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Basic Business Practices
in the Church

Session #6 – Taxes and Governmental
Reporting

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Taxes and Governmental Reporting

Helpful Websites:
www.irs.gov
www.tax.hawaii.gov
www.ecfa.org
www.churchlawandtax.com

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Taxes and Governmental Reporting

Good resources

The image shows two book covers. The left one is '2020 Church & Clergy TAX GUIDE' by Richard R. Hammar, published by Church Law & Tax. The right one is 'Minister's Tax & Financial Guide' by Dan Busby and Michael Martin, published by ECFA. Both are part of the Zondervan 2020 series.

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Taxes and Governmental Reporting

Good resources

The image shows two book covers. The left one is 'Church and Nonprofit Tax & Financial Guide' by Dan Busby and Michael Martin, published by ECFA. The right one is 'Church Reporting Made Easy' by Dan Busby and Michael Martin, published by ECFA. Both are part of the Zondervan 2020 series.

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What is Being Tax-Exempt Look Like for a Church?

The most important item to know about church's tax exemption comes from IRS Publication 1828,

"Churches that meet the requirements of Internal Revenue Code (IRC) section 501(c)(3) are automatically considered tax exempt and are not required to apply for obtain recognition of tax-exempt status from the IRS." Churches are also exempted from the annual filing of IRS "Form 990 - Return of Organization Exempt from Income Tax"

This is already automatic for the church!!!

Also, please note that being tax-exempt does not mean being exempt from all taxes!

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Taxes and Governmental Reporting

What are the levels associated with taxes and reporting?

1. Federal Taxes (Governmental)
2. State Taxes
3. Property Taxes
4. Sales Taxes
5. General Excise Taxes (GET)
6. Payroll Taxes (FIT, FICA, FUTA, EPLI, etc..)

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Taxes and Governmental Reporting

Federal Taxes

Each individual is responsible for paying individual income taxes, or partnerships, or items that are from a corporation.

A church being tax-exempt normally will not pay any corporation taxes being tax-exempt from federal income taxes.

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Taxes and Governmental Reporting

State Taxes

Each individual is responsible for paying individual income taxes, or partnerships, or items that are from a corporation to their respective state (unless that state does not have their own state income tax)

A church being tax-exempt normally will not pay any corporation taxes being tax-exempt from state income taxes but may be subject to other taxes.

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Taxes and Governmental Reporting

Property Taxes

A church is not exempt from property taxes if they are the owner of the land.

If a church is the owner of the land, they are subject to normal property taxes until they file the proper exemption with the real property assessment division.

The exemption application must be received by September 30th for the next year's property tax assessment.

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Taxes and Governmental Reporting

Sales Tax

Most every state has a sales tax that is charged to a purchase or sale of an item. In most states, a church can fill out a request to be exempt from paying the sales tax on a purchase.

However, in Hawaii.....

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Taxes and Governmental Reporting

General Excise Tax (GET)

The General Excise Tax (GET) is not a sales tax but a business use tax. This means every purchase that is done is subject to the General Excise Tax (GET) whether the organization is tax-exempt or not.

Key areas that Hawaii churches are subject to GET:

1. Any type of fundraising that is outside the normal ways that a church receives its donations
2. Any rental of facilities to other organizations.

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Taxes and Governmental Reporting

General Excise Tax (GET)

Guidance can be found on the www.tax.hawaii.gov website.

State of Hawaii Tax Facts 98-3 – Tax Information for Nonprofit Organizations

State of Hawaii Tax Fact 37-1 – General Excise Tax (GET)

State Tax Information Release No. 2011-04 – General Excise Tax Reporting Requirements for Nonprofit Organizations

State of Hawaii Tax Facts 2019-2 – General Excise Tax Information for Churches and Ministers

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Taxes and Governmental Reporting

Employer Taxes

There are many areas that churches are required to report and obey the law.

Please note – Churches are employers too and must follow all labor and tax laws!!

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Taxes and Governmental Reporting

Areas of Reporting

1. Classification of Workers – must understand what is classified as an employee and what is considered an independent contractor.

2. Payroll Tax Withholding – must understand the different types of payroll taxes (FIT, FICA, state withholding, etc...)

3. Timely Deposit of Withheld Payroll Taxes – must follow the employment tax withholding time requirements and fill out proper IRS and state forms reporting the withholding of payroll taxes. This would include the IRS 941 and HW-14 (for those in Hawaii)

4. Proper employee documentation including the W-4 (Employee's Withholding Certificate) and I-9 (for documentation allowing to work in the US)

5. Filing Annual Payroll Tax Forms – including proper documentation of taxable and non-taxable wages along with other payroll related items (include section 425 plans, retirement plans, deferred compensation, and housing (or parsonage) allowance)

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Taxes and Governmental Reporting

Areas of Reporting

6. Timely filing of transmittal of payroll information.

- a. W-2 – Employee compensation due by January 31st.
- b. 1099-NEC (new for 2020) – replaces 1099-Misc block 7 in reporting non employee compensation (independent contractors). Independent contractors given 600 or more should be given a 1099-NEC. This is due by January 31st.
- c. 1099-MISC. All other items that are due must be filed by February 28th.
- d. These forms along with their transmittal sheets must be completed by the respective due dates.

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Taxes and Governmental Reporting

Summary of Payment Reporting Requirements

Below is an alphabetical list of items reported on the forms necessary to report them. It is not a complete list of payments, and the choice of a particular form for the item is subject to the reporting requirements.

Item/Description	Form/Code	Item/Description	Form/Code
Advance interest income credit	W-2	Employee business expense reimbursement	W-2
Advances, periodic payments	1099-MISC	Gift for services	W-2
Advances, periodic	1099-MISC	Employee	1099-MISC
Advances, periodic (not of church member)	W-2	Nonemployee	1099-MISC
Advances, periodic (not of church member)	W-2	Group-term life insurance	W-2
Advances, periodic (not of church member)	W-2	Interest payments	1099-DIV
Advances, periodic (not of church member)	W-2	Interest, other than mortgage	1099-DIV
Advances, periodic (not of church member)	1099-MISC	Long-term care benefits	1099-LTC
Advances, periodic (not of church member)	1099-MISC	Medical expense reimbursement plan (except health)	1099-LTC or 1099-R
Advances, periodic (not of church member)	1099-MISC	Mileage (unreimbursed miles)	W-2
Advances, periodic (not of church member)	1099-MISC	Employee	1099-MISC
Advances, periodic (not of church member)	1099-MISC	Nonemployee	1099-MISC
Advances, periodic (not of church member)	1099-MISC	Moving expenses	W-2
Advances, periodic (not of church member)	1099-MISC	Employee	1099-MISC
Advances, periodic (not of church member)	1099-MISC	Nonemployee	1099-MISC
Advances, periodic (not of church member)	1099-MISC	Plan	W-2
Advances, periodic (not of church member)	1099-MISC	Employee	1099-MISC
Advances, periodic (not of church member)	1099-MISC	Nonemployee	1099-MISC
Advances, periodic (not of church member)	1099-MISC	Rates	1099-MISC
Advances, periodic (not of church member)	1099-MISC	Residence	1099-MISC
Advances, periodic (not of church member)	1099-MISC	Residence pay	W-2
Advances, periodic (not of church member)	1099-MISC	Self-pay	W-2
Advances, periodic (not of church member)	1099-MISC	Supplemental unemployment	W-2
Advances, periodic (not of church member)	1099-MISC	Unlisted allowances	W-2
Advances, periodic (not of church member)	1099-MISC	Unemployment	1099-MISC
Advances, periodic (not of church member)	1099-MISC	Wages	W-2

* The complete form reporting payments (with no exceptions) does not apply to payments to a partner or a bar due for high-value, non-cash gifts provided for legal services transactions.
† On the other side may be required as separate payment to the employee.

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Charitable Giving Reporting

IRS Publication 1828 gives guidance in how to report charitable giving:

The church must determine if the "gift" is determined to be tax deductible or not tax deductible

General rule – if nothing is given in return and the "gift" is for the sole discretion of the church, the "gift" may be tax deductible.

The tax deductibility is not based upon the individual being tax exempt but the church being the tax exempt organization.

There are common types of gifts that are given to the church:

1. Gifts without giver restrictions
2. Giver-restricted gifts
3. Personal gifts

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Charitable Giving Reporting

Not tax deductible:

1. Contributions of services to a church
2. Use of property
3. Strings attached
4. Directed to a specific individual in which the church is the collector of the gifts
5. In relationship to receive a goods or service that is equal to the gift (i.e.,-school or preschool tuition), payment of a book, etc...

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Charitable Giving Reporting

Acknowledgement of gift:

1. Name of giver
2. If cash, the amount of cash contributed
3. If property, value of property
4. A statement explaining whether the ministry provided any goods or services to the giver in exchange for the contribution
5. The date the donation was made
6. The date the acknowledgement was made (Usually by January 31st)
7. The \$250 rule of substantiation

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