

Battershell & Nichols, CPAs welcomes you

Reporting 2022 Compensation

- The presentation will begin shortly...



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A PROFESSIONAL SERVICE CORPORATION

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Within one week, send an email requesting CPE, complete the course evaluation and provide a list of CPE codes given during presentation to:

info@battershellnichols.com
(Only available for those attending live)

All CPE codes are provided in the presentation via polls

Remote Accounting Services

We provide bookkeeping services to churches and Christian nonprofits including:

- Produce a monthly financial report for leadership
- Process contributions and bills
- Record all transactions in the general ledger
- Reconcile bank accounts, credit cards, and close the books each month
- Process payroll and file all quarterly and annual payroll forms
- Provide budget and cash flow projection oversight
- Give assistance with internal controls



Remote Accounting Services

Why do we provide this service?

- With online software solutions dramatically improving, outsourced bookkeeping has become a popular alternative to in-house bookkeeping .
- Top reasons our clients use our remote accounting services:
 - Managing finances distracts the organization from its mission
 - Leadership and members have increased confidence in their finances
 - Tax and accounting regulations are complex and changing faster than ever
 - They want a trusted advisor to provide CPA oversight

DISCLAIMER:

- *The author is not engaged by this text or webinar in the rendering of tax, accounting, or similar professional services.*
- *While the tax, and accounting issues discussed in this material have been reviewed with sources believed to be reliable, concepts discussed can be affected by changes in the law or in the interpretation of such laws since this text was printed. For that reason, the accuracy and completeness of this information and the opinions based thereon cannot be guaranteed.*
- *Before taking any action, all references and citations should be checked and updated accordingly.*

Compensation Reporting

December 14, 2022

- By: Rick Battershell, CPA

Compensation Reporting


Employee vs. Independent Contractor

- IF employee: Form W-2, can receive nontaxable fringe benefits
- IF independent contractor:
 - Form 1099-NEC
 - Income includes fringe benefits (e.g. medical insurance)
 - State tests – Labor and Industries coverage (WA L&I will generally still tax a minister similar to an “employee” even if compensation is reported on a 1099-NEC rather than a W-2)

(See more explanation in 2022 *Church and Clergy Tax Guide, Chapter 2*)

Reporting Employee Compensation

Completing Form W-2

a Employee's social security number		Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile	
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
		13 Statutory employee <input type="checkbox"/> Statement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b
		14 Other	12c
			12d
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 **2022** 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.

- **Filing Deadline-** Jan 31, 2023
 - whether paper or electronic filing to the Social Security Administration (SSA)
- **Truncating Social Security Numbers** – employers may (not required) truncate SSN on employee copies of W-2, but not on Copy A (goes to SSA)
 - XXX-XX-1234 or ***-**-1234
- **Penalties** - Failure to file 2022 forms by the due date (\$50 per Form W-2 - within 30 days, \$110 by Aug 1, \$290 after Aug 1)

Clergy Compensation (Income Tax Purposes)

- Minister Status = 4 basic changes
 1. Social Security & Medicare Taxes
 2. Federal Income Taxes
 3. Housing Allowance
 4. Self-Employment Taxes

	Lay Employee	Minister Employee
Wages	1,000.00	1,000.00
Social Sec Tax	-62.00	n/a
Medicare Tax	-14.50	n/a
Federal Income Tax	<u>-150.00</u>	(at the minister's option, use Form W-4)
Net Payroll	773.50	1,000.00

What to include:

Form W-2 - Box 1 Wages

Wages, tips, other compensation

1. Wages paid during the year
 - **Ex:** Employee worked 12/1 – 12/31/22 and was paid on 1/5/23. Include those wages paid on 2023 Form W-2
2. Self-employment tax reimbursement or allowance (Rev Rul 68-507)
3. Forgiveness of debt owed to the church by an employee (e.g. home loan)
4. No/low interest loan - include based upon IRS published rates
5. Roth 403(b) or Roth 401(k) salary reduction

What to include:

Form W-2 - Box 1 Wages

6. Reimbursed travel expenses of an accompanying spouse or dependent are included unless:

- their presence serves a business purpose, and
- they are properly substantiated under an accountable plan (discussed later)
 - See 2022 Church and Clergy Tax Guide, Chapter 7



7. Taxable fringe benefits

- Cost of employer provided group term life insurance > \$50,000
 - Also show in box 12 with code “C”
- Reimbursement of employee medical insurance, unless exception applies (future slide)
- Tuition reduction is excluded from taxable income for school employees, but included for church employees - See 2022 Church and Clergy Tax Guide, Chapter 5
 - School tuition paid for senior pastor’s children is non-taxable if:
 - Pastor has substantial duties as employee in the school, and
 - If pastor is “highly compensated” (in the prior year, salary > \$130,000 for 2021), the benefit is provided to other non-highly compensated employees

Tuition Reduction

Form W-2 - Box 1 Wages

Example #1: A school's high school principal receives annual compensation of \$140,000 per year for 2022 and 2021 as well as a 50% tuition reduction for her children. Other employees of the school also receive a 50% tuition discount. Tuition is \$12,000 per year. How much should the school report as the taxable amount to the principal for the tuition reduction?

Answer #1: \$0. This is because the same benefit "is available on substantially similar terms" to non-highly compensated employees.

Example #2: Same facts as Example #1, but the principal receives a 100% discount, while other employees receive 50%. What should be reported as the taxable amount to the principal?

Answer #2: \$6,000 (50% x \$12,000). The amount of tuition reduction excluded from taxable income can't exceed the tuition reduction percentage of other employees.

Tuition Reduction

Form W-2 - Box 1 Wages

Example #3: Same facts as Example #1, but the principal earns \$100,000 per year in 2022 and 2021 and receives a 100% tuition reduction for her children. Other employees of the school also receive a 50% tuition discount. Tuition is \$12,000 per year. How much should the school report as taxable to the principal for the tuition reduction?

Answer #3: \$0 - Since annual compensation did not exceed \$130K in 2021, (the “highly compensated” threshold), the same tuition reduction percentage is not required to be offered to other non-highly compensated employees.

Example #4: Same facts as Example #3, except that the employee is the pastor of a church that has a high school. The pastor has no school related duties. The pastor receives a 50% discount, just like other employees. What should be reported as the taxable amount to the pastor?

Answer #4: \$6,000 (50% x \$12,000). The amount of tuition reduction excluded from taxable income is only for school employees, not for church employees.

What to include:

Form W-2 - Box 1 Wages

8. Automobile allowances (usually a set monthly amount)
9. Value of the personal use of an employer owned car
 - See 2022 Church and Clergy Tax Guide, Chapter 4
10. Food allowances to buy personal groceries
11. Business expense reimbursements paid under a “nonqualified plan” (subject to Social Security, Medicare, and income taxes) – include in box 1,3, and 5 wages
12. Moving expenses paid on behalf of or reimbursed to an employee
13. Employee HSA contributions do not reduce taxable wages unless made via a cafeteria plan.

What to include:

Form W-2 - Box 1 Wages

15. Most Christmas gifts and love offerings-Treas. Reg. 1.61-2(a)(1)
- **Excluded** - traditional noncash gifts of very low (de minimus) value:
 - De minimis -The accumulated value is so small that accounting for it is unreasonable or impracticable - see Treas. Reg. see 1.132-6(a)
 - Occasional theater or sporting event tickets
 - Coffee, donuts, soft drinks, etc.
 - Flowers, fruits, books, or similar items provided under special circumstances - see Treas. Reg. 1.132-6(e)(1)
 - Ex: illness, family crisis, outstanding performance
 - **Included** items (Treas. Reg. 1.132-6(e)):
 - Season tickets to theater or sporting events
 - Use of church owned lodge for the weekend
 - Cash paid as a fringe benefit
 - Gift certificate (or other cash equivalent fringe benefit) – see Treas. Reg. 1.132-6(c)



What to exclude:

Form W-2 - Box 1 Wages



1. Housing allowance paid to a qualified minister who is paid for ministerial services
2. Reimbursement of business expenses under an accountable reimbursement plan (discussed later)
3. 403(b) salary reductions
 - Maximum salary reduction is generally = \$20,500 (plus catch-up \$6,500 if > 50 years) in 2022
4. Qualified cell phone payments

Cell Phone Provided by Employer:

Form W-2 - Box 1 Wages

Example #1: A ministry provides a cell phone to an employee to promote morale, good will, and attract and retain employees. Is the value of the cell phone added to box 1 wages?

Answer #1: Yes. The phone is not provided for non-compensatory business purposes, but as a way of providing an added employee benefit. IRS Notice 2011-72

Example #2: A ministry provides a cell phone to an employee to be available for work-related emergencies, so that the ministry can be in contact while the employee is away from the office, or for employees to be available outside the employee's normal work day. Is the value of the cell phone added to box 1 wages?

Answer #2: The IRS treats the value of any personal use of a cell phone provided by an employer primarily for non-compensatory business purposes as a nontaxable de minimis fringe benefit.

Cell Phone Reimbursed by Employer:

Form W-2 - Box 1 Wages

Example #3: The employee uses the cell phone for both business and personal purposes and the employee's basic coverage plan charges a flat-rate per month for domestic calls. The employer reimburses the employee for the monthly basic plan to enable the employee to maintain contact for ministry related calls. Is the value of the cell phone added to box 1 wages?

Answer #3: No. As long as the cell phone reimbursement is provided for non-compensatory business purposes, and the reimbursement is reasonably calculated not to exceed expenses the employee actually incurred to maintain the cell phone. IRS Notice 2011-72

What to exclude:

Form W-2 - Box 1 Wages

5. Reimbursements of employee individual medical insurance, only if:
 - Individual Coverage HRA
 - Qualified Small Employer Health Reimbursement Arrangement (employer with less than 50 FTE)
6. Group Medical Insurance – qualifying under Affordable Care Act

(See 2022 Church and Clergy Tax Guide, Chapter 5)



What to exclude:

Form W-2 - Box 1 Wages



8. Employer HSA contributions (including employee's contribution through a cafeteria plan) to an employee's HSA are not reported as wages for income tax, social security or Medicare purposes (if it is reasonable to believe, at the time of payment, that the contribution will be excludable from the employee's income)
9. Adoption benefits paid by an employer for qualified adoption expenses under an adoption assistance program
 - Amounts paid by the employer are not reported in box 1 wages, but are added to Box 3 and 5 as subject to Social Security and Medicare taxes.
 - \$14,890 limit in 2022
 - See box 12, Code T
 - <https://www.irs.gov/taxtopics/tc607>

What to include: Form W-2 - Box 2

Federal income tax withheld

- ALL minister withholding-even if paid to cover self-employment tax

15-0008 Safe, accurate, FAST! Use **IRS e-file** Visit the IRS website at www.irs.gov/efile

1 Wages, tips, other compensation	2 Federal income tax withheld		
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	10 Dependent care benefits		
11 Nonqualified plans	12a See instructions for box 12		
13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b		
14 Other	12c		
	12d		
Income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

15-0008 Safe, accurate, FAST! Use **IRS e-file** Visit the IRS website at www.irs.gov/efile

1 Wages, tips, other compensation	2 Federal income tax withheld
3 Social security wages	4 Social security tax withheld
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7 Social security tips	8 Allocated tips
9	10 Dependent care benefits
11 Nonqualified plans	12a See instructions for box 12
13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b
14 Other	12c
	12d

What to include: Form W-2 - Box 3 & 5

Social Security & Medicare wages

- Usually the same as Box 1 for non-minister employees
 - Typical Exceptions: have 403(b), 401(k) or tax deferred annuity
 - 403(b) and 401(k) salary reduction payments do not affect Social Security wages nor Medicare wages
 - Employer paid adoption benefits excluded in box 1 are included in Social Security wages and Medicare wages for non-clergy employees
- Ministers leave blank
- For 2022, the maximum SS wage base = \$147,000.

What to include:

Form W-2 - Box 4 & 6



Social Security & Medicare tax withheld

- DO NOT report employer's share
- Ministers leave blank
- Not required to withhold if wages are less than \$100 paid in total for the year
 - Example: child care workers

What to include:

Form W-2 - Box 10

Dependent care benefits

1. Total benefits paid to employees under a dependent care assistance program or cafeteria plan.
2. Report all amounts paid or incurred, including those in excess of the \$5,000 exclusion
 - Include any amounts over \$5,000 in boxes 1, 3 and 5
3. Include the fair market value of employer-provided or sponsored day-care facilities.
 - Day care benefits paid to “highly compensated” employees can be excluded from taxable income only if all requirements are met

** For more info see IRS Pub 15-B

What to include:

Form W-2 - Box 12

Reporting Codes (most common for ministries)

- **Code C** - the value of group-term life insurance over \$50,000
- **Code D** - 401(k) elective deferrals
- **Code E** - 403(b) elective deferrals
- **Code T** - Benefits paid by an employer for qualified adoption expenses
- **Code W** - Employer's contribution (plus employee contributions through section 125 cafeteria plan) to an employee's HSA
- **Code BB** - Designated Roth contributions under section 403(b)
- **Code DD** - Cost of employer-sponsored health coverage - Applies to those who issued more than 250 Forms W-2 in the prior year. See updates to rule at:
 - <https://www.irs.gov/affordable-care-act/form-w-2-reporting-of-employer-sponsored-health-coverage>
 - <https://www.irs.gov/instructions/iw2w3>
- **Code FF** - Qualified small employer health reimbursement arrangement. Allows employers to pay employee medical expenses.(2022 maximum reimbursement for an eligible employee = \$5,450 , \$11,050 for family members)

What to include:

Form W-2 - Box 13

Retirement Plan

- Check this box if the employee was an active participant in your retirement plan during the year.
- Retirement Plan Checkbox Decision Chart 2022 Form W-2 instructions, page 31

Third Party Sick Pay

- Sick pay payments (e.g. disability insurance) paid by a third party
- Also report Box 12 J – nontaxable sick pay (employee contributed to sick pay plan)

Form W-2 - Box 13

Retirement Plan

- **Example 1:** If the ministry has a defined contribution 403(b) or 401(k) and either the employer or employee contributed, check the box
- **Example 2:** If the employee has a retirement account that has grown in the year due to investment gains, but neither the employee nor the employer or contribute - **do not** check the box
- Retirement Plan Checkbox Decision Chart 2022 Form W-2 instructions, page 31

What to include:

Form W-2 - Box 14 - Other

- If the leased value of an employer-provided vehicle was included in the employee's income, you must report this amount here or on a separate statement
 - See 2022 Church and Clergy Tax Guide, Chapter 4 for a detailed explanation
- **Optional:** Rental value of minister's parsonage
- **Optional:** Housing and utility allowances



Earned Income Credit Notice

- Employers must notify employees who have no income tax withheld that they may be able to claim an income tax refund because of the EIC.
- Use what is included on the back of the W-2, copy B or provide your own statement with the same wording.
- More info at: <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/earned-income-and-earned-income-tax-credit-eitc-tables>

Tax Year 2022

Find the maximum AGI, investment income and credit amounts for tax year 2022.

Children or Relatives Claimed	Filing as Single, Head of Household, or Widowed	Filing as Married Filing Jointly
Zero	\$16,480	\$22,610
One	\$43,492	\$49,622
Two	\$49,399	\$55,529
Three	\$53,057	\$59,187

Investment income limit: \$10,300 or less

Filing Form W-2

E-filing

- Allows you to prepare your forms online and print copies
 - W-2s
 - W-2Cs
- Required if filing 250 or more Forms W-2
- <https://www.ssa.gov/employer>

Filing Form W-3

Anyone required to file Form W-2 must file Form W-3 to transmit copy A of Form W-2 to SSA.

Copies to employees

- Furnishing Copies B, C, and 2 to employees electronically may save time and effort.
 - See Pub. 15-A, Employer's Supplemental Tax Guide, Furnishing Form W-2 to employees electronically
- Terminated employees who request a W-2 before the due date must be given a W-2 within 30 days of the request or the final wage payment, whichever is later.
- Undeliverable Forms W-2 must be kept for 4 years. Electronic copies are acceptable.

Filing Errors Form W-2

Common Errors

- Filing a downloaded copy of a Form W-2 or Form W-3 from IRS.gov with SSA – need original red copy
- Omitting the decimal point and cents \$4500 vs 4500.00
- Making entries using ink that is too light (use only black ink)
- Making entries that are too small or too large, use 12 point Courier font if possible
- Adding “\$” signs to the money amount boxes

Form W-2

IRS Resources

- 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 15-T, Federal Income Tax Withholding Methods
- Order forms at www.IRS.gov/OrderForms



Other information

Form W-4

- To claim withholding allowances - IRS estimator
- <https://www.irs.gov/individuals/tax-withholding-estimator>

Form I-9

- Employment Eligibility Verification
- <https://www.uscis.gov/i-9>

New Hire Reporting

- Washington requires employers to report new hires within 20 days of the hire date.
 - Call 1-800-562-0479 OR
 - <https://www.dshs.wa.gov/esa/division-child-support/new-hire-reporting>

Health Coverage Notice

- Within 14 days employee starts work
- <https://www.dol.gov/agencies/ebsa/laws-and-regulations/laws/affordable-care-act/for-employers-and-advisers/coverage-options-notice>

Nonemployee Compensation

Form 1099-NEC (New in 2022)

- Filing is required for payments totaling \$600 or more for:

- Services performed by a non-employee (including parts/materials)
- Each non-employee from whom you withheld federal income tax (any amount)
- Independent contractor or board of director fees
- From your church or ministry

7171		<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0116	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.				Form 1099-NEC (Rev. January 2022) For calendar year 20__	
PAYER'S TIN		RECIPIENT'S TIN		1 Nonemployee compensation \$	
RECIPIENT'S name		2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale <input type="checkbox"/>		3	
Street address (including apt. no.)		4 Federal income tax withheld \$		7 State income \$	
City or town, state or province, country, and ZIP or foreign postal code		5 State tax withheld \$		6 State/Payer's state no.	
Account number (see instructions)		2nd TIN not. <input type="checkbox"/>		7 State income \$	

Form **1099-NEC** (Rev. 1-2022) Cat. No. 72590N www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service
Do Not Cut or Separate Forms on This Page – Do Not Cut or Separate Forms on This Page

Nonemployee Compensation
Copy A
For Internal Revenue Service Center
File with Form 1096.
For Privacy Act and Paperwork Reduction Act Notice, see the current General Instructions for Certain Information Returns.

Box 1 - Nonemployee Compensation



- Payments are generally subject to self-employment tax
- Includes fees, commissions, prizes and other compensation for services performed for the organization
- Common reporting:
 - Bookkeeper, CPA, architect, attorney
 - Auto repair shop
 - Carpet installers
 - Lawn care
 - Painter
 - Subcontract work, etc

Nonemployee Compensation

Exemptions from Reporting (1099 NEC)

1. Housing allowance to minister
2. Business expenses reimbursed under an accountable plan
3. Payments to corporations
 - Must report to attorneys
 - Must report to LLCs, sole proprietors, and other types of business
4. Payments for merchandise, telephone, freight, storage, and similar charges
5. Payments to tax-exempt organizations
6. Rent payments to real estate agents
 - The real estate agent must use Form 1099-MISC to report rent paid to the property owner
7. Payments made by credit card
 - Reported under Form 1099-K
8. Scholarship payments – even if taxable
 - See Form 1099-MISC instructions

Other Items

- Use Form W-9 (optional) to obtain TIN or to document corporate status
- Withhold 24% - backup withholding
 - If service provider fails to provide the tax ID or if the IRS notifies you to do so
- Use Form 945 to report withholding
- Tax ID numbers - may truncate on recipient statements, not on IRS filing

Online Survey

At the end of this webinar an online survey will be sent for you to complete.

Your feedback helps us with future webinar topics.

CPE needed?

Within one week, send an email requesting CPE and list CPE codes provided during presentation to:

info@battershellnichols.com

All CPE codes are provided in the presentation
via polls

Next Webinar



Receipting Charitable Contributions

January 18, 2023

Thank you for joining us

Please reach out with any questions:
info@battershellnichols.com
(253) 839-1620



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