

2021 ANNUAL CHURCH AND MINISTRY SEMINAR

Presented by:

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October 28, 2021

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Annual Church and Ministry Seminar
October 28, 2021
Agenda

- 7:30 - 8:30 Registration and vendor booths
- 8:30 to 9:30 Legal Update from The Church & Ministry Law Group at
Schmitt, Schneck, Casey, Even & Williams, P.C.
Robert Erven Brown, Esq.
Jonathan A. Ruybalid, Esq.
- 9:30 to 10:20 Session by Monica J. Stern, CPA/Julie Froke, EA
- 10:20 to 10:30 Break
- 10:30 to 12:15 Session by Monica J. Stern, CPA/ Julie Froke, EA
- 12:15 to 12:30 Open Questions and Answers

Live Stream Information

Download 2021 Seminar packets at www.mjsterncpa.com in advance. There are two - one from Robert Erven Brown and one from Monica J. Stern, CPA.

To view the Livestream go to www.lacasalive.com No password is needed.

To ask questions, send an email to info@mjsterncpa.com or use the livestream chat.

We will try to get as many questions as possible. Please indicate if the question is for Bob or for Monica if not obvious.

Monica J. Stern, CPA, PLLC
2021 Annual Church and Ministry Seminar

<u>Title</u>	<u>Page Number</u>
Sponsors	
COVID-19 Benefit Update	1
Student Loan Forgiveness for Church Workers	14
Retirement, Severance and Parachute Payments	22
Bookkeeping Best Practices	45
Accepting Cryptocurrency Gifts	59
1099 Forms - Upcoming Changes	66
Employee or Independent Contractor	74
Form 8822-B	88

Monica J. Stern, CPA, PLLC
2021 Annual Church and Ministry Seminar

Sponsors

The Church & Ministry Law Group at Schmitt, Schneck, Casey, Even & Williams, P.C.

Talentum Group

American Church Group of Arizona

Computers in Ministry

America's Christian Credit Union


Church Loan Consulting, LLC

Good Stewart Church Academy

Special Thanks

La Casa de Cristo Lutheran Church

Pastor Jeff Ruby
Kim Spiker
Gary Spears




2021 CHURCH AND MINISTRY SEMINAR

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2021 Covid-19 Benefit Update

1



COVID-19 Tax Credits - FFCRA

Families First Coronavirus Response Act
(FFCRA)

Credit for Paid Sick Leave
Credit for Expanded Family and Medical Leave

Both expired 09/30/2021

2



COVID-19 Tax Credits - FFCRA

Can take FFCRA credits even if entity received a Paycheck Protection Loan.

Employer cannot count the same wages for loan forgiveness and FFCRA tax credits.

3



W-2 Forms

IRS issued Notice 2020-54 related to the reporting of qualified sick and family leave wages on the W-2.

Box 14 (or in a separate statement) must disclose the wages paid to an employee:

- to care for self - FFCRA (IRC 5102(a)(1,2 or 3)
- to care for other individuals - FFCRA (IRC 5102(a)(4 or 5)
- under emergency family leave (EFMLEA)

4



W-2 Forms

Best practice:

Put amount and code section in box 14, and

Issue model notice to employees

5



W-2 Forms

Model Notice:

“Included in Box 14, if applicable, are amounts paid to you as qualified sick leave wages or qualified family leave wages under the Families First Coronavirus Response Act. Specifically, up to three types of paid qualified sick leave wages or qualified family leave wages are reported in Box 14:

- Sick leave wages subject to the \$511 per day limit because of care you required;
- Sick leave wages subject to the \$200 per day limit because of care you provided to another; and
- Emergency family leave wages.

If you have self-employment income in addition to wages paid by your employer, and you intend to claim any qualified sick leave or qualified family leave equivalent credits, you must report the qualified sick leave or qualified family leave wages on Form 7202, Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals, included with your income tax return and reduce (but not below zero) any qualified sick leave or qualified family leave equivalent credits by the amount of these qualified leave wages. If you have self-employment income, you should refer to the instructions for your individual income tax return for more information.”

6

22222		VOID <input type="checkbox"/>	a Employee's social security number		For Official Use Only ▶ OMB No. 1545-0008	
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
Housing allowance → FFCRA leave →				13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b	
				14 Other	12c	
f Employee's address and ZIP code				12d		
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** **2020**

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

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.
Cat. No. 10134D

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

7

COVID-19 Tax Credits – CARES Act

Employee Retention Tax Credit:

- Entities with Paycheck Protection Program Loans are eligible, but not for the same wages.
- Different rules for 2020 vs. 2021
- Can amend form 941 to claim – up to three years later by filing 941X

8



COVID-19 Tax Credits – CARES Act

2020 Employee Retention Tax Credit:

Eligible employers have either:

- fully or partially suspended operations due to governmental orders related to COVID-19.
- experienced a significant decline (50%) in 2020 gross receipts during a calendar quarter compared to same quarter in 2019.

9



COVID-19 Tax Credits – CARES Act

2020 Employee Retention Tax Credit:

If eligible for one quarter, even partially, will be eligible for the next quarter in 2020 as well.

Example:

Decline in Q2 2020 makes employer eligible in Q2 and Q3. If PPP covers first month of Q2, then eligible for the rest of Q2 and Q3.

10



COVID-19 Tax Credits – CARES Act

2021 Employee Retention Tax Credit:

Eligible employers have either:

- fully or partially suspended operations due to governmental orders related to COVID-19.
- experienced a significant decline (20%) in 2021 gross receipts during a calendar quarter compared to same quarter in 2019.

11



COVID-19 Tax Credits – CARES Act

2021 Employee Retention Tax Credit:

For Q1 2021, can elect to use Q4 of 2020 to calculate decline.

For Q2 2021, can elect to use Q1 2021.

12



COVID-19 Tax Credits – CARES Act

2020/2021 Employee Retention Tax Credit:
Governor Ducey:

“Nothing in this order shall inhibit a person from engaging in constitutionally protected activities such asreligion ...that provides appropriate physical distancing to the extent feasible.”

13



COVID-19 Tax Credits – CARES Act

2020/2021 Employee Retention Tax Credit:
See Executive Orders 2020-18, 2020-33 and
“Guidance for Places of Worship”. Churches
were deemed essential services.

It is unlikely that Arizona Churches will qualify for the credit under shutdown rules unless affiliated with a school that was also shut down or a City/County rule applies.

14



COVID-19 Tax Credits – CARES Act

2020/2021 Employee Retention Tax Credit:

Eligible wages:

- If more than 100 full-time employees in 2019, the wages are for time the employee is not providing services.
- If 100 or fewer full-time employees in 2019, the wages are wages paid to any employee.

Full-time is 30 hours.

15



COVID-19 Tax Credits – CARES Act

2020/2021 Employee Retention Tax Credit:

Eligible wages must be subject to social security taxes – clergy wages/housing do not count.

Cannot count wages for multiple tax credits.

16



COVID-19 Tax Credits – CARES Act

2020 Employee Retention Tax Credit:

- Applies to wages and health insurance paid 3/12/2020 to 12/31/2020
- Credit is 50% of wages up to \$10,000 (\$5,000 credit) per employee for entire period.
- Q1 and Q2 are both reported on Q2 941X.

17



COVID-19 Tax Credits – CARES Act

2021 Employee Retention Tax Credit:

- Applies to wages and health insurance paid 1/1/2021 to 12/31/2021
- Credit is 70% of wages up to \$10,000 (\$7,000 credit) per employee per quarter.

18



COVID-19 Tax Credits – CARES Act

2020/2021 Employee Retention Tax Credit:

Gross receipts for tax-exempt organizations:

- Contributions and grants
- Dues and assessments
- Gross sales – no deductions
- Gross sales of investments – no deductions
- Dividends and interest

19



COVID-19 Tax Credits – CARES Act

2020/2021 Employee Retention Tax Credit:

Gross receipts for tax-exempt organizations:

- Any other gross receipts
- Determined on the basis of the method of accounting – cash or accrual.
- Does NOT include PPP forgiveness

20



COVID-19 Tax Credits – CARES Act

2020/2021 Employee Retention Tax Credit:

Gross receipts for tax-exempt organizations:

- Must be consistently determined in each quarter.

Be careful – a donation of stock followed by the sale of stock will be counted twice!

Restricted cash receipts are counted too.

21



COVID-19 CARES Act – Employer Deferral

In 2020, all employers could defer the payment of the employer's share of social security taxes.

- Period deferred – 3/27/2020 to 12/31/2020
- Repay half by 12/31/21 and half by 12/31/2022
- Must defer by not depositing taxes. Cannot claim once the tax is deposited.
- Don't forget to repay, as penalties are big!

22

941 Forms

Significant changes for 941 forms for 2020/2021:

- FFCRA Qualified Sick Leave Wages - line 5a(i)/11b
- FFCRA Qualified Family Leave Wages – line 5a(ii)/11b
- Deferral of Employer Social security taxes – line 13b
- CARES Act -Employee Retention Credit – line 11c/13d
- Deferrals of Employee Social Security – line 13b
- Advances requested on form 7200 – 13f

The 941 form is now three pages and a worksheet.

23

W-4 forms

The W-4 Form changed significantly for use after 1/1/2020.

- Only new employees or those wishing a change must complete the revised W-4 form.
- For the most accurate calculations, employees should use the estimator at www.irs.gov/W4APP.

24



W-4 forms

The W-4 Form changed significantly for use after 1/1/2020.

- Form requires effort on the part of the employee for accuracy.
- Likely we will see employees owing taxes for 2020/2021 due to errors in completing.
- The old form is not an option for changes.

25



Child Care Stabilization Grants - DES

Up to \$10,000 per month is available for Child Care centers that are licensed by DHS prior to March 11, 2021.

<https://des.az.gov/services/child-and-family/child-care/child-care-stabilization-grant>

Effective July 2021 – June 2023.

Must not be closed more than 14 days to receive that month's grant.

26



Child Care Stabilization Grants - DES

Grants are not competitive with an easy application process.

Covers a wide range of operating expenses, include those incurred since 1/31/2020.

Requires monthly reporting of enrollment and closures.

Requires quarterly reporting of expenses.

27



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Student Loan Forgiveness for Church Workers

28



Student Loan Forgiveness for Church Workers

Prior to July 1, 2021, church workers were not eligible to participate in loan forgiveness programs offered to others who worked in non-religious 501(c)(3) organizations.

The Supreme Court in *Trinity Lutheran Church of Columbia, Inc. v. Comer* ruled that churches and religious organizations could not be excluded from public benefit programs.

29



Student Loan Forgiveness for Church Workers

Forgiveness is now available to church workers!

Program – Public Service Loan Forgiveness (PSLF)

30



Student Loan Forgiveness for Church Workers

On October 6, 2021 sweeping changes were announced to the loan forgiveness program.

Rules are temporary through October 31, 2022, but likely will become permanent in some form.

31



Student Loan Forgiveness for Church Workers

Requirements of the PSLF program:

- Only Federal Direct loans were eligible – now all student loans are eligible.
- Consolidated Perkins and Family loans might have been eligible, if consolidated into Federal Direct loan – now all loans are eligible if consolidated to a direct loan.

32



Student Loan Forgiveness for Church Workers

Requirements of the PSLF program:

- Must work full-time based on employer's definition, if at least 30 hours.
- Can combine part-time work for two or more employers if working at least 30 hours total.

33



Student Loan Forgiveness for Church Workers

Requirements of the PSLF program :

- Must make at least 120 qualifying monthly payments
 - Only payments after 10/1/2007 count
 - Paid while working for a qualifying employer
 - Paid the full amount due on each payment – this is now waived

34



Student Loan Forgiveness for Church Workers

Requirements of the PSLF program :

- Must make at least 120 qualifying monthly payments
 - Payments no later than 15 days after the due date – this is now waived
 - Qualifying payments do not need to be consecutive

35



Student Loan Forgiveness for Church Workers

Requirements of the Public Service Loan Forgiveness (PSLF) program :

- Amount forgiven is NOT taxable.
- Previously denied applications will be automatically reviewed by DOE.
- Parent plus loans are not eligible.

36



Student Loan Forgiveness for Church Workers

For more information go to:

<https://studentaid.gov/manage-loans/forgiveness-cancellation/public-service>

37



Student Loan Forgiveness for Church Workers

Income driven student loan payment plans:

- Revised Pay As You Earn Repayment Plan (REPAYE)
- Pay As You Earn Repayment Plan (PAYE)
- Income-Based Repayment Plan (IBR)
- Income-Contingent Repayment Plan (ICR)

38



Student Loan Forgiveness for Church Workers

Income driven student loan payment plans:

- Plans require payments for 20 – 25 years depending on plan.
- May be eligible for forgiveness after 10 years under the PSLF program.

39



Student Loan Forgiveness for Church Workers

Income driven student loan payment plans:

- To reduce payments, consider filing married filing separate tax returns.
- Arizona is a community property state, so income on each return will be one-half of total income, generally.

40



Student Loan Forgiveness for Church Workers

Income driven student loan payment plans:

- Consider the cost of preparing two returns with the reduction in the payment and ultimate forgiveness.
- Lower payments can result in an increase in the amount forgiven at 10 years.

41



Student Loan Forgiveness for Church Workers

Student loans payments by an employer are taxable compensation to the employee, unless the employer has a qualified educational assistance plan that offers tax-free education assistance of up to \$5,250 for all eligible employees.

No discrimination is allowed!

42



Student Loan Forgiveness for Church Workers

Student loan payments by an employer must be included on the W-2 form if not paid under terms of a qualified plan.

And they must be reasonable.

43

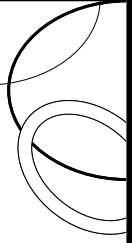


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Retirement, Severance and Parachute
Payments

44

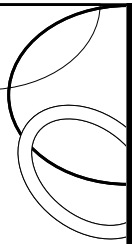


Retirement, Severance and Parachute Payments

Retirement issues:

- Pastor is retiring and hasn't saved.
- Church has not contributed to retirement.
- Board wants to “bless” the pastor with a large severance – many times unreasonable in the eyes of the IRS.
- Was the pastor paid fairly for his years of service?

45



Retirement, Severance and Parachute Payments

Too many clergy and ministry employees retire without adequate savings for retirement.

- Churches attempt to “make it up” at retirement or when church closes.
- Issue is very concerning for clergy who have opted out of the Social Security system without an alternate savings plan.

46

Retirement, Severance and Parachute Payments

Too many clergy and ministry employees retire without adequate savings for retirement.

- Rules on excess benefits make it difficult to legally catch up on a pastor's or executive's retirement.
- Paying out large sums at retirement can subject the church/ministry and the board members to penalties and excise taxes.

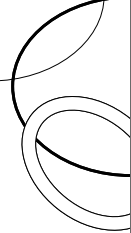
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Retirement, Severance and Parachute Payments

Too many clergy and ministry employees retire without adequate savings for retirement.



48



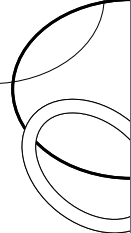
Retirement, Severance and Parachute Payments

Plan for Retirement – 403(b)(9) plans

Better to establish a plan at the start, even if contributions by the pastor and church are low.

The time is now!

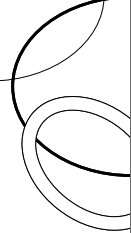
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Retirement, Severance and Parachute Payments

Note – the following rules and benefits apply only to 403(b)(9) plans for churches. Churches include association of churches and organizations under the control of a church. Ministries not under the control of a church do not have the same benefits, but can still have a 403(b) plan.

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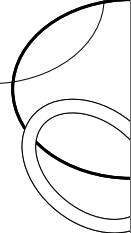


Retirement, Severance and Parachute Payments

Benefits of a 403(b) Plan over other retirement plans for Churches:

- Easy to establish and maintain
- No requirement for Church to contribute
- Contributions can discriminate
- All employees can participate, but employer does not have to contribute.

51

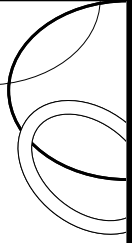


Retirement, Severance and Parachute Payments

Benefits of a 403(b) Plan over other retirement plans for Churches:

- No discrimination testing.
- Contributions can be made by the Church for five years after an employee's retirement.
- Retirement benefits can be treated as tax-free housing allowances.

52

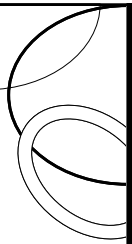


Retirement, Severance and Parachute Payments

Benefits of a 403(b) Plan over other retirement plans for Churches:

- Contributions to the plan from the clergy's paycheck reduce self-employment tax due, unless a Roth election is made.

53



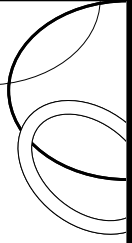
Retirement, Severance and Parachute Payments

Requirements of a 403(b) plan:

Must have two written documents:

- Church Plan Document between the Church and its employees spelling out the terms of the plan. Adopted by the Board.
- Agreement between the Employee and the Company holding the Employee's plan funds.

54

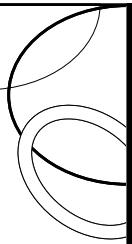


Retirement, Severance and Parachute Payments

Mechanics of 403(b) Contributions:

- Employees elect to make 403(b) plan contributions that are deducted from paychecks.
- Employee contributions are pretax for State and Federal withholding, but are subject to Social Security and Medicare (except Clergy).

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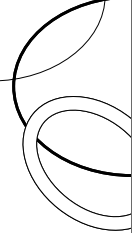


Retirement, Severance and Parachute Payments

Mechanics of 403(b) Contributions:

- Church can elect to match contributions for some or all employees or to pay a flat amount for certain employees.
- No employer contribution is required.
- Employee contributions must be remitted no later than the 15th of the following month or earlier based on plan document.

56

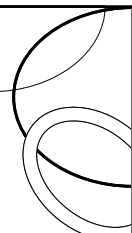


Retirement, Severance and Parachute Payments

Common 403(b) plan errors by Churches:

- No plan document – this invalidates the entire concept.
- Not distinguishing in the payroll system what is an employer contribution and what is an employee elected deferral.
- Paying deferrals late or inaccurately.

57



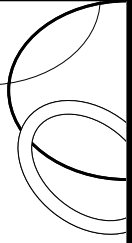
Retirement, Severance and Parachute Payments

Common 403(b) plan errors by Churches:

- Paying contributions to the company holding the funds based on a “bill” from them, without regard to what was actually withheld.

The bill is a suggestion – you need to pay what was withheld and the appropriate match.

58

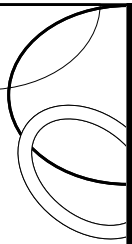


Retirement, Severance and Parachute Payments

Common 403(b) plan errors by Churches:

- Not reviewing the general ledger of the church to ensure that what is withheld is being paid timely and in the proper amount.

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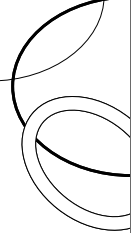


Retirement, Severance and Parachute Payments

Common 403(b) plan errors by Churches:

- Not setting up a plan because it would “cost the Church money”.
- Incorrectly completing W-2 forms by failing to disclose participation in a retirement plan and amounts of deferrals.

60

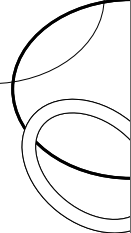


Retirement, Severance and Parachute Payments

Every Church should offer a 403(b) Plan.

Everyone retires and needs funds available for retirement. Give employees the opportunity to participate in a plan.

61

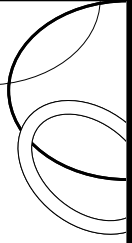


Retirement, Severance and Parachute Payments

Severance:

- Must not be unreasonable:
 - Compare to similar sized entities in same locale, with similar characteristics (budget, attendance, job description)
 - Can consider years of service
 - Can consider education level

62

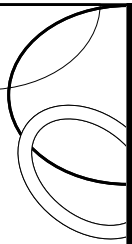


Retirement, Severance and Parachute Payments

Severance:

- Must not be unreasonable:
 - Can consider whether the individual was compensated fairly during his employment

63



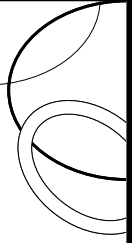
Retirement, Severance and Parachute Payments

Severance:

How to determine what is reasonable?

- If denominational church, ask for guidelines.
- If not, can use published annual studies or calculators such as: www.churchsalary.com
- Hire a professional to do a salary study for you.

64

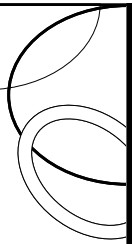


Retirement, Severance and Parachute Payments

Severance:

- Generally paid as X weeks of pay based on X years of service.
- Can include back pay if an employee was not fairly paid in the years employed if you can prove it.

65

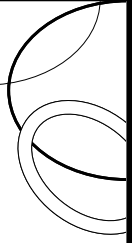


Retirement, Severance and Parachute Payments

Severance:

- Can include a reasonable time for benefits.
- With a 403(b) plan, the Church may fund contributions even after retirement.

66

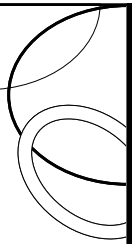


Retirement, Severance and Parachute Payments

Severance:

- If the employee retains property purchased by the church (computers, library, car etc.) the value of property must be considered and taxed.
- Taxed at fair market value, not book or depreciated value.

67

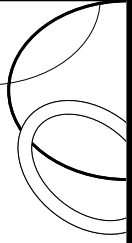


Retirement, Severance and Parachute Payments

What is reasonable?

The board must use unbiased information including salary studies to determine reasonableness.

68



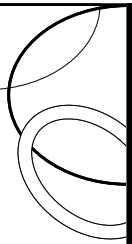
Retirement, Severance and Parachute Payments

What is reasonable?

For organizations under \$1,000,000 in revenue (three year average), need at least three comparative organizations – safe harbor.

No safe harbor for employers over \$1,000,000 in revenue.

69



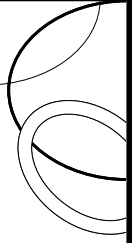
Retirement, Severance and Parachute Payments

What is reasonable?

The board must document:

- The date and terms of the severance,
- Members who were present during board discussions and those recused.

70



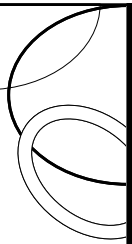
Retirement, Severance and Parachute Payments

What is reasonable?

The board must document:

- The details of the comparability data obtained and relied upon, and
- Anyone not voting due to a conflict of interest.

71



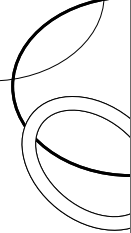
Retirement, Severance and Parachute Payments

What is reasonable?

Who must be recused from debate:

- Employee receiving the severance, and
- Relatives of the employee.
- **DOCUMENT IN MINUTES!**

72

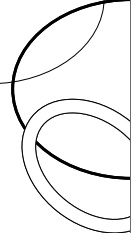


Retirement, Severance and Parachute Payments

Real life examples:

- Church closing – let's give everything to the Pastor
- Church merging – let's give an investment to the Pastor when it matures (six times his payroll)

73

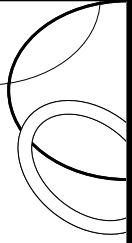


Retirement, Severance and Parachute Payments

Real life examples:

- Clergy retiring – let's give him his laptop and office furniture and books
- Highly compensated Clergy retiring – let's manipulate his salary and fund 403(b)

74

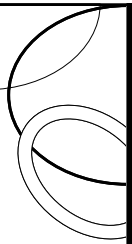


Retirement, Severance and Parachute Payments

Real life examples:

- Church merging – let's pay him for payroll he didn't take due to financial issues
- Highly compensated Pastor dies – let's pay his wife his same salary for 10 years

75

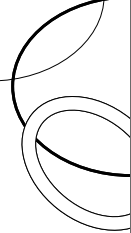


Retirement, Severance and Parachute Payments

What is reasonable?

The board **MUST** obtain factual, comparable data and **MUST** rely on that data.

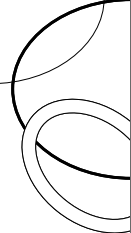
76



Retirement, Severance and Parachute Payments

If compensation is not reasonable, the employee must repay the unreasonable portion plus a 25% penalty or be assessed a penalty of 200% of the unreasonable compensation plus the 25%.

77

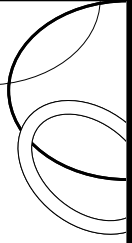


Retirement, Severance and Parachute Payments

Board members who approved the excess compensation can be assessed 10% up to \$20,000 for each transaction approving unreasonable compensation.

This is a joint and several liability.

78

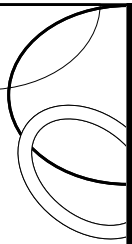


Retirement, Severance and Parachute Payments

And if compensation is not included on the W-2 form, but should be, it is **automatically** considered to be **unreasonable** and subject to the penalties/repayment.

Reasonableness doesn't matter if it is not on the W-2 form!

79

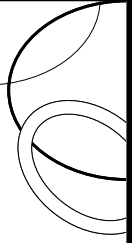


Retirement, Severance and Parachute Payments

What is a Parachute Payment?

Any payment in the nature of compensation to or for the benefit of a covered employee that is contingent on the employee's separation from employment.

80

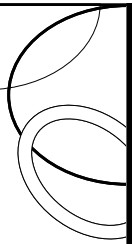


Retirement, Severance and Parachute Payments

What is an Excess Parachute Payment?

A parachute payment that exceeds three times the average annual compensation included in gross income for the five most recent tax years.

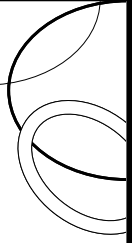
81



Retirement, Severance and Parachute Payments

- Excise tax – A 21% excise tax is due on excess compensation if a highly compensated employee (\$130,000 in 2021) receives severance of more than three times the employee's five year average compensation.

82

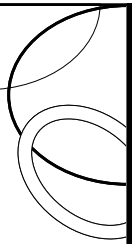


Retirement, Severance and Parachute Payments

Clergy are exempt from Excess Parachute Excise tax. But not from unreasonable compensation.

Non-Clergy can be subject based on Excess Parachute payments and penalties for unreasonable compensation.

83



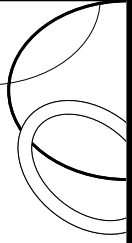
Retirement, Severance and Parachute Payments

Example:

Employee was paid \$75,000 for four of the five years and \$130,000 for the other year. The base (average) is \$86,000.

If his parachute payment is \$300,000, then \$42,000 is excess.

84



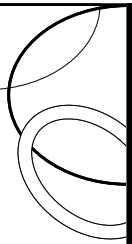
Retirement, Severance and Parachute Payments

Example:

The employer would owe 21% of \$42,000 or \$8,820 in excise tax.

And, if unreasonable, other penalties may apply.

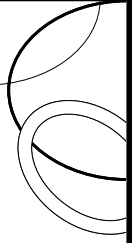
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Retirement, Severance and Parachute Payments

Trap – If the employee was a highly compensated employee in any year after 2016, he remains a highly compensated employee for all years.

86

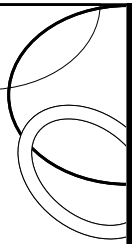


Retirement, Severance and Parachute Payments

The payment of the excise tax **DOES NOT** make the payment reasonable compensation.

It also **DOES NOT** make the payment unreasonable.

87

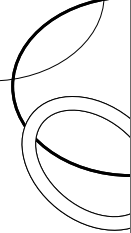


Retirement, Severance and Parachute Payments

How much care are you giving your W-2 forms to ensure they include all taxable compensation?

Are your salary decisions documented to protect employees and your board?

88

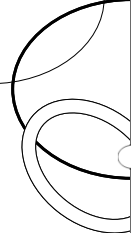


Retirement, Severance and Parachute Payments

Be careful – these are complex rules.

Consult a professional to ensure your church is following the rules.

89



2021 CHURCH AND MINISTRY SEMINAR

Presented by
Monica J. Stern, CPA, PLLC

Bookkeeping Best Practices

90



Bank Feeds and Downloading Transactions

BEFORE adding transactions review for:

- Name
- Correct account
- Appropriate details added
- For checks, enter the date the check was written – bank download will be the date the check was cleared.

91



Bank Feeds and Downloading Transactions

BEFORE adding transactions review for:

- Duplicate entries for transfers between accounts.
 - Transaction will show up in both bank feeds – one as a deposit, one as an expense.
 - Only add one of the transactions and delete the other.

92



Bank Feeds and Downloading Transactions

BEFORE adding transactions review for:

- Duplicate entries for transfers between accounts.
 - In the transaction you add, use the other bank account in the transaction instead of an income or expense account.

93



Bank Feeds and Downloading Transactions

Example:

- Bank transfer from savings to checking shows up in both bank feeds.
 - Edit the checking feed entry changing the income account to the savings account.
 - Delete/exclude the duplicate entry in the savings account feed.

94



Credit Cards

- Set up credit card liability accounts for each credit card, recording charges and payments to this account.
- Require receipts with details included that follow your accountable reimbursement plan.

95



Credit Cards

- Reconcile monthly using your accounting software reconciliation feature.
- Transactions should clear within a day or two. Any uncleared transactions should be researched and resolved **BEFORE** finishing the reconciliation.

96



Petty Cash

- Create a Petty Cash asset account in your accounting software.
- Establish a Petty Cash amount by withdrawing cash from your bank account and recording a deposit to Petty Cash from the bank account.

97



Petty Cash

- Require receipts and change any time Petty Cash is used.
- Make entries in your accounting software Petty Cash account to reflect the amounts spent using the appropriate expense accounts.

98



Petty Cash

- Replenish periodically with cash from your bank account, recording a deposit to the Petty Cash from the bank account.
- The amount replenished should always total the receipts!
- Record an over/short to keep account in balance.

99



Amazon Purchases

- The initial receipt from Amazon may not be the amount that clears the bank.
 - Amazon may separate the order into multiple shipments. The amounts charged to your account are the totals of these shipments.
 - Make sure the entries reflected in your accounting software match what clears the bank.

100



Amazon Purchases

- Have a system for collecting and matching Amazon receipts with the entries in your software.
- There should NEVER be a missing Amazon receipt – these can be downloaded from the Amazon website.

101



Reconcile, Reconcile, Reconcile!

- Reconcile all bank accounts, including PayPal, and credit cards monthly.
- Research all uncleared items BEFORE clicking “finish”.
 - Follow up with payees of checks that haven’t cleared for more than two months.

102



Reconcile, Reconcile, Reconcile!

- Research all uncleared items BEFORE clicking “finish”.
 - Debits or ACH payments should clear within a few days. If they have not cleared, investigate why and correct as needed.
 - Deposits should clear within a few days. If they have not cleared, investigate why and correct as needed.

103



Monthly Reports

- After reconciling all bank and credit card accounts, run the following reports.
 - Unpaid Bills (Payables) – review for any dated items and research why the bill is still outstanding.

Example: A bill was paid without using the bill pay function. This records the expense twice in your expense account. Add details to the check used for payment and delete the bill.

104



Monthly Reports

- After reconciling all bank and credit card accounts, run the following reports.
 - Open Invoices (Receivables) - review for any dated items and research why the invoice is still outstanding.
 - Is the invoice still collectible? Was the payment received and deposited without using the receivable function in your software?

105



Monthly Reports

- After reconciling all bank and credit card accounts, run the following reports.
 - Balance Sheet – tells a story of what the entity owns and what it owes.
 - Do the assets and liabilities exist for the amount listed on the balance sheet? Review each line.
 - Fixed assets should be carried at original cost and depreciated.

106



Monthly Reports

- Balance Sheet – tells a story; what the entity owns and what it owes.
- Other than land and buildings, if a balance hasn't changed in years, the balance is probably wrong.
- The income statement cannot be correct if the balance sheet is wrong.

107



Monthly Reports

- Balance Sheet – tells a story; what the entity owns and what it owes.
- Negative amounts on your balance sheet and income statement are probably wrong, except for:
 - Contra accounts like allowance for bad debts or accumulated depreciation on the balance sheet.

108



Monthly Reports

- After reconciling all bank and credit card accounts, run the following reports.
 - Income Statement – reports income and expenses over a period of time.
 - Review all income and expense accounts for accuracy.
 - Reconcile donor records with contributions recorded in your accounting software.

109



Monthly Reports

- Income Statement – reports income and expenses over a period of time.
 - Reconcile payroll reported on the Income Statement with calendar year to date payroll reports from third party providers.
 - Review all negative numbers for accuracy!

110



Odds and Ends

- Record income in income accounts. Record expenses in expense accounts.
 - Refunds – record deposit to original expense account.
- Merchant Fees – Record income at the gross amount and fees as a negative on the deposit.

111



Odds and Ends

- PayPal – Treat as its own bank account recording deposits at the gross amount received.
 - Reconcile the account and record fees each month.
 - Transfers from PayPal are not income.

112



Odds and Ends

- Don't use Journal Entries for transactions like deposits and checks; use your accounting software functions.
 - Each journal entry should involve only related accounts.
 - Make a separate entry, with descriptions, for each transaction.

113



Odds and Ends

If you use the Accounts Payable function in your software, make sure all bill payments are applied to the correct bill. Check the dates and amounts.

114



Odds and Ends

- If you use the Accounts Receivable function in your software, make sure payments you receive are applied to the correct invoice.
- Make sure to update memorized transactions when changes happen.

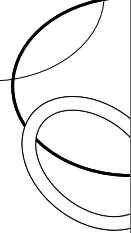
115



Odds and Ends

- When to Void and when to Delete:
 - Delete when a transaction never happened or a duplicate was entered.
 - Void when a transaction did happen but was canceled for some reason. Example – lost check

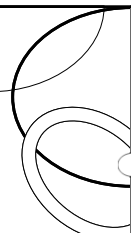
116



Don't get behind – ask for help

- Bookkeeping is a task that keeps moving forward, even if you aren't keeping up.
- Ask for help. It is much easier to fix the issue early, than to wait until a crisis hits.

117

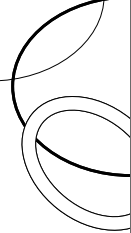


2021 CHURCH AND MINISTRY SEMINAR

Presented by
Monica J. Stern, CPA, PLLC

Accepting Cryptocurrency Gifts

118

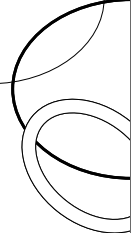


Cryptocurrency

Cryptocurrency is here!

How will your church react to a donor wishing to make a gift of cryptocurrency?

119



Cryptocurrency

Through 7/30/21, Fidelity Charitable has received \$150 million in cryptocurrency gifts, surpassing \$28 million in 2020 and \$13 million in 2019.

120



Cryptocurrency

Tax benefits to donor:

- Treated like a property donation
- No capital gains tax if the donor held for at least one year
- Deduction for the fair value of the currency at date of donation

121



Cryptocurrency

Benefits to the charity:

- Treated like a property donation
- Can be immediately sold
- Provides funding for the mission

122



Cryptocurrency

Terms:

Cryptocurrency – Bitcoin or Ethereum, for example

Wallet – Coinbase, for example

Crypto processors – like The Giving Block, Fidelity Charitable, for example

123



Cryptocurrency

Reasons to accept it:

- Attract a new segment of donors
- Provide another payment type
- Boost the “brand” as innovative
- Provide a charitable solution for donors that offers big tax benefits

124



Cryptocurrency

How it works:

- Donor purchases cryptocurrency.
- Donor puts the cryptocurrency in a wallet, which is an app on the donor's computer.
- Charity establishes a wallet, or uses a third-party service to receive the donation.

125



Cryptocurrency

How it works:

- Charity or the third party sells the cryptocurrency and converts to cash.
- Charity can elect to hold the cryptocurrency as well.

Most charities immediately convert to cash due to the extreme fluctuations in value.

126



Cryptocurrency

Bitcoin prices in the past year:

10/2/2020	\$10,584
4/14/2021	\$64,863
7/15/2021	\$31,492
10/2/2021	\$47,977
10/9/2021	\$54,907

127



Cryptocurrency

How to establish an account to accept cryptocurrency:

- Establish a wallet with a company such as Coinbase, or
- Use a third party such as The Giving Block, Fidelity Charitable, Engiven or Every.org

128



Cryptocurrency

Risks of managing cryptocurrency:

- Volatility of the market
- Loss of digital wallet
- Hacking of digital wallet
- Unregulated and free from oversight

129



Cryptocurrency

Cryptocurrency is NOT stock – reporting is different.

Additional reporting for donations – may need to sign form 8283 if over \$5,000 when received and then file form 8282 when sold.

130



Cryptocurrency

Best practices

- Update gift acceptance policy to accept cryptocurrency.
- Do not manage your own wallet – use a professional.
- Convert to cash immediately.
- Comply with different filing requirements for Forms 8283/8282

131



2021 CHURCH AND MINISTRY SEMINAR

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1099 Forms – Upcoming Changes

132

1099 Forms

1099 Filing changes for 2020:

- New (old) form 1099-NEC for non-employee compensation (formerly box 7 of 1099-MISC)
- Non-employee compensation no longer reportable on 1099-Misc.
- May need to file two different 1099 forms with different due dates.
- Many entities missed this change last year.

133

7171 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0046		2020		Nonemployee Compensation	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Nonemployee compensation		Form 1099-NEC		Copy A For Internal Revenue Service Center	
PAYER'S TIN	RECIPIENT'S TIN	2			File with Form 1096.		
RECIPIENT'S name		3			For Privacy Act and Paperwork Reduction Act Notice, see the 2020 General Instructions for Certain Information Returns.		
Street address (including apt. no.)		4 Federal income tax withheld					
City or town, state or province, country, and ZIP or foreign postal code							
FATCA filing requirement							
Accrual method (see instructions)		5 State tax withheld	6 State/Payer's state no.	7 State income			
2nd TIN req.		\$		\$			
		\$		\$			

Form 1099-NEC Cat. No. 72980N 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

134

9595 ☐ VOID ☐ CORRECTED

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

1 Rents
\$

2 Royalties
\$

3 Other income
\$

4 Federal income tax withheld
\$

5 Fishing boat proceeds
\$

6 Medical and health care payments
\$

7 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale ☐
\$

8 Substantiated payments in lieu of dividends or interest
\$

9 Crop insurance proceeds
\$

10 Gross proceeds paid to an attorney
\$

11 Section 408A deferrals
\$

12 Excess golden parachute payments
\$

13 Nonqualified deferred compensation
\$

14 State tax withheld
\$

15 State/Payer's state no.
\$

16 State income
\$

Form 1099-MISC Cat. No. 1425J www.irs.gov/form1099-MISC Department of the Treasury - Internal Revenue Service

Miscellaneous Income

Copy A
For Internal Revenue Service Center

File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2020 General Instructions for Certain Information Returns.

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

135

1099 Forms

Many Churches and Ministries are not in compliance with 1099 reporting.

1099-NEC due by January 31st

1099-MISC due by February 28th

Penalties apply for late-filed or non-filed returns from \$50 to \$270 for returns filed late or not at all, but “intentional disregard” is a penalty of \$560 per return.

136



1099 Forms

Payments to individuals or entities for services of \$600 or more in a year are reported on 1099-NEC.

Exceptions:

- Payments to corporations or LLC entities taxed as a corporation are exempt. Tip – get a W-9 from ALL LLC entities – you can't tell by their name how they are taxed!

137



1099 Forms

Exceptions:

- Payments made by credit card or other 3rd party network payers (i.e. PayPal) may be excluded.

138



1099 Forms

Exceptions to the exceptions:

- All attorney fees over \$600 must be reported, even if the attorney is taxed as a corporation. Services are reported on 1099-NEC. Payments for a settlement are reported in box 14 of 1099-MISC.
- Rents paid to a property manager are not reportable.

139



1099 Forms

Payments that are not reported on 1099 form:

- Bonuses, allowances or other payments to living employees (must be on a W-2 form)
- Scholarships
- Purchases of merchandise
- Payments to tax-exempt organizations
- Benevolence payments to individuals

140



1099 Forms

Tips to avoid “mismatch” notices on 1099 forms:

- Have the individual or entity complete a W-9.
- Make sure that the form makes sense – social security number for an individual and employer identification number for entities
- If the name on the W-9 doesn't seem right (Bob vs. Robert or SSN with an LLC) ask!

141



1099 Forms

Proposed changes for 1099 forms:

Current law – e-file not required if filing less than 250 information returns each year (W-2s plus all 1099 forms, 1098-C, 1095 series etc.)

Proposed law – lowers limit to 100 for 2022 filed in 2023, and 10 for returns filed for 2023 in 2024

142



1099 Forms

Proposed changes for 1099 forms:

Proposal includes series VV-2 forms and all series 1099 forms and any other information returns.

Includes 1098-C for vehicle donations.

Corrected forms must be filed in the same manner as the original.

143



1099 Forms

Options for filing:

- General ledger software – review amounts carefully before filing
- 3rd Party Service like Track1099 or others
- Payroll service – check services offered especially if contractors are not paid through their service
- Outside bookkeeper or CPA

144

1099 Forms

Options for filing:

- IRS File Information Returns Electronically (FIRE) System – not for the average user and not practical for smaller entities

145

W-9 Form

W-9
Form (Rev. October 2015)
Department of the Treasury
Internal Revenue Service

Request for Taxpayer Identification Number and Certification

Go to www.irs.gov/FormW9 for instructions and the latest information.

Give Form to the requester. Do not send to the IRS.

1 Name (as shown on your income tax return). Name is required on this line; do not leave this line blank.
New Sample Church

2 Business name/disregarded entity name, if different from above

3 Check appropriate box for federal tax classification of the person whose name is entered on line 1. Check only **one** of the following seven boxes.

☐ Individual/sole proprietor or single-member LLC

☐ C Corporation

☐ S Corporation

☐ Partnership

☐ Trust/estate

☐ Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=Partnership) ▶

☒ Other (see instructions) ▶ **tax-exempt organization under 501(c)(3) - corporation**

Note: Check the appropriate box in the line above for the tax classification of the single-member owner. Do not check LLC if the LLC is classified as a single-member LLC that is disregarded from the owner unless the owner of the LLC is another LLC that is **not** disregarded from the owner for U.S. federal tax purposes. Otherwise, a single-member LLC that is disregarded from the owner should check the appropriate box for the tax classification of its owner.

4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3):
Exempt payee code (if any) **1**

Exemption from FATCA reporting code (if any) **1**

5 Address (number, street, and apt. or suite no.) See instructions.
123 Main St.

6 City, state, and ZIP code
Anytown, AZ 85000

7 List account number(s) here (optional)

Requester's name and address (optional)

Part I Taxpayer Identification Number (TIN)
Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the instructions for Part I, later. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN*, later.

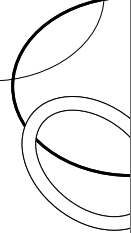
Social security number

8 8 - 1 2 3 4 5 6 7

Employer identification number

8 8 - 1 2 3 4 5 6 7

146



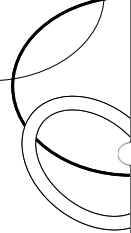
1099-K

Form is issued by payment processors to entities that use their services.

Lowers the limit for issuing this form from \$20,000 to \$600 for 2022 forms filed in 2023.

Churches and ministries will **RECEIVE** this form potentially.

147



2021 CHURCH AND MINISTRY SEMINAR

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Employee or Independent Contractor?

148



DOL – Misclassification of Employees

Is that worker an employee
or an independent
contractor???

149



Employee or contractor???

United States Department of Labor issued
Administrator's Interpretation No. 2015-1 on July 15, 2015.

- Relates to employees misclassified as contractors
- DOL believes that many employees are misclassified
- Has entered into agreements with the state and IRS for increased enforcement

150



Employee or contractor???

United States Department of Labor issued Administrator's Interpretation No. 2015-1 on July 15, 2015.

- Has been delayed
- And delayed
- And delayed

151

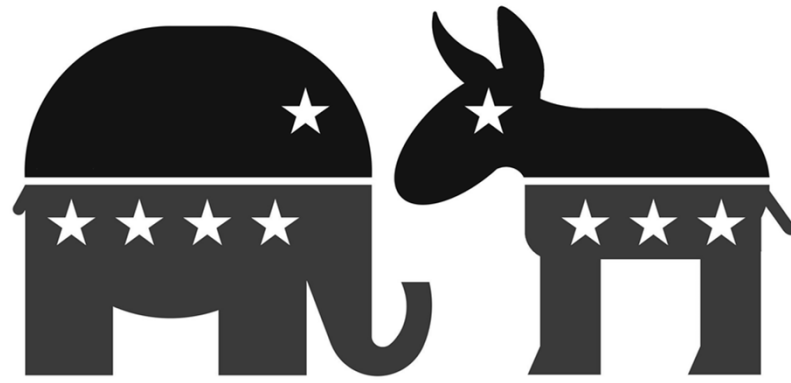


Employee or contractor???

On January 6, 2021, DOL announced a new “employer friendly” clarification of the employee-versus-independent-contractor standards under the Fair Labor Standards Act, which prioritized two core factors.

On May 6, 2021, DOL withdrew the rule, thereby using a balancing approach of the economic realities test and the totality of the circumstances.

152



153

Employee or contractor???

The DOL rules now revert to Fact Sheet 13 –
Employment Relationship Under the Fair Labor
Standards Act Revised in July 2008.

154



Employee or contractor???

Why does DOL/IRS/State care?

- Workers don't receive workplace protections like workers compensation, overtime, minimum wage
- Lower tax revenues for government
- Uneven playing field for those who comply
- Compliance issues – child support, immigration, tax filing

155



Employee or contractor???

Why does DOL/IRS/State care?

- Failure to provide health insurance or unemployment benefits creates a societal burden

156



Employee or Contractor???

Is the Work an Integral Part of the Employer's Business?

- Employees perform the primary work of the employer – receptionist vs. software designer
- Work is integral even if it is just one component of the business
- Doesn't matter where the work is performed

157



Employee or Contractor???

Is the Relationship between the Worker and the Employer Permanent or Indefinite?

- Positions that are permanent or indefinite suggest the worker is an employee
- A worker who is truly in business for himself will avoid permanent or indefinite positions
- If not permanent or indefinite, why? Seasonal, part-time or a business decision by a contractor?

158



Employee or Contractor???

How Does the Worker's Relative Investment Compare to the Employer's Investment?

- The worker should have significant investment in equipment, supplies, and tools relative to what the employer provides
- Worker is dependent on the employer if the employer has the higher investment

159



Employee or Contractor???

What is the Nature and Degree of the Employer's Control?

- The worker must control meaningful aspects of the work as is in an independent business
- Must be actual control, not theoretical
- Employers don't need to be looking over the worker's shoulder to have control
- Cannot base decision on control alone

160



Employee or Contractor???

Does the Worker's Managerial Skill Affect the Worker's Opportunity for Profit or Loss?

- Ability to work more hours or do more work has nothing to do with managerial skills
- Technical skills are not managerial skills
- Decisions to hire, purchase materials and equipment, advertise, rent space and manage time tables demonstrate managerial skills.

161



Employee or Contractor???

Does the Work Performed Require Special Skill and Initiative?

- A worker's business skills, judgment and initiative, not his technical skills, will aid in determining if he is economically dependent
- Must operate as an independent business separate and apart from employer and make all decisions relative to that business

162



Employee or Contractor???

To what extent is the worker in an independent business organization and how does it operate?

- Must operate as an independent business separate and apart from employer and make all decisions relative to that business

163



Employee or Contractor???

Factors that don't matter

- Where the work is performed
- Absence of a contract/employment agreement
- Holding a business or other license
- Time or mode of pay

164



Employee or Contractor???

Conclusion of U.S. Department of Labor
Administrator David Weil in Interpretation No.
2015-1:

“In sum, most workers are employees under the
FLSA’s broad definitions.”

165



Employee or Contractor???

IRS has established the Three-Factor Test to
determine whether a worker is an employee:

- Behavioral Control – whether the employer controls what is done and how it is done
- Financial Control – basis on which individual paid (hourly or project), eligibility for expense reimbursements, worker’s investment in tools

166



Employee or Contractor???

IRS has established the Three-Factor Test to determine whether a worker is an employee:

- Relationship Control – whether worker is provided benefits of any sort or is hired for indefinite duration

167



Employee or Contractor???

Likely to see “ABC” rules adopted at the Federal level. An independent contractor is

- Free from the control and direction of the hirer,
- Performs work that is outside the usual course of the hiring entity’s business, and
- Customarily engaged in an independently established trade, occupation or business of the same nature

168



Employee or Contractor???

Arizona courts rule that the “right to control” is the overriding factor.

Right to control \neq Actual control

169



Employee or Contractor???

Church and ministry workers to review:

Childcare workers

Substitute teachers/receptionists

Pastors

Custodians/janitors

Musicians/worship leaders

Event helpers

170



Employee or Contractor???

Childcare workers are most certainly under the control of the church due to risk management issues that should be considered in hiring childcare workers.

171



Employee or Contractor???

Common excuses that violate the law:

“Because it’s easier...”

“Because they are just temporary...”

“Because they are kids ...”

“Because the pastor, or finance committee wants it this way...”

172



Employee or Contractor???

Clergy who are employees under the control of a church or ministry must be issued a W-2 form for services, not a 1099 form.

Being self-employed for FICA purposes does not change the fact that clergy are employees reportable on a W-2 form.

173



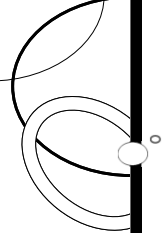
Employee or Contractor???

See DOL Fact Sheet #13 at:

<https://www.dol.gov/agencies/whd/fact-sheets/13-flsa-employment-relationship>

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174

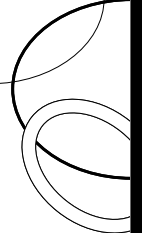


2021 CHURCH AND MINISTRY SEMINAR

Presented by
Monica J. Stern, CPA, PLLC

Form 8822-B

175

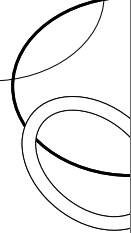


Form 8822-B

Any entity with an EIN must file form 8822-B beginning 01/01/2014 and any time there is a change in responsible party.

Responsible party is a person who has a level of control that enables the individual to control, manage or direct the entity.

176

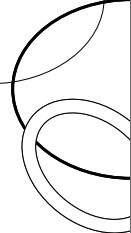


Form 8822-B

Must provide name and social security number for responsible party.

Generally will be the “principal officer”

177



Form 8822-B

If the responsible party changes, you must complete a new 8822-B and submit it within 60 days.

Can also use this form for a change of address.

178



Form 8822-B

Actions to take regarding form 8822-B:

- If you have never filed form 8822-B, do so now.
- File a new form when the entity has a new responsible party.
- Check your IRS correspondence – do the letters/forms list an old responsible party?