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Basic Business Practices in the Church Session #6 – Taxes and Governmental Reporting

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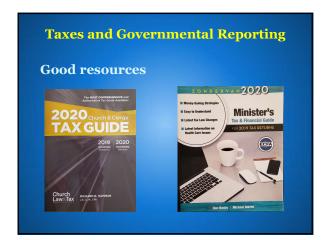
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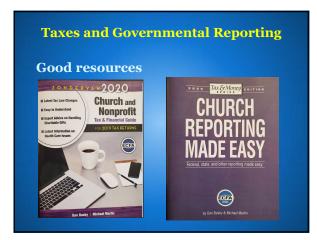
Taxes and Governmental Reporting

Helpful Websites:

www.irs.gov www.tax.hawaii.gov www.ecfa.org

www.churchlawandtax.com





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 (IRI) section 50 are automatically considered tax exem are not required to apply for ablam recognition of tax-exempt status from to Churches are also exempted from the afling of IRS "Form 990 - Ketuen uf Organization Exempt from Income Tax	i(c)(3) ot and he IRS." mual
This is already automatic for the churc Also, please note that being tax-exempt not mean being exempt from all taxes!	

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 taxexempt 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.

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:

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

Genera	l Excise Tax (GET)
	ce can be found on the x.hawaii.gov website.
State of	f Hawaii Tax Facts 98-3 – Tax Information
for Nor	aprofit Organizations
State of	f Hawaii Tax Fact 35-1 ~ General Exclse
Tax (GI	5T)
Genera	ax Information Release No. 2011 04 – I Excise Tax Reporting Requirements for fit Organizations
State of	f Hawaii Tax Facts 2019-2 – General
Excise'	Fax Information for Churches and
Ministe	ers

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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 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 94 and ITW-14 (for those in Hawaii) 4. Proper employee documentation including the W-4 (Employee's Withholding Certificate) and 1-9 (for documentation allowing to work in the US) 5. Filing Annual Payroll Tax Forms – including proper documentation of fasable and non-taxable wages along with other payroll related thems (foodude section 185 plans, refirement plans, deferred compensation, and housing (or parsonage) allowance

Taxes and Governmental Reporting Areas of Reporting 6. Timely filing of transmittal of payroll information. a. W-2 - Employee compensation due by January 31". b. 1099-NEC(new for 2020) - replaces 1099-Mise 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 31". c. 1099-MISC. All other items that are due must be filed by February 28". d. These forms along with their transmittal sheets must be completed by the respective due dates.

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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

Charitable Giving Reporting

Not tax deductible:

- Contributions of services to a church

- Use of property
 Strings attached
 Directed to a specific
 individual in which the
 church is the collector of the
- 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:

- Name of giver If cash, the amount of cash contributed
- If property, value of property
 A statement explaining whether
 the ministry provided any goods
 or services to the giver in
 exchange for the contribution
- The date the donation was made The date the acknowledgement was made (Usually by January 31st)
- The \$250 rule of substantion