



Payroll Taxes for Churches and Ministries

The presentation will begin shortly...



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CPE needed?

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

info@battershellnichols.com

- Only available for those attending live
- All CPE codes are provided in the presentation via polls.



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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



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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 member 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



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Clergy FICA Taxes

- FICA (Social Security and Medicare) taxes
 - Never withhold:
 - Even if the pastor has NOT “elected out of the Social Security System”
 - Even if the pastor requests FICA withholding
 - Clergy are subject to self-employment (SE or SECA) taxes unless they file Form 4361 for exemption and receive IRS approval



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Clergy FICA Taxes

- “Electing Out of Social Security”
 - Must file Form 4361 to request exemption from “self-employment” taxes and receive IRS approval
 - Based on being conscientiously opposed to, or because of religious principles opposed to the acceptance of Social Security benefits based on a minister’s earnings from ministerial services
 - Reasons cannot be simply financial
 - Must be done within the first 2 years of ministry
 - 2 year clock restarts if the clergy has a “change of faith” that accompanies change in beliefs about acceptance of Social Security benefits for services as a minister



Clergy FICA Taxes



- “Opting Back into Social Security”
 - Allowed by Congress in 1977, 1986, 2000, and 2001
 - What if Form 4361 filed, but there was no opposition to the acceptance of Social Security benefits based upon a minister’s earning from ministerial services?

Clergy FICA Taxes

- If “exempt” from self-employment (SE) taxes – consider lost benefits:
 - Retirement benefits (Social Security)
 - Survivors insurance (spousal, widowed, children’s benefits)
 - Disability insurance
 - Hospital and medical insurance in retirement
- Reducing self-employment tax:
 - Track business-related miles
 - Clergy business related cell phone costs if not reimbursed
 - Other unreimbursed ministry related business expenses (if not reimbursable by the ministry)



Clergy FICA Taxes

- Secular employment of clergy
 - Treated as lay employee – withhold federal income and FICA taxes
 - Social security benefits from secular work are not lost – even if exempt from SE tax as minister (opted out of Social Security)
 - Will receive benefits if you have at least 40 quarters
 - Benefits are based on the average of the highest 35 years of covered Social Security earnings.



Clergy Income Taxes

- Federal Income Tax (FIT) Withholding
 - Don't withhold FIT unless provided a Form W-4 by the pastor
 - Suggest that pastor withhold enough FIT to cover the self-employment tax liability
 - Some churches increase compensation and withhold FIT to cover a portion of the 15.3% SE tax
- Earned Income Tax Credit
 - For those clergy who are exempt from SE tax, for services as a minister, the housing allowance will not count as "income" for earned income tax credit purposes



Clergy Income Taxes

- Educate your pastors:
 - Prior webinar “Pastor Income Taxes”
 - Prior webinar “Housing Allowance Tax Benefit for Ministers”
 - https://battershellnichols.cpa/webinars_on_demand



403(b) Retirement Plan

- Contribution limits in 2023
 - General deferral limit = \$22,500
 - Catch up deferral contribution if over 50 = \$7,500
 - If employed by a church > 15 years, added \$3,000 deferral (IRC 402(g)(7))
 - <https://www.irs.gov/pub/irs-drop/n-22-55.pdf>
- Clergy regular deferral contributions not subject to SE tax

403(b) Retirement Plan

- ROTH 403(b) – if plan allows
- After retirement:
 - A housing allowance can be designated for retired clergy from a church or denomination retirement plan – consider not rolling over balance to IRA in retirement
 - For churches, schools and certain other nonprofits - potential employer contributions for former employees for up to 5 years (Treas Reg 1.403(b)-4(d))

Labor & Industries (WA State)



- Tax calculated based on hours worked
 - Hourly - based on the number of paid hours
 - Salaried - you must report all salary workers the same, either:
 1. Don't track hours = 480 hours per quarter for all (includes time off)
 2. Track hours worked = report actual hours

Labor & Industries (WA State)

- Paying 2023 salary – if not under ministerial exception & below \$57,293.60
 - Suggest converting to hourly and paying hourly
 - Consider overtime rules
 - See 3 part webinar “Employee Compensation Rules for Churches & Ministries”



Labor & Industries - Covered Workers

- Who is a covered worker?
 - In Washington, every worker is presumed to be a “covered worker” for purposes of workers’ compensation coverage unless they fall into the few narrow exceptions provided by law.
 - Services for aid or sustenance may be excluded when the aid is from a religious or charitable (nonprofit) organization. Optional coverage may be obtained by filing an application with the Department of Labor & Industries.

Labor & Industries - Covered Workers

- Musicians can be excluded under the following circumstances:
 - Under contract of service for specific engagement
 - No other duties assigned
 - Not regularly and continuously employed by the organization
- Most visiting ministers would be covered under the reporting rules. An independent contractor who essentially provides personal labor is covered by industrial insurance (RCW 51.08.180).

Labor & Industries - Covered Workers

- Services are exempt if:
 - Individual provides labor of others (has their own employees), or
 - Individual provides equipment (beyond ordinary hand tools) and they are not controlled in the use of the equipment, OR
- 6 part test (must meet all parts) (RCW 51.08.195)
 - Does not provide their own employees or equipment in performing the contract:

Labor & Industries - Covered Workers

(6 part test, continued)

1.) Free from direction and control,

2.) Meets one of the following 3 subtests:

- Perform a service which is outside the course of ministry business or,
- Perform a service away from your business locations, including all your job sites or,
- Be responsible, both under the contract and in fact, for the costs of the principal place of business from which the service is performed.

Labor & Industries - Covered Workers

- 6 part test (continued)

- 3.) Need to pass one of the following 2 subtests:

- Be customarily engaged in their own business to provide the services which are of the same nature as those performed under the contract or,
 - Provide a principal place of business that qualifies for an IRS business deduction; the place must be used regularly and exclusively for business purposes.

- 4.) Be required under IRS rules to file a business tax return with the IRS.

Labor & Industries - Covered Workers

- 5.) Have an active account and an active unified business identifier number (UBI) with the Department of Revenue
- 6.) Maintain their own set of books and records showing business income and expenses
 - Additional requirement for construction trades:
 - The individual must have a valid contractor registration pursuant to RCW 18.27 or an electrical contractor license pursuant to RCW 19.28

Paid Family Medical Leave (PFML) - Background

- Washington State Legislature approved Senate Bill 5975. The new law went into effect on October 19, 2017.
- The premium assessment began January 1, 2019. Benefits began January 1, 2020.
- The PFML program is administered by the Employment Security Department.
- Washington is one of six states that offers PFML benefits
 - For more details: <https://paidleave.wa.gov/about-us/>

PFML – What is it?

- The mission is to provide an easily accessible benefit that helps employers and employees maintain economic stability and peace of mind in challenging times.
- Benefits provide a percentage of the employee's gross wages while the employee is on approved leave.
- PFML is not FMLA (Family Medical Leave Act), which is a federal program. PFML provides paid leave, FMLA is unpaid leave. Employees can use both FMLA and PFML. Employers cannot require an employee to use FMLA before PFML.

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PFML – Who pays the premium?

- It is funded through premiums paid by both employees and employers
- The premium rate is 0.8 percent of each employee's gross wages, not including tips, up to the 2023 Social Security cap (\$160,200)
 - This includes housing allowance for ministers and any paid fringe benefit
 - List of gross wages: paidleave.wa.gov/help-center/employers/premiums/
- Employers with 50+ employees will pay 27.24% and employees will pay 72.76%
- Employers with fewer than 50 employees are not required to pay the employer portion of the premium, but they still collect and submit the employees' share of the premium. Employers can pay the employees portion if they want.



PFML – What is the benefit?

- Employees must have worked a total of at least 820 hours for any Washington employer during the previous 12 months
 - Part time, seasonal, or previous employees can apply if they are eligible
- Family vs Medical Leave
 - Medical Leave – for a serious health condition that prevents employees from working (i.e. major surgery, during pregnancy)
 - Family Leave – to care for a family member with a serious health condition (i.e. care for a spouse, bonding time with new baby)

PFML – What is the benefit?

- Employees can take up to:
 - 12 weeks of medical or family leave in a year
 - 16 weeks for a personal medical event and family caregiving event in the same year (i.e. giving birth to a baby)
 - 18 weeks for complications in pregnancy
- They do not have to take their leave all at once (i.e. two days a week for ongoing treatments)
- A week of paid leave is equal to the employee's typical week of work

PFML – What is the benefit?

- Employees receive up to 90% of their weekly pay up to maximum benefit amount. For 2023, that maximum is \$1,427/wk.
- Employers are required to maintain health benefits for employees while receiving PFML
 - Employees would still pay their required share of premium
- Employees who return from leave must be restored to the same or equivalent job if they work for an employer with 50 or more employees, have worked for this employer for at least 12 months, and have worked 1,250 hours in the 12 months before taking leave.

PFML – Employer responsibility

- Withhold, file, and pay premiums quarterly to ESD (Employee Security Department), due at end of month following quarter end.
- Employer receives two notices from ESD when employee files a claim: 1) when employee applies for benefits (employer has 18 days to contest claim) and 2) when employee is approved or denied for benefits.



PFML – Employer responsibility

- Employers can pay “supplemental benefits” by adding compensation to the employee’s PFML benefit. There are no limits. Employees would have to show the employer what their benefit is if the employer wants to match employee’s normal pay. It can be paid time off (PTO), or even housing allowance. These are taxable wages to the employee, but the employee does not need to report these as wages to ESD.
- Due to timing, employers may want to work with employees to pay supplemental benefits.
 - For example, pay a full normal work week, then reduce the additional compensation in future paychecks when the PFML benefit is received.

PFML – Employee responsibility

- Notify employer 30 days in advance of leave (or as soon as possible if not foreseen).
- Notice to include date, type of leave (medical, family, or combination), and estimated start and end date.
- Complete online application, showing proof of qualifying event.

PFML – Employee responsibility

- Approval from PFML generally takes about 30 days. A letter will be mailed to applicant.
- File weekly claims with PFML.
- The ESD will send a 1099-G to employee to report benefits only for family leave, not medical leave. PFML did not advise whether this is taxable to the employee, however a conservative approach would be to treat it as taxable.

WA Cares Fund (WCF) - Background

- In 2019, Governor Inslee signs the Long Term Services and Supports (LTSS) Act into law. Washington becomes first state to provide long-term care for working residents.
- The premium assessment began July 1, 2023.
- Benefits become available July 2026.
- Led by Department of Social and Health Services (DSHS). It administers applications and benefits.
- The Employment Security Department (ESD) administers exemptions and collects premiums.
 - For more details: <https://wacaresfund.wa.gov/>

WCF – What is it?

- WA Cares Fund provides working Washingtonians a way to earn access to long-term care benefits that will be available when they need them.



- All full-time, part-time, and temporary workers in Washington contribute to the WA Cares Fund, unless they have an approved exemption. As soon as they retire, they stop contributing. Similarly, if they become unemployed or leave the workforce to care for a child or other loved one, contributions stop. If they access their WA Cares benefit early and return to the workforce, contributions resume.

WCF – Who pays the premium?

- It is funded through premiums paid by employees.
- The premium rate is 0.58 percent of employee's gross wages. There is no wage cap.
 - Housing allowance and Form W-2 taxable benefits
- Employees contribute for as long as they are working in WA state.
- Employers can opt to pay this premium for their employees.



WCF – Who can be exempt?

- Beginning January 1, 2023, workers became eligible for exemption if they live outside of WA state.
 - For other exemptions, see <https://wacaresfund.wa.gov/how-it-works/exemptions>
- To qualify, the employee must apply for the exemption with the ESD and receive an approval letter, which needs to be provided to their employer.
- Until approval letter is received, the employer must withhold the premium from employee.



WCF – Who can be exempt?

- Exemptions generally take effect the quarter after your application is approved.
- Those workers who had private long term care insurance on/before November 1, 2021 were able to apply for an exemption from WCF between October 1, 2021 and December 31, 2022. Once approved, they are permanently exempt. This opt-out provision is no longer available.

WCF – What is the benefit?

- Lifetime Access benefit is up to \$36,500. Worker must contribute at least 10 years to the fund.
- Early Access benefit is up to \$36,500 for WA workers who have contributed 3 of the last 6 years and have a sudden need for long term care.
- Nearing retirement is a partial benefit for workers born before 1968. It is 10% for each year contributed.
- Covered services includes in-home caregivers, residential care (i.e. assisted living).
 - See link for more covered areas: <https://wacaresfund.wa.gov/benefits>

WCF – Employer responsibility

- Starting 3rd quarter 2023, employers will report for WA Cares Fund
- WA Cares reporting will be fully integrated with PFML reporting
- Reporting deadlines the same as PFML (end of month of preceding quarter)
 - See this link for more details: <https://paidleave.wa.gov/reporting/>

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Next Webinar

Employee Wages for Churches and Ministries
November 15, 2023: 12:00p.m. – 1:00p.m.



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Thank you for joining us!

Please reach out with any questions:
info@battershellnichols.com

(253) 839-1620



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