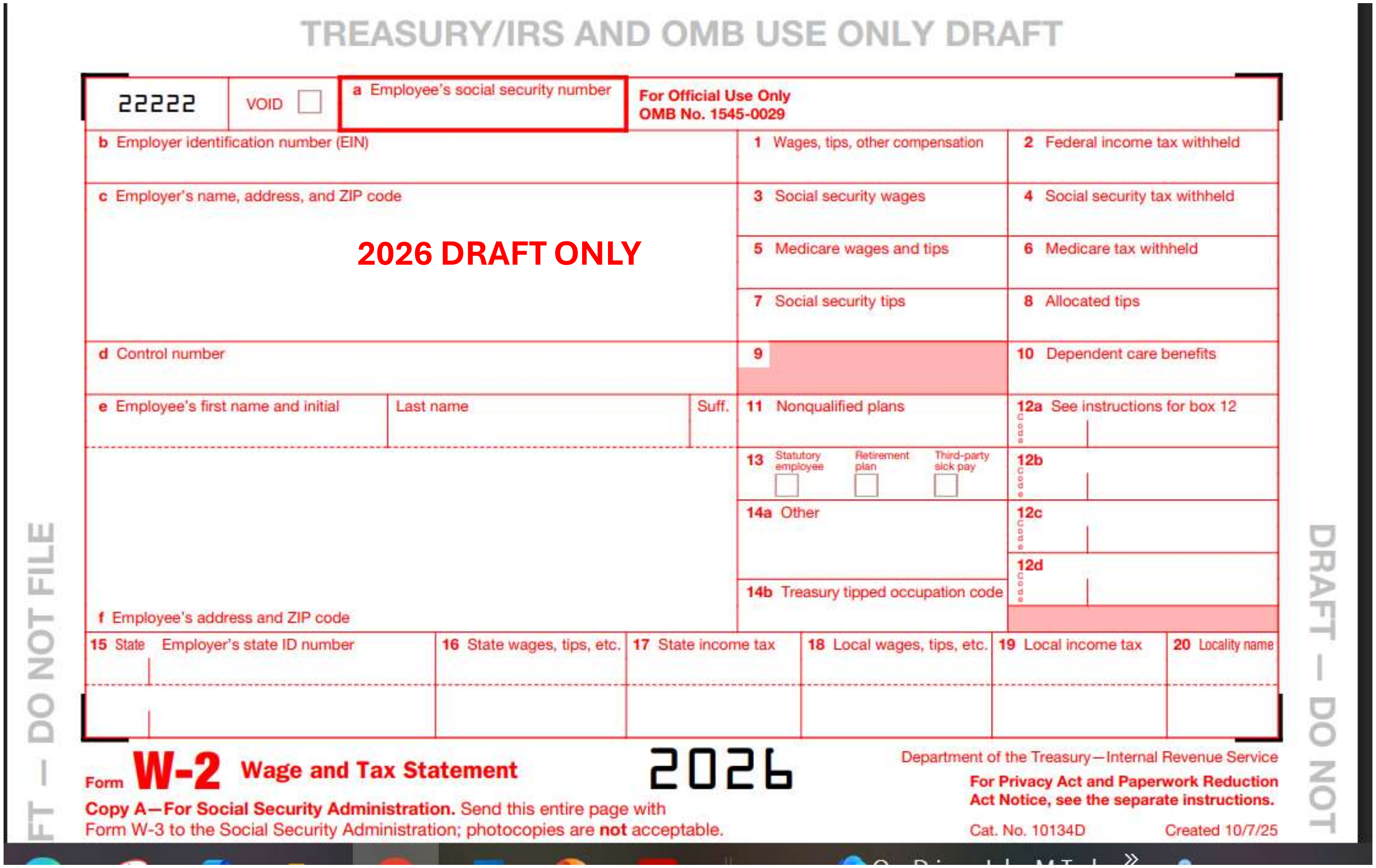
Department of the Treasury—Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 10134D

Copy A—For Social Security Administration. Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable.

Do Not Cut, Fold, or Staple Forms on This Page



TREASURY/IRS AND OMB USE ONLY DRAFT

22222 VOID

a Employee's social security number

For Official Use Only
OMB No. 1545-0029

b Employer identification number (EIN)

1 Wages, tips, other compensation

2 Federal income tax withheld

c Employer's name, address, and ZIP code

3 Social security wages

4 Social security tax withheld

2026 DRAFT ONLY

5 Medicare wages and tips

6 Medicare tax withheld

7 Social security tips

8 Allocated tips

d Control number

9

10 Dependent care benefits

e Employee's first name and initial | Last name | Suff.

11 Nonqualified plans

12a See instructions for box 12

13 Statutory employee | Retirement plan | Third-party sick pay

12b

14a Other

12c

12d

14b Treasury tipped occupation code

f Employee's address and ZIP code

15 State | Employer's state ID number | 16 State wages, tips, etc. | 17 State income tax | 18 Local wages, tips, etc. | 19 Local income tax | 20 Locality name

Form **W-2** Wage and Tax Statement 2026

Department of the Treasury—Internal Revenue Service

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

Copy A—For Social Security Administration. Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable.

Cat. No. 10134D

Created 10/7/25

FT — DO NOT FILE

DRAFT — DO NOT

For 2026, overtime will be recorded in Box 12 with a Code TT

Calculate value of Group Term Life >$50,000

- **Reportable in Box 12 of Form W-2**
  - **Code C**
    - Taxable value of Group Term Life Insurance greater than $50,000
    - *IRS Publication 15-B*

Table 2-2. Cost Per $1,000 of Protection for 1 Month

Age	Cost
Under 25	$ 0.05
25 through 29	0.06
30 through 34	0.08
35 through 39	0.09
40 through 44	0.10
45 through 49	0.15
50 through 54	0.23
55 through 59	0.43
60 through 64	0.66
65 through 69	1.27
70 and older	2.06

- **Other Common Codes Reportable in Box 12 of Form W-2**
  - **Code E**
    - Employee contributions to employer qualified 403(b) retirement plan per salary reduction agreement
      - NOTE – Employer contributions to qualified 403(b) retirement plans are not required to be reported on the W-2
  - **Code T**
    - Qualified adoption benefits paid or reimbursed to employee under adoption assistance program
  - **Code W**
    - Contributions to health savings account, both employer and employee contributions under a Section 125 cafeteria plan
  - **Code DD**
    - Cost of employer-sponsored health care – only required for employers filing 250 or more W-2's
  - **Code FF**
    - Report total amount of permitted benefits under a QSEHRA

Tax Forms

Independent Contractors

- **W-9**
  - Request for Taxpayer ID Number – Highly recommend get this form before check issued to independent contractor
  - Without tax identification number, must withhold 24% backup withholding
    - File form 945 if withhold tax
- **Form 1099-NEC**
  - Required if non-employee compensation of $600 or more paid in calendar year

Other Miscellaneous payments

- **Form 1099-MISC**
  - Required for various amounts paid for rents, royalties, other income, medical and healthcare payments, gross proceeds to attorneys, etc.

Who Gets a 1099-NEC Form?

- Individuals/Sole proprietors or Single-Member LLC
- Partnerships
- LLC taxed as Partnerships

There are **exceptions** to 1099 reporting requirements.

- **Corporations** – (see **Exceptions** below**)
  - C Corporation
  - S Corporation
  - Limited liability company (LLC) that opts to be taxed as a corporation.
- **Payments to tax-exempt organizations**
- ****Exception to Corporations**
  - Attorney Fees
  - Medical and Healthcare Services, i.e., drug screening, doctors, nurses, etc.

7171 ☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116 Form **1099-NEC** (Rev. April 2025) For calendar year ______	**Nonemployee Compensation**
PAYER'S TIN / RECIPIENT'S TIN	**1** Nonemployee compensation $		**Copy A** **For Internal Revenue Service Center** For filing information, Privacy Act, and Paperwork Reduction Act Notice, see the **General Instructions for Certain Information Returns**. *www.irs.gov/Form1099*
RECIPIENT'S name	**2** Payer made direct sales totaling $5,000 or more of consumer products to recipient for resale ☐		
Street address (including apt. no.)	**3** Excess golden parachute payments $		
City or town, state or province, country, and ZIP or foreign postal code	**4** Federal income tax withheld $		
Account number (see instructions) / 2nd TIN not. ☐	**5** State tax withheld $ $	**6** State/Payer's state no.	**7** State income $ $

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

Federal Reporting Requirements for Churches
www.guidestone.org

FEDERAL REPORTING REQUIREMENTS

for Churches

Richard R. Hammar, J.D., LL.M., CPA
Senior Editor, Church Law & Tax

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INTRODUCTION 4

MAXIMIZING TAX BENEFITS FOR YOUR MINISTER 4

Housing Allowance (and Parsonage Allowance) 4
Accountable Reimbursements 5
Flexible Spending Accounts 5
Section 403(b) Retirement Plans 6

COMPLYING WITH FEDERAL PAYROLL TAX REPORTING OBLIGATIONS 6

Step 1. Obtain an employer identification number (EIN) from the federal government if this has not been done 6
Step 2. Determine whether each church worker is an employee or self-employed 6
Step 3. Obtain the Social Security number (SSN) for each worker 7
Step 4. Have each employee complete a *Form W-4* 7
Step 5. Compute each employee's taxable wages 7
Step 6. Determine the amount of income tax to withhold from each employee's wages 8
Step 7. Withhold Social Security and Medicare taxes (FICA) from non-minister employees' wages 8
Step 8. The church must deposit the taxes it withholds 9
Step 9. All employers subject to income tax withholding, FICA, or both, must file *Form 941* quarterly 9
Step 10. Prepare a *Form W-2* for every employee, including ministers employed by the church 10
Step 11. Prepare a *Form 1099-NEC* for every self-employed person receiving non-employee compensation of $600 or more 13

Reporting Requirements for NonCash Donations

Noncash Contribution Filing & Disclosure Requirements

- **Forms 8282 and 8283**
  - A donor must file **Form 8283**, Noncash Charitable Contributions, to report information about noncash charitable contributions if deductions for all noncash gifts during the year exceed $500.
  - If the contribution deduction is over $5,000, the donor must complete Section B of **Form 8283**, and an authorized official of the charity must complete a portion of the form and sign it. (Exception – publicly-traded securities).
  - The donor must give the charity a copy of Section B.
  - If organization sells, exchanges, or disposes of donated property within three years of receipt, Donee must file **Form 8282** within 125 days of disposition

Form **8282**

(Rev. October 2021)

Department of the Treasury
Internal Revenue Service

Donee Information Return

(Sale, Exchange, or Other Disposition of Donated Property)

► **Go to *www.irs.gov/Form8282* for latest information.**

OMB No. 1545-0047

Give a Copy to Donor

Parts To Complete

- If the organization is an **original donee,** complete *Identifying Information,* Part I (lines 1a–1d and, if applicable, lines 2a–2d), and Part III.
- If the organization is a **successor donee,** complete *Identifying Information,* Part I, Part II, and Part III.

Identifying Information

Print or Type

Name of charitable organization (donee) | **Employer identification number**

Address (number, street, and room or suite no.) (or P.O. box no. if mail is not delivered to the street address)

City or town, state, and ZIP code

Part I Information on ORIGINAL DONOR and SUCCESSOR DONEE Receiving the Property

1a Name of original donor of the property | **1b Identifying number(s)**

1c Address (number, street, and room or suite no.) (P.O. box no. if mail is not delivered to the street address)

1d City or town, state, and ZIP code

Note. Complete lines 2a–2d only if the organization gave this property to another charitable organization (successor donee).

2a Name of charitable organization | **2b Employer identification number**

2c Address (number, street, and room or suite no.) (or P.O. box no. if mail is not delivered to the street address)

2d City or town, state, and ZIP code

Part II Information on PREVIOUS DONEES. Complete this part only if the organization was not the first donee to receive the property. See the instructions before completing lines 3a through 4d.

3a Name of original donee | **3b Employer identification number**

3c Address (number, street, and room or suite no.) (or P.O. box no. if mail is not delivered to the street address)

3d City or town, state, and ZIP code

4a Name of preceding donee | **4b Employer identification number**

4c Address (number, street, and room or suite no.) (or P.O. box no. if mail is not delivered to the street address)

4d City or town, state, and ZIP code

Noncash Contribution Filing & Disclosure Requirements for Vehicle Donations

- **Form 1098-C**
  - A charity must file Copy A of **Form 1098-C** with the IRS to report the information contained in a contemporaneous written acknowledgment for a vehicle contribution with a claimed value of more than $500.
  - **Form 1098-C** is due by February 28 (March 31 if filing electronically) of the year following the year in which the charity provides the acknowledgment to the donor.
  - Filing Form 1098-C does not relieve the charity of its obligation to report information about the disposition of a donated vehicle on Form 8282, Donee Information Return.

7878 ☐ VOID ☐ CORRECTED

DONEE'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.

1 Date of contribution

OMB No. 1545-1959

Form **1098-C**

(Rev. April 2025)

For calendar year

Contributions of Motor Vehicles, Boats, and Airplanes

2a Odometer mileage

2b Year | 2c Make | 2d Model

DONEE'S TIN | DONOR'S TIN

3 Vehicle or other identification number

DONOR'S name

4a ☐ Donee certifies that vehicle was sold in arm's length transaction to unrelated party

Street address (including apt. no.)

4b Date of sale

City or town, state or province, country, and ZIP or foreign postal code

4c Gross proceeds from sale (see instructions)

$

5a ☐ Donee certifies that vehicle will not be transferred for money, other property, or services before completion of material improvements or significant intervening use

5b ☐ Donee certifies that vehicle is to be transferred to a needy individual for significantly below fair market value in furtherance of donee's charitable purpose

5c Donee certifies the following detailed description of material improvements or significant intervening use and duration of use

6a Did you provide goods or services in exchange for the vehicle? . . . . Yes ☐ No ☐

6b Value of goods and services provided in exchange for the vehicle

$

6c Describe the goods and services, if any, that were provided. If this box is checked, donee certifies that the goods and services consisted solely of intangible religious benefits . . . . ☐

7 Under the law, the donor may not claim a deduction of more than $500 for this vehicle if this box is checked . . . . ☐

Copy A

For Internal Revenue Service Center

For filing information, Privacy Act, and Paperwork Reduction Act Notice, see the **General Instructions for Certain Information Returns.**

www.irs.gov/Form1099

Year-End Checklist

- Designate Housing Allowance
- Review W-4 forms
- Inform donors not to file return until acknowledgement received from church
- Determine what year to record contributions – 2025 or 2026
  - Consider year-end cut-off rules for charitable contribution deduction
- Determine correct reporting of cash and noncash gifts to staff and volunteers
- Make sure ministers are classified properly for IRS and Social Security purposes
- Ministers – voluntary withholding
- Review payments to independent contractors
- Report all taxable fringe benefits to employees on W-2
- Reconcile sum of W-2's to sum of the four (4) Employer Quarterly Tax returns filed in 2025 (Form 941)
- Prepare all year-end tax forms

(Excerpt-Mastering Seventeen End-Of-Year Tasks – ChurchLaw&Tax)

Websites

- www.guidestone.org
  Federal Reporting Requirements for Churches - Publication
  Ministers Tax Guide - Publication
- www.ecfa.org – Evangelical Council for Financial Accountability
- www.thechurchnetwork.com – The Church Network
- www.churchlawandtax.com – Richard Hammar
- www.irs.gov
- www.irs.gov/charities/churches - Tax information for Churches and Religious Organizations

Questions?

- Contact Information
  - Deborah Taylor, CPA
  - 615-969-8479
  - cpadtaylor@bellsouth.net

  - TN Baptist Mission Board
  - 615-373-2255
  - www.tnbaptist.org