Ministers Payroll
Health Insurance for Church Staff
Preventing Fraud in a Digital World

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Director of Operations
Metropolitan Community Churches

Florida Network Gathering
March 9–11, 2017
Ministers and Tax
Five questions determine a minister for tax purposes:
1. Is the individual ordained, licensed, or commissioned?
2. Do they administer ordinances? (baptism, communion, etc.)
3. Do they conduct religious worship?
4. Do they have management responsibilities in the church?
5. Does the church consider the individual a religious leader?

A minister for tax purposes has to be:
- Ordained, licensed, or commissioned,
- AND answer yes to a majority of the other four questions.
Ministers and Tax

- Employee or Self-Employed?
  - Under federal tax law, most ministers have dual tax status.
  - Dual tax status means ministers are treated as employees of the church for federal income tax purposes, but as self-employed individuals for Social Security tax purposes.

<table>
<thead>
<tr>
<th>Federal Income Taxes</th>
<th>Social Security Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax status = employee</td>
<td>Tax status = self-employed</td>
</tr>
<tr>
<td>Voluntary withholding only</td>
<td>No withholding</td>
</tr>
<tr>
<td>IRS Form 1040</td>
<td>IRS Form 1040 Schedule SE</td>
</tr>
</tbody>
</table>
Ministers and Tax

- Social Security taxes
  - Self-employed status.
  - Churches should not withhold FICA taxes from the minister’s wages nor should it pay the employer portion of the FICA tax for the minister.
  - Unless the minister has opted out of the SS/Medicare program completely (Form 4361), he/she pays into the program through SECA using Form 1040-ES.
  - Voluntary withholdings from a minister’s wages are not permitted for SECA, but a minister is permitted to withhold sufficient federal income taxes to cover the SECA liability.
Ministers and Tax

- How to make it right if FICA withheld
  - Consult with a local attorney or tax consultant for advice on how far back to go.
  - Correct quarterly Form 941s and issue a corrected Form W−2 to pastor.
  - Pastor needs to file amended Form 1040s.

If a church withholds FICA taxes from pastor’s pay and:
- The church is audited, and the IRS concludes that the church was treating the pastor as an employee.
- As a result, the pastor:
  - Loses dual tax status.
  - Loses housing allowance eligibility.
Ministers and Tax

Housing Allowance: The Church’s Responsibility

- Work with the pastor to designate a reasonable housing allowance each year.
- Record the housing allowance in the official meeting minutes.
- Include the housing allowance designation as an agenda item for the coming year.
- Include “safety net” language:
  - Example: Housing allowance applies for current year and all future years, unless otherwise provided.
Ministers and Tax

Housing Allowance: The Church’s Responsibility

- Make the housing allowance designation in advance—retroactive designations are not valid.
- Housing allowance can be designated during the current year if you failed to do so prior to the start of the year—only applies prospectively.
- Be proactive, not reactive.
- Don’t deprive your pastor of this important tax benefit.
Health Insurance
The Affordable Care Act changed all the rules for churches who want to provide health insurance for pastor(s) and staff.

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<th>Compensation</th>
<th>Contract Amount</th>
<th>Federal Tax Status</th>
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<td>Salary</td>
<td>$20,000</td>
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Before the ACA
The ACA introduced new rules for providing health insurance as part of a compensation package.

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Health Insurance

So what can churches do or not do?

Churches May Not:
• Exclude health insurance amount from Federal Income Taxes (IRS Rule)
• Require an employee to provide proof that they have purchased an individual policy.

Churches Are Allowed to:
• List health insurance separately in a contract as long as Federal Income Taxes are applied to the insurance amount
• Eliminate health insurance as a separate line item and roll the amount into the salary.
• Buy an employer-sponsored health insurance option from the marketplace and offer it to all eligible employees.
Health Insurance

What will happen with all the talk about repealing and/or replacing the Affordable Care Act?
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What will happen with all the talk about repealing and/or replacing the Affordable Care Act?
Protecting Your Church from Fraud in a Digital World
The Way We Were

- 2 signatures on checks
- 2 people count the offering
- Split up duties so different people make deposits and write checks
- Make sure the checkbook balances
The Digital World Changes All the Rules
2 MCC churches have had significant fraud incidents in the past 18 months
It Can Happen to You

- 2 MCC churches have had significant fraud incidents in the past 18 months

Total amount stolen
over $100,000
How Did it Happen?

- Payroll manipulation
  - Too much of the process delegated to the Church Administrator

- Fraudulent credit card charges, withdrawals from designated funds
  - The Treasurer (Board Member) withdrew funds from the church’s savings account, which housed the designated funds and used the church’s credit card for personal expenses
Where Should We Start?

- **Prevention**
  - Focus on establishing ways to handle money digitally that will reduce risk of fraud happening in the first place

- **Detection**
  - Focus on analysis and monitoring of reports and statements to look for anomalies to detect fraud after it happens
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<tr>
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<th>Practices</th>
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<tbody>
<tr>
<td>Prevention</td>
<td>How we say we will operate to keep fraud from happening</td>
<td>How we actually operate</td>
</tr>
<tr>
<td>Detection</td>
<td>How we say we will operate to monitor finances and look for fraud</td>
<td>How we actually operate to monitor finances</td>
</tr>
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What are Examples of Policies?

Can you think of examples of a policy that would reduce the risk of electronic fraud?

- Prevention policies?
- Detection policies?
# Fraud Prevention and Detection

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<th>Practices</th>
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<tr>
<td><strong>Prevention</strong></td>
<td>SOP’s for cash handling, check writing, payroll authorization, credit card, online banking, expense reimbursement</td>
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<tr>
<td><strong>Detection</strong></td>
<td>SOP’s for bank statement review, check requests, bank signature authority is changed</td>
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## Payroll Fraud Example

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<th>Prevention</th>
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|            | A−       | • Didn’t follow their policies  
|            |          | • Too much of the process concentrated in one person’s hands |

<table>
<thead>
<tr>
<th>Detection</th>
<th>Policies</th>
<th>Practices</th>
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| F         | (no policies about detection) | • Church Admin was also the bookkeeper, recorded financial transactions and ran reports for the Board  
|           |          | • No one from the Board examined payroll authorization reports or bank statements to monitor activity |
## Credit Card Fraud Example

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</tr>
<tr>
<td>Detection</td>
<td>C</td>
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- **Policies:**
  - Prevention: A–
  - Detection: C

- **Practices:**
  - Too much of the process concentrated in one person’s hands (Treasurer)
  - Got lucky when the Treasurer was away and the Pastor was in the office the day the credit card bill arrived. Pastor opened the bill and questioned some of the charges
Key Takeaways

- New policies and procedures are needed to protect our churches from online fraud
- Review practices and modify as needed to follow new policies and procedures
- Focus on both prevention and detection
- Avoid the trap of believing that because someone is a member of the church they will never fall into temptation
Questions?
Thank You
Ministers and Tax

![W-2 Wage and Tax Statement 2016 Image](image-url)