

Annual Church and Ministry Seminar
October 22, 2024
Agenda

- | | |
|---------------|--|
| 7:30 - 8:30 | Registration and vendor booths |
| 8:30 - 9:45 | Legal Update from The Church & Ministry Law Group at
Schmitt Schneck Even & Williams, P.C.
Robert Erven Brown, Esq.
Michael F. Edgell, Esq.
Jonathan A. Ruybalid, Esq. |
| 9:45 - 10:30 | Session by Kevin Norton, CPCU and Monica J. Stern, CPA |
| 10:30 - 10:40 | Break |
| 10:40 - 12:15 | Session by Julie Froke, EA, Monica J. Stern, CPA and
Barbara L. Starley, CPA |
| 12:15 - 12:30 | Open Questions and Answers |

Live Stream Information

Download 2024 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 Live Stream go to www.pvumc.org/watch No password is needed. You will view on the traditional service site.

To ask questions, send an email to info@mjsterncpa.com or use the live stream 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
2024 Annual Church and Ministry Seminar

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Special Thanks

Paradise Valley United Methodist Church
Pastor Jonathan Arnpriestor
Jen Ben, AV
Chris Lamont, streaming
Sam Henderson, coffee master

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tables

1



**Innovative Cyber
Attacks Against
Churches**

Kevin J Norton, CPCU

Lightwell Insurance Advisors

2



**We have a new name:
American Church
Group of Arizona is
now Lightwell
Insurance Advisors**



3



The issue:

Churches have been the subject of a variety of cyber attacks.



4



The threat actors have become very sophisticated in running schemes.



5



Hacked email results in credit card deposits going elsewhere.



6



A church employee received an email with a temporary password to get set up on their payroll system as an administrator



7



The email was hacked and the threat actor changed the bank account information on several employees.



8



A church employee receives an email from the “Pastor” asking monies be wired to a missionary in need.



9



A church is involved in a building project. The church receives an email from one of the contractors.....



10



The contractor lets the church know they have changed their banking relationship. The church gets official looking documents with new banking info.



11



The threat actors set up an LLC in another state with the same name as the local contractor.



12



They then open a bank account in that same state.



13



The church then receives a fraudulent invoice.



14



The church pays the invoice.



15



Risk Management.

Best Practices.



16



**Pick up the phone
before you pay an
invoice by ACH – verify
all ACH bills with a
phone conversation.**



17



Do not “click on links”.



18



**What contact
information is on your
website?**



19



**Have people visiting
the website complete
an online contact form.**



20



Insurance Can Help

- Cyber insurance.
- Theft by Coercion.
- Theft by Electronic Means.



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Training.
What does it include?



22



Security Awareness
Training



23



Phishing Simulations



24



Incident Response Training



25



Compliance and Regulatory Training



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Other:
Strong passwords &
password managers.
Multi-Factor
authentication (MFA)



27



**Safe Browsing
Practices.
Social Media
Awareness.**



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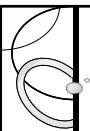


Thank you.

Kevin Norton
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480-861-0120



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Monica J. Stern, CPA, PLLC

Top 10 Mistakes in Church/Clergy Payroll

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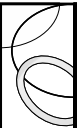


Top 10 Mistakes in Church/Clergy Payroll - Housing Allowance

Housing allowances must be approved by the board in advance of payment:

- Document in the minutes
- Can change mid-year but only going forward
- Show as a separate item in payroll
- Do not pay the Pastor's personal bills – provide an allowance.

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Top 10 Mistakes in Church/Clergy Payroll - Gifts

Gifts to employees, including clergy, are taxable with few exceptions:

- Includes gift cards
- Pastor appreciation, anniversary gifts are taxable
- Cash or non-cash gifts (cruises, spa etc.) are taxed the same
- MIGHT be an exception for retirement gifts in limited circumstances

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Top 10 Mistakes in Church/Clergy Payroll - Honorariums

Honorariums for employees, including clergy, are taxable and must be run through payroll, including:

- Weddings and funerals, unless directly from individual
- Includes gift cards issued by groups within the church
- Never appropriate to issue a 1099 to an employee unless the employee has another business


33



Top 10 Mistakes in Church/Clergy Payroll - Personal Retreats/Spiritual Growth
Time and expenses paid for personal retreats or spiritual growth are taxable:

- Non-taxable expenses must be for the benefit of the Church - not the employee.
- Conferences - allowable along with travel the day before and day after – any additional cost is taxable.


34



Top 10 Mistakes in Church/Clergy Payroll - Personal Retreats/Spiritual Growth
Time and expenses paid for personal retreats or spiritual growth are taxable:

- Spouse expenses - always taxable unless spouse attends as a bona fide volunteer or employee.


35



Top 10 Mistakes in Church/Clergy Payroll - Health Insurance/Medical Payments
A group plan is a non-taxable benefit.
Discrimination is allowed unless Church is a large employer (50 FTE).

Reimbursement of medical expenses, other than insurance, requires a plan that does not discriminate.

36




Top 10 Mistakes in Church/Clergy Payroll - Health Insurance/Medical Payments

Reimbursement of individual health insurance – unless only one employee, must have a compliant plan in place. Pitfalls include employees who have:

- Medical sharing plans
- Medicare
- Receive a subsidy under the ACA
- Receive insurance through a spouse's pre-tax deduction


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Top 10 Mistakes in Church/Clergy Payroll - Health Insurance/Medical Payments

For details on compliant plans:
<https://www.cms.gov/marketplace/private-health-insurance/health-reimbursement-arrangements>

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Top 10 Mistakes in Church/Clergy Payroll - Other Taxable Benefits

Since 2018, moving expense reimbursements or allowances are taxable and non-deductible by the employee.

Life insurance, where employer is not the beneficiary, is taxable.

- Exception – the first \$50,000 of employer-paid group term life insurance coverage

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Top 10 Mistakes in Church/Clergy Payroll - Other Taxable Benefits

Clothing is taxable – unless it would not be worn elsewhere – vestments (polo or T-shirt with logo – OK)

General rule – if not excluded under IRS code - taxable.

40




Top 10 Mistakes in Church/Clergy Payroll Auto Allowances/Personal Use of Auto

Auto allowances - taxable to the extent the employee does not account for business miles at or below the IRS allowable rate (2024 – 67 cents per mile).

Employer owned auto - the value of personal use, including commuting is taxable.

Church credit card used to put gas in a personal vehicle is taxable unless mileage is accounted for.

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Top 10 Mistakes in Church/Clergy Payroll - Educational Benefits

Employer reimbursement of job-related classes:

- Reimbursable to any employee on a tax-free basis
- Must look at each educational class and show benefit to the employer for the employee's CURRENT position

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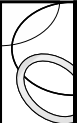


Top 10 Mistakes in Church/Clergy Payroll - Educational Benefits

Educational assistance plans:

- Cannot discriminate – must cover all employees
- Limited to \$5,250 per employee
- Does not need to be related to the job – can include certain student loan payments

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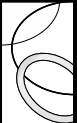


Top 10 Mistakes in Church/Clergy Payroll - 403(b)(9) Church Plans

Every church should have a 403(b)(9) plan:

- Employees can contribute pre-tax (or to a Roth)
- Church employers can discriminate on employer contributions
- Pastors can potentially exclude distributions as housing allowance in retirement
- No ERISA or other filing requirements

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Top 10 Mistakes in Church/Clergy Payroll - Social Security/Medicare Withholding

Clergy Payroll – never, ever has Social Security or Medicare withholding at the employer level:

- Filing of 4361 doesn't matter.
- "Opting out" doesn't matter.
- Nothing changes this statement.
- If employee is functioning as clergy, you must treat as clergy. It is not an employee's choice.


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Top 10 Mistakes in Church/Clergy Payroll

Payroll done incorrectly can result in BIG problems for the church, the board and the employees.

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Managing Accountable Reimbursement Plans

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Managing Accountable Reimbursement Plans

Accountable Reimbursement Plan Recap

- Accountable - Reimbursement of expenses is EXCLUDED from taxable income.
- Non-Accountable - Reimbursement of expenses is INCLUDED in taxable income.

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Managing Accountable Reimbursement Plans

Accountable Reimbursement Plan Recap

Plan Requirements

- Business Connection
- Timely Substantiation
- Return of Excess Amounts

49




Managing Accountable Reimbursement Plans

Accountable Reimbursement Plan Recap

Non-Accountable Plan Examples

- Monthly Stipends
- Not Collecting Receipts
- Quarterly or Annual Expense Reports

50




Managing Accountable Reimbursement Plans

Accountable Reimbursement Plan Recap

Written vs Non-Written

- IRS does not require a written plan
- We strongly recommend one!
- Sample plan is included in your handouts

51




Managing Accountable Reimbursement Plans

Managing the Plan!

- Requires a system
- Reimbursement vs credit/prepaid cards
- Credit cards are a privilege!

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Managing Accountable Reimbursement Plans

Managing the Plan!

System Ideas

- The Paper Plan
 - Reimbursement request form
 - Receipts
 - Periodic Expense reports

53




Managing Accountable Reimbursement Plans

Managing the Plan!

System Ideas

- The Paper Plan
 - Envelopes for cash advances
 - Expenses and details listed
 - Receipts and unspent cash returned

54




Managing Accountable Reimbursement Plans

Managing the Plan!

System Ideas

- The Paper Plan
 - Credit Card System
 - Download or enter all charges into accounting software
 - Tag charges with no receipts
 - Give reports to employees of missing receipts regularly
 - Have an employee responsible for receipts

55




Managing Accountable Reimbursement Plans

Managing the Plan!

System Ideas

- The Digital Plan
 - Various platforms and apps
 - Scan and upload receipts
 - Submit expense reports
 - Expensify

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Managing Accountable Reimbursement Plans

Managing the Plan!

System Ideas

- The Digital Plan
 - Mileage tracking apps
 - Remember – Don't reimburse for gas unless it is for an employer vehicle or rental car
 - IRS mileage reimbursement for 2024 is 67cents per mile

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Managing Accountable Reimbursement Plans

Managing the Plan!

System Ideas

- The Prepaid Card Plan
 - PEX
 - Physical or virtual cards
 - Set spending limits
 - Submit Receipts with mobile app

58




Managing Accountable Reimbursement Plans

Managing the Plan!

System Ideas

- Network with other ministry administrators
- Keep it simple
- Be consistent
- Follow up with employees regularly

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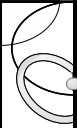


Managing Accountable Reimbursement Plans

The Bottom Line

- To qualify for tax-free status, reimbursements must meet IRS requirements
- Have a plan
- Use a system

60

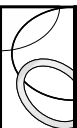


DOL LAW CHANGES

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DOL White Collar Wages – Where are we now?

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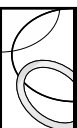


DOL LAW CHANGES

In 2019, the minimum salary for exempt employees, was increased from \$23,660 to \$35,568 per year effective 1/1/2020.

As of April 23, 2024 we have a new final rule.

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DOL LAW CHANGES

The new rule requires a minimum salary of \$43,888 per year effective July 1, 2024.
Effective January 1, 2025 the minimum salary rises to \$58,656.

Starting July 1, 2027 and every three years thereafter, there will be automatic increases on a prescribed methodology.

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DOL LAW CHANGES

The duties tests and non-salary based requirements do not change with this rule.

64



DOL LAW CHANGES

“This rule will restore the promise to workers that if you work more than 40 hours in a week, you should be paid more for that time.”

Acting DOL Secretary Julie Su

65



DOL LAW CHANGES

Court challenges are in progress:

- Each part of the law is severable from the other parts.
- If successful, parts of the law could change.
- Or not.
- Unlikely to affect January 1 change.

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DOL LAW CHANGES

DOL rules related to salary are part of the Fair Labor Standards Act (FLSA)

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DOL LAW CHANGES

Terms:

Exempt employees are those that are not subject to the FLSA standards requiring overtime.

Non-Exempt employees are those who are covered by the FLSA standards requiring overtime. Sometimes referred to as covered employees.

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DOL LAW CHANGES

Terms:

Salaried employees are those who are paid a fixed amount of pay each workweek.

Hourly employees are those who are paid for each hour they work in a workweek.

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DOL LAW CHANGES

Terms are not to be confused!

Exempt ≠ Salaried

Non-exempt ≠ Hourly

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DOL LAW CHANGES

Three requirements for an employee to be exempt* from FLSA overtime requirements:

- Work is executive, administrative, professional, outside sales or computer employee and,
- Employee is paid the minimum salary and,
- Salary is fixed and paid each week without deductions, except as allowed.

*Exempt = overtime pay is not required for working over 40 hours in a work week.

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DOL LAW CHANGES

Employees on a salary that is less than the minimum salary **CANNOT** be exempt, even if meeting the duties tests.

The minimum salary cannot be prorated for part-time employees.

Salary is all or nothing!

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DOL LAW CHANGES

Some employees are exempt from all of part of the FLSA:

- Clergy – courts, and a few DOL references indicate they are exempt from minimum wage and overtime.
- Teachers - exempt from minimum wage and overtime. Includes preschool teachers, but not day care or nursery workers.

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DOL LAW CHANGES

Some employees are exempt from minimum salary requirements under current standards

- Employees who do not work in interstate commerce where the employer is not a covered employer.

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DOL LAW CHANGES

Covered employers – more than \$500,000 in “annual sales made or business done”. Commerce does not include contribution income, but does include sales for a fee if done for a business purpose.

Covered employees – employees who engage in interstate commerce for covered or noncovered employers.

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DOL LAW CHANGES

Examples of interstate commerce:

- Interstate phone calls or faxes
- Shipping or mailing to another state
- Ordering goods online from another state
- Use of credit card processing
- Emails to individuals in another state

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DOL LAW CHANGES

Conclusion:

Most church and ministry employers will not be covered enterprises under the FLSA.

Most employees of churches and ministries will be covered employees under the FLSA, unless they qualify under the ministerial exception.

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DOL LAW CHANGES

Ministerial exception (exemption) under the FLSA:

Non-clergy staff who fall under the courts' definition of "ministers" may be exempt under the FLSA – see EEOC vs. Hosanna-Tabor

- The employee must have important religious duties as part of the job.
- No clear criteria – proceed with caution if dealing with non-clergy.

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DOL LAW CHANGES

See DOL Fact Sheet 17A related to exempt employees.

Remember, clergy and teachers in a school are not employees for this purpose, nor are individuals with "essential religious duties" (ministerial exception doctrine).

For a good analysis see this 1/8/2021 document:
https://www.dol.gov/sites/dolgov/files/WHD/legacy/files/2021_01_08_02_FLSA.pdf

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DOL LAW CHANGES

Key points – ministerial exception:

- Job title is not binding
- Job description is not binding
- Employees' actual duties are binding
- Duties must involve an important role in conveying the Church's message and carrying out its mission

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DOL LAW CHANGES

Implementation – ministerial exception:

There is no checklist to determine if the ministerial exception applies.

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DOL LAW CHANGES

Implementation – ministerial exception:

Consider revising job descriptions to list all the important religious functions the employee will actually do.

Establish the ministerial exception in offer letter or employment contract if you intend to rely on it.

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DOL LAW CHANGES

“The question must be answered on a case-by-case basis and requires considering all relevant circumstances surrounding each employee to determine whether each particular position implicates the fundamental purpose of the exception. Ultimately, ministerial status depends on the employee’s role in carrying out the employer’s mission and conveying the employer’s message.”

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DOL LAW CHANGES

Troublesome areas in Churches:

- Administrative employees
- Custodial staff
- Musicians
- AV/Tech staff
- Social media
- Day care and nursery workers

84

DOL LAW CHANGES

What to do now....

- Review all employees who may qualify under the ministerial exception.
- Review your current payroll to determine if which employees will need changes.
- Fix any noncompliance with the FLSA related to duties.
- Determine how to address employees who will no longer be exempt (or never should have been exempt!)

85

DOL LAW CHANGES

Options for employers of otherwise exempt employees:

- Increase salary to \$844/week, or
- Treat as non-exempt and pay hourly, with overtime as required.
- Adopt a legal, hybrid method allowed under FLSA.

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DOL LAW CHANGES

Non-exempt employees can be paid a salary if:

- Hours are tracked to ensure Federal/State minimum wage is paid (\$14.35/hour for AZ) and
- Overtime premium is paid for hours worked in excess of 40 in a workweek

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DOL LAW CHANGES

Other options:

- Prorated salary – must pay time and $\frac{1}{2}$ for hours over 40 in a workweek
- Fixed salary – must only pay $\frac{1}{2}$ time, unless minimum wage is not reached (“half-time” plan).
Hours worked must fluctuate above and below 40 in this plan.

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DOL LAW CHANGES

Prorated salary:

The employer is allowed to prorate the salary for any hours not worked. But it must pay time and $\frac{1}{2}$ for hours over 40 and establish a salary for 40 hours of work.

89

DOL LAW CHANGES

Prorated Salary:

Example 1. Suppose an employee typically receives a salary of \$600 per 40 hour workweek. One workweek, he works only 24 hours. The employer may prorate his salary and pay him \$ ($\$600 \div 40 \times 24 = \360) instead of \$600 for that workweek.

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DOL LAW CHANGES

Prorated Salary:

Example 2. Suppose an employee typically receives a salary of \$600 per workweek. She performs no work in a particular workweek. She is not entitled to any compensation for that workweek.

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DOL LAW CHANGES

Prorated Salary:

Example 3. Suppose an employee typically receives a salary of \$600 per 40 hour workweek. She works 50 hours in a particular workweek. She is entitled to time and ½ of \$225 for hours over 40 for total pay of \$825.
 $(\$600 \div 40 \times 1\frac{1}{2} \times 10 = \$225)$

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DOL LAW CHANGES

Fluctuating salary rules:

- Salary is intended to compensate for all hours worked whether few or many.
- Hours must fluctuate above and below 40.
- Cannot be used if employee must work specific, fixed hours each week.

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DOL LAW CHANGES

Fluctuating

Example 1. Suppose an employee receives a salary of \$600 per workweek. One workweek, he works only 24 hours. He is entitled to his entire \$600 salary for that workweek because the salary is intended to compensate him for the hours he works in a workweek, whether few or many or over or under 40.

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DOL LAW CHANGES

Fluctuating

Example 2. Suppose an employee receives a salary of \$800 per workweek. One workweek, he works 50 hours. He is entitled to his entire \$800 salary plus overtime compensation in the amount of \$80. ($\$800 \div 50 \times \frac{1}{2} \times 10 = \80), for a total of \$880 for that workweek.

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DOL LAW CHANGES

Fluctuating

Example 3. Suppose an employee receives a salary of \$800 per workweek. He performs no work in a particular workweek. He is not entitled to any compensation for that workweek.

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DOL LAW CHANGES

Fluctuating

Example 4. Suppose an employee receives a salary of \$600 per workweek. One workweek, he works 60 hours. His regular rate for that workweek is \$10.00 ($\$600 \div 60$). Because that amount is below the minimum wage, using a fluctuating half-time plan would not be permissible in this situation.

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DOL LAW CHANGES

Fluctuating

This example shows that before implementing a half-time plan, an employer needs to determine the maximum number of hours an employee will work in a workweek and make sure his salary is large enough that his regular rate will never fall below minimum wage.

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DOL LAW CHANGES

Salary arrangements for non-exempt employees must be in writing. The method of over-time pay for salaried, non-exempt employees must be stated clearly.

Time records must be prepared and monitored and overtime paid accordingly.

99

DOL LAW CHANGES

Time keeping:

- The FLSA does not require time clocks but does require accurate time reporting for non-exempt employees.
- It doesn't require stop and start times, but does require total hours and overtime hours.
- May use exception reporting for employees with regular, fixed hours.

100

DOL LAW CHANGES

Exception reporting:

- Can be risky for the employer if adequate records are not maintained.
- Should be signed by the employee, not a supervisor.
- Exceptions must include more or fewer hours worked than scheduled on a daily basis.
- Must have a report for every workweek.

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DOL LAW CHANGES

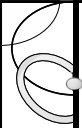
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TCN.Phoenix@gmail.com

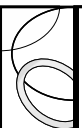
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Rental of Church Property

103

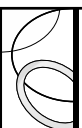


Rental of Church Property

Rental of church property has several tax concerns:

- Unrelated business income tax (UBIT)
- Property taxes
- Transaction Privilege Tax (Sales Tax)
- Loss of IRS exempt status

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Rental of Church Property

Unrelated Business Income Tax (UBIT)

Question #1 – is the property being rented debt-financed property that had acquisition indebtedness at any time during the year?

105

Rental of Church Property

For purposes of identifying debt-financed property, acquisition indebtedness is defined as the outstanding amount of an indebtedness incurred before, during, or after the acquisition or improvement of the property.

106

Rental of Church Property

Example:

Church property purchased for \$1,000,000 of which \$800,000 was debt to acquire the property.

Five years later, the loan balance of \$750,000 is acquisition indebtedness.

Property is debt-financed property.

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Rental of Church Property

Situations in which there is no UBIT:

- Property is not debt-financed property.
- Property is debt-financed property, but non-rental use by church is at least 85% of total usage including the rental usage.

Example: Church uses for 90 hours per week and tenant uses for 10 hours per week – no UBIT.

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Rental of Church Property

Calculating the 85% rule example:

Church is 5000 square feet. Tenant rents 1000 square feet 40 hours/week. Church is available for programs/rental 70 hours/week.

$$5000 \times 70 = 350,000 \quad 1000 \times 40 = 40,000$$

$$350,000 - 40,000 = 310,000 \text{ church usage}$$

$$310,000/350,000 = 88.57\% \text{ No UBIT}$$

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Rental of Church Property

If UBIT is owed, it is calculated as follows:

Rental income

Less: all expenses (including depreciation) for portion of property rented

Net rental income

Times ratio of acquisition indebtedness to cost of property less depreciation (both for portion rented)

Taxed at 21% federal 4.9% AZ = 25.9% total tax

110

Rental of Church Property

UBIT is reported on form 990T/AZ99T due 4.5 months after year end.

Tip – if AZ tax is more than \$5,000 the entity can make a tax-credit contribution to an STO and receive full credit.

111

Rental of Church Property

Property taxes:

Renting of property can cause property to be at least partially taxable.

No hard and fast rule for the counties in AZ, but small amounts of rent should not cause property to be taxable.

112

Rental of Church Property

Property taxes:

Rental to another church must be reported, but is exempt under ARS 42-11132.01

Rental to a nonprofit charter school must be reported but is exempt under ARS 42-11132


113

Rental of Church Property

Property taxes:

Other rentals that are significant (85/15 rule?) must be reported and will result in partial taxation of the property in a ratio of the leased space to the total space.


114



Rental of Church Property

Transaction Privilege Tax (TPT or sales tax):
 Rentals by churches fall under the commercial lease category.
 Rate is dependent on the city – Phoenix is 2.9%


115



Rental of Church Property

Transaction Privilege Tax (TPT or sales tax):
 Leases to other churches is exempt.
 Taxable income includes virtually all charges except for a reasonable allocation of utilities.
 Taxable income includes cleaning fees, common area fees, property tax reimbursements and improvements paid by the tenant.

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Rental of Church Property

General examples:

- Cell tower – generally, no UBIT, no effect on property tax, will be subject to TPT
- Rent to another church – no UBIT, must file for exemption for property tax, and no TPT
- Rent to a private preschool – may have UBIT, will have effect on property tax, subject to TPT
- Program rents, like AA, generally are exempt.

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Rental of Church Property

Loss of tax-exempt status:
Churches and other non-profits cannot have excessive Unrelated Business Activities.

- measured not just in dollars
- may be measured in efforts by staff and volunteers
- facts and circumstances tests will apply

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Rental of Church Property

For churches that conduct worship in leased facilities:

- Landlord and church can apply for a property tax exemption that is passed on to the church. (ARS 42-11132.01)
- No TPT (sales tax) on rents for religious worship. (ARS 42-5069(C)(10))

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**Common Missteps
Creating Messy Books**

Barbara L. Starley, CPA
Founder of the Good Steward Church Academy

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Choose from Correct List

Customer/Donor

Vendor

Employee

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Dates Matter!

Helpful Time Savers

🔍 SEARCH

🕒 "TURN BACK THE HANDS OF TIME"

Shortcuts:
T = Today
+ = Move Date Forward 1 Day
- = Move Date Back by 1 Day
M = 1st Day of Month
H = Last Day of Month
Y = 1st Day of Year
R = Last Day of Year

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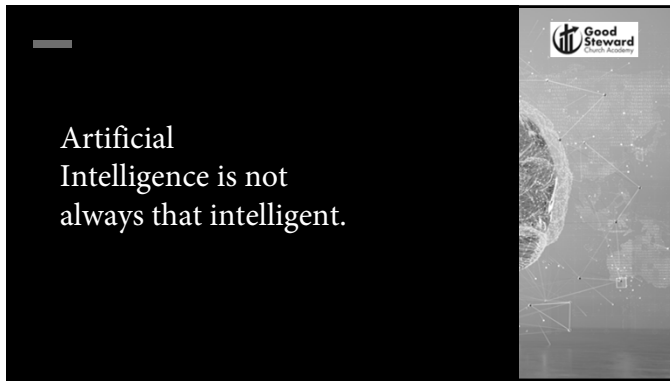
Typical Transaction Flow

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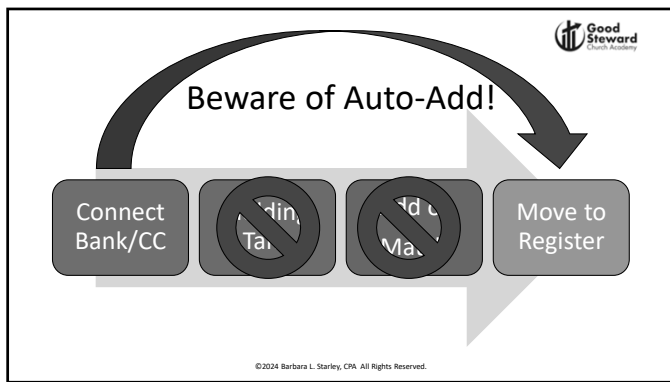
graph LR
    A[Connect Bank/CC] --> B[Holding Tank]
    B --> C[Add or Match]
    C --> D[Move to Register]
    
```

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Recurring Transactions often cause Duplicate Transactions

Common Issue:

Bank changes payment date due to weekend

My Preference:

Recall previous categorization

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Use Special Input Screens as Intended

Expense/Bill/Check

Transfers

Pay Down Credit Card

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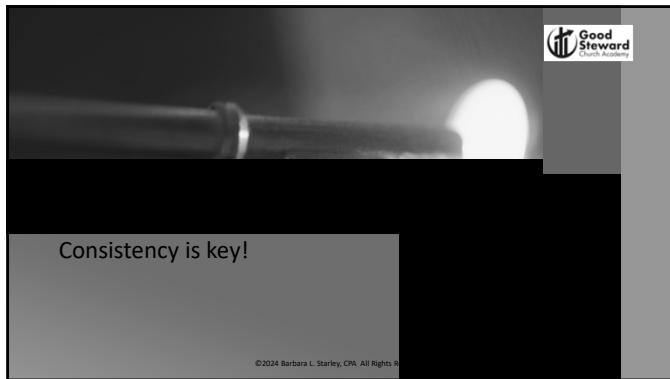
Heed the Warnings!

Use the Bank Reconciliation screen to reconcile your bank accounts.

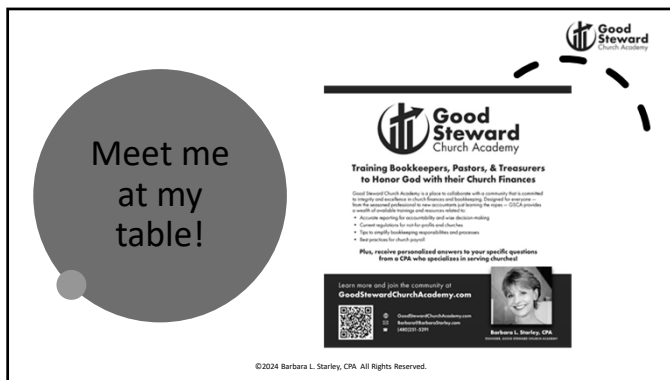
It's generally okay to change a category, IF you don't change the amount of a reconciled transaction.

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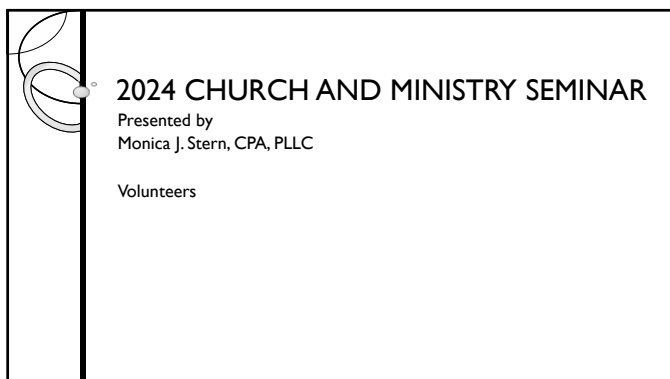
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Fringe Benefits for Volunteers

IRS Publication 5137 issued 10-2022 addresses Fringe Benefits for Volunteers.

Volunteers sometimes receive:

- Stipends
- Reimbursements
- Discounts
- Gifts or gift cards
- Other benefits

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Fringe Benefits for Volunteers

Bona fide volunteers

- Do not have a profit motive.
- The value of services provided to the charity is substantially greater than the benefit received by the volunteer.

134



Fringe Benefits for Volunteers

A volunteer is an employee under common law if the charity has the right to direct and control the volunteer's performance.

- Behavioral control
- Financial control
- Relationship of the parties

135

Fringe Benefits for Volunteers

If a volunteer is a common law employee, reporting rules are the same as for other employees:

- Stipends and other payments for services are wages reportable on W-2 form
- Reimbursements for expenses under an accountable plan are not taxable – including mileage at the higher employee rate

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Fringe Benefits for Volunteers

If a volunteer is an independent contractor:

- Stipends and other payments for services are reportable on 1099 form.
- Reimbursements for expenses under an accountable plan are not taxable – including mileage at the lower volunteer rate of 14 cents per mile.

137

Fringe Benefits for Volunteers

Gift cards are taxable as wages, if an employee, or as a payment subject to 1099 reporting, if an independent contractor.

138

Fringe Benefits for Volunteers

May need to review internship and volunteer agreements – a conflict may result when an intern or volunteer signs an agreement stating they are not an employee, but then gets a W-2 form.
Agreements should be clear.

DOL vs. IRS = Conflict
Workers Compensation Policy?

139

Volunteer Expenses

Out of pocket expenses incurred by volunteers that are not reimbursed:


- are deductible by the volunteer as charitable contributions.
- If the out of pocket expenses exceed \$250 or more in one day, the volunteer must have a receipt from the charity.

140

Volunteer Expenses

For volunteers who incur significant out of pocket expenses, you may want to prepare a letter acknowledging the activity.

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Volunteer Expenses

Sample letter:

Thank-you for your volunteer work as Community Concert Coordinator. This letter is to acknowledge that you have incurred out of pocket expenses in this activity, including gaff tape, batteries, food supplies, equipment and other supplies. No goods or services were received by you in exchange for your contributions.

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Volunteer Expenses

Do not post volunteer expenses to the volunteer's donor record.

Do not include any dollar amounts in letters issued to donors for out-of-pocket expenses.

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Volunteers and the DOL

Volunteers can receive a nominal fee or stipend up to 20% of the prevailing wage for the volunteer service.

Stipend should not be tied to productivity and should be a flat amount.

Gift cards are treated the same as cash!

144

Volunteers and the DOL

Discounts given to volunteers for their volunteer services are taxable. i.e. Tuition discount given to a parent that volunteers in the classroom.

Free housing provided to volunteers is likely taxable.

145

Volunteers and the DOL

Concern with DOL is:

Do you have a true volunteer or an undercompensated employee?

146

Volunteers and the DOL

Volunteers' work should be public service, religious or humanitarian and must not displace employees or perform work that would otherwise be performed by paid employees.

An employee cannot volunteer in the same position for which they are paid or volunteer for another unpaid task during their normal work hours.

147

Volunteers and the DOL

Volunteers cannot volunteer in commercial activities run by a Church, such as a gift shop, thrift store or coffee shop etc. as they would be covered by the FLSA as employees.

But FLSA only applies if the commercial activities compete with businesses and sales are more than \$500,000 or if individual employees engage in interstate commerce. (internet, phone, credit cards)

148

Volunteers and the DOL

Thrift store or coffee shop volunteers:

- Allowable – sorting donations, pricing or organizing, cleaning, repairs
- Not Allowable – selling, ordering merchandise if engaging in interstate commerce.

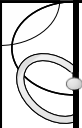
149

Volunteers and the DOL

Several demands to DOL have been made to clarify the rules related to volunteers:

- Don't all volunteers replace paid employees in some form?
- Update guidance related to gift shops, coffee shops and thrift stores – many rely solely on volunteers in apparent violation of DOL rules.

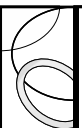
150



2024 CHURCH AND MINISTRY SEMINAR
 Presented by
 Monica J. Stern, CPA, PLLC

2024 Pastor's Discretionary Funds

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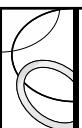


Pastor's Discretionary Funds

What is a discretionary fund?

- usually a budgeted line item, or
- a donor restricted fund
- used at Pastor's discretion without further approval, generally.

152



Pastor's Discretionary Funds

Contributions to the fund are tax-deductible if under the control of the Church.

The use of the fund is not taxable to the Pastor if used for church business.

Control requires a written policy and documentation.

153

Pastor's Discretionary Funds

Discretionary Funds must have a written policy:

- personal use is prohibited and monitored
- expenditures must benefit the mission of the church, not the pastor
- use of the fund must be documented under accountable plan rules
- should identify allowable/unallowable expenses and the maximum amount of a single transaction

154

Pastor's Discretionary Funds

Allowable expenses:

- many times funds are used only for benevolence
- may cover other expenses, but none benefiting the Pastor or his family
- should not be used if there is budget available in another area

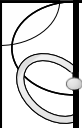
155

Pastor's Discretionary Funds

If no written policy limiting the use of the funds AND Pastor has sole control AND use of the funds are not documented, the funds are taxable to the Pastor.

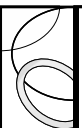
<https://www.gnjumc.org/content/uploads/2018/04/Sample-Pastors-Discretionary-Fund-Policy-for-xyz-Church-Final.pdf>

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2024 CHURCH AND MINISTRY SEMINAR
 Presented by
 Monica J. Stern, CPA, PLLC
 FinCen Reports

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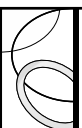


FinCen Reports

What is FinCen?

- Financial Crimes Enforcement Network
- A bureau of the US Department of the Treasury
- Created in 1990 to combat financial crime

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FinCen Reports

FinCen requires certain reports from certain entities - FBAR:

- FBAR – Foreign Bank Account Report for any foreign accounts that cumulatively had at least \$10,000 USD on any day in a year.
- Account signers on foreign accounts also have a filing requirement.

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FinCen Reports

FinCen requires certain reports from certain entities - FBAR:

- Investments held by a US Brokerage are not foreign investments subject to reporting.
- Penalties for not filing – up to 50% of the maximum value of the unreported accounts (maximum penalty \$100,000) per year

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FinCen Reports

FinCen requires certain reports from certain entities - FBAR:

- Churches and other non-profits are NOT exempt from FBAR reporting!

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FinCen Reports

Beginning in 2024, entities must file Beneficial Ownership Interest reports with FinCen:

- Generally applies to any entity registered with the Secretary of State or similar site (Arizona Corporation Commission in AZ)
- Includes corporations, partnerships and limited liability companies

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FinCen Reports

Churches, foundations, and other non-profits generally will be exempted from filing BOI reports under Exemption #19.

Entities controlled by an organization exempt under #19 generally will also be exempted from filing BOI reports under Exemption #22.


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FinCen Reports

For more information on filing requirements:
https://www.fincen.gov/sites/default/files/shared/BOI_Small_Compliance_Guide.v1.1-FINAL.pdf

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2024 CHURCH AND MINISTRY SEMINAR

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 Monica J. Stern, CPA, PLLC

Potpourri

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Potpourri of Issues

Employee retention credit applications:

- can still apply for 2021
- are slowly being processed
- if denied, can file an appeal

Use a professional that you know and trust to file any applications.

166

Potpourri of Issues

If you see something, say something:

- If involving fraud or misuse, contact a your supervisor or a board member.
- If something looks wrong on a financial statement, fix it. It will never get better on its own.

Noncompliance or misuse of Church assets needs to be corrected. This is God's money, not anyone else's.

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Potpourri of Issues

Know when to ask for help:

- Legal matters
- New or changes to existing tax law
- New programs – PPP, ERC, DES grants
- Employee benefits, including health/retirement plans an
- Bookkeeping issues
- Property tax issues

Do-it-yourself can cost your organization big dollars!

168




Potpourri of Issues

Remember to read your balance sheet too!

If the balance sheet is wrong, the profit and loss is likely wrong too.

169




Potpourri of Issues

Maricopa County property taxes:

- Please check to ensure you don't have a bill:
<https://treasurer.maricopa.gov/Parcel/ParcelSearch.aspx>
- Search by name for all parcels or by address or parcel number.
- Do it every year. Mistakes happen.

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Potpourri of Issues

Stay informed and come back next year!

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