

Church Treasurer Alert!

A monthly review of accounting, financial, and tax developments affecting churches and clergy

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Year-End Checklist for Church Treasurers

1. Housing allowance. The board or congregation should designate a year 2003 housing allowance for ministers who own or rent their home (and for ministers who live in a parsonage and who pay some of their housing expenses). A sample housing allowance resolution is reprinted in this newsletter.

2. W-4 forms. All employees should complete new W-4 forms to ensure accurate withholding.

3. Notice to donors. Donors should be advised in the church bulletin or newsletter, or in a letter from the church, not to file their federal income tax return before they receive their contributions receipt from the church. Donors may not be able to deduct individual contributions of \$250 or more if they file a tax return before receiving their church contributions receipt.

4. Christmas gifts. Be sure to handle correctly Christmas gifts made by the church or congregation to a minister or lay staff member. In most cases these transfers represent taxable income and not a tax-free gift, and must

be reported as income on the recipient's W-2 or 1099.

5. Handling end of year contributions. The general rule is that a contribution is effective when delivered. This means that a check deposited in the church offering in January of 2003 cannot be deducted in 2002, even if it is backdated to 2002. One exception—checks that are mailed *and postmarked* in 2002 are deductible in 2002 even though not received until 2003.

6. Business expenses. If your church reimburses some or all of a minister's business expenses, reimburse year-end business expenses now.

7. Reclassification of workers. Now is the time to decide if you want to reclassify any of your workers for tax reporting purposes. If you have a minister or lay worker who is treated as self-employed for federal income tax reporting purposes, and you would like to reclassify the person as an employee, the ideal time to make the change is on January 1 of the new year.

8. Voluntary withholding. Ministers' wages are exempt from tax withholding. This means they use the

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Contribution guidelines

Properly Reporting Year-End Contributions

In many churches December is the month in which the most contributions are received. This is easily explained—many donors make large contributions in December to fulfill pledges or other commitments made during the year. But, with the hectic holiday season, many of these donors end the year without honoring their financial commitments to their church. In some cases, they attempt to do so by depositing a check in the offering during the first worship service in January which they “backdate” to the prior year.

Example. Bob made a personal commitment to give \$5,000 to his church in 2002. By the end of the year, he had given only \$4,000. While attending church on Sunday, January 5, 2003, Bob writes a check for \$1,000 that he “back-dates” to December 31, 2002. The church treasurer is not sure if the check should be included on Bob’s 2002 or 2003 contribution summary.

Should the treasurer in this example treat Bob’s \$1,000 check as a 2002 contribution? Many churches advise the congregation during worship services on the first Sunday in January that checks contributed on that day *can* be credited to the previous year if they are backdated to December 31st of that year. Is this correct? Or, should Bob’s check be treated as a year 2003 contribution? Can the church or donor assign the contribution to either year? Every church treasurer should be able to answer these questions. Doing so is easy, if you remember the following two rules.

▲ Rule #1: the general rule. The income tax regulations specify that

“ordinarily, a contribution is made at the time delivery is effected. The unconditional delivery or mailing of a check which subsequently clears in due course will constitute an effective contribution on the date of delivery or mailing.” According to this language, a check (payable to a church) dated December 31, 2002 but physically delivered in January of 2003 is deductible only on the donor’s 2003 federal tax return. This is so even though a donor backdates a check to read “December 31, 2002” during church services in January of 2003. It is even true if the donor actually wrote and dated the check on December 31, 2002 if he or she did not deliver the check until 2003.

▲ Rule #2: the exception. The only exception to the general rule is a check that is dated and mailed (and postmarked) in 2002. Such a check is deemed to have been given in 2002 even if the church does not receive or cash the check until January 2003.

These two rules are summarized in the *Contribution Guidelines* table.

▲ Keeping donors informed. To avoid jeopardizing the tax deductibility of charitable contributions, churches should advise donors at the end of 2002 not to file their 2002 income tax returns until they have received a written acknowledgement of their contributions from the church. This communication should be in writing. To illustrate, the following statement could be placed in the church bulletin or newsletter during the last few weeks of 2002, or included in a letter to all donors:

Contribution Guidelines

type of contribution	report for 2002	report for 2003
checks written in December 2002 and deposited in church offering in January 2003		X
checks written and deposited in church offering in January 2003 but “backdated” to December 2002		X
checks written and deposited in church offering in December 2002 but “postdated” to January 2003		X
checks written in December 2002 and deposited in the mail and postmarked in December 2002, but not received by the church until January 2003	X	
checks written in December 2002 and deposited in the mail in December 2002 but not postmarked until January 2003, and not received by the church until January 2003		X

Important Notice: To ensure the deductibility of your church contributions, please do not file your 2002 income tax return until you have received a written acknowledgment of your contributions from the church. Some of your contributions may not be tax-deductible if you file your tax return before receiving a written acknowledgment of your contributions from the church.

Year-End Checklist continued from page 1

quarterly estimated tax procedure to prepay their federal taxes. Ministers who report their income taxes as employees can enter into a *voluntary withholding arrangement* with their employing church. Under such an arrangement, the employing church withholds income taxes as it would for any other employee, and also can withhold an additional amount of income taxes to cover the minister’s self-employment tax liability. The

ideal time to start voluntary withholding is January 1st.

9. Order IRS tax forms. December is a good time to order your year 2003 copy of IRS Circular E (withholding tables), and copies of Forms W-2, W-3, 1099, and 1096 that you will be issuing for compensation paid in 2002. Other forms to reorder include W-4, W-9, and 8283. To order forms simply call the IRS toll-free telephone number—1-800-TAX-FORM (1-800-829-3676), or visit the IRS website (www.irs.gov).

10. Order tax publications and renew subscriptions. If you have not done so already, now is a good time to order the year 2003 edition of Richard Hammar’s *Church and Clergy Tax Guide* (print or CD) so you will have this resource for all of 2003. Richard Hammar also produces audio tax tapes for churches and ministers every December, as well as a review of tax changes for church treasurers, and you may wish to order these resources if you have not done so already. Call 1-800-222-1840 between 8 AM and 4:30 PM eastern time