A NEW YEAR, A NEW LOOK

Check out new Church Finance Today features, including:
- A “What’s New” section on Page 1 highlighting key trends and news;
- Additional articles, news briefs, infographics, and tips affecting your job;
- Fresh, reader-friendly design; and,
- All of the insights from Richard Hammar, our staff, and our Editorial Advisors that you trust.

WHAT’S NEW

Will the Housing Allowance Survive?

The Seventh Circuit Court of Appeals in November reversed a federal district court’s 2013 ruling that the clergy housing allowance was an unconstitutional preference for religion, saying the plaintiffs lacked the standing necessary to bring the challenge in the first place. The decision means clergy housing allowances remain safe nationwide, but as Richard Hammar points out, the appeals court also spelled out how a future challenge might succeed.

Church Property Tax

A New York court ruled that two closed churches remained exempt from property taxes even though regular worship services no longer were conducted, since the properties were occasionally and exclusively used for religious purposes.

The Court’s ruling has potential significance to church property tax exemptions, since it suggests that church property may be entitled to exemption based on exclusive use. St. William’s Church of Troy, N.Y. v. Dimitriadis, 981 N.Y.S.2d 837 (N.Y.A.D. 2014).

HEALTH INSURANCE UPDATES FOR 2015!

President Obama signed the Affordable Care Act into law in March 2010 following a contentious partisan battle. Comprehending the full meaning of this Act continues to take time, as federal agencies and the courts provide clarification. This issue is primarily focused on a series of articles created by Richard Hammar to provide an overview of the provisions that have the greatest relevance to churches and church staff, and affect tax reporting for 2014, 2015, and beyond.

2014 HEALTH INSURANCE WAS REQUIRED

No insurance last year? It’s time to pay up.

One of the Affordable Care Act’s most important and divisive provisions is a requirement that, beginning in 2014, “applicable individuals” are required to maintain “minimum essential” health care coverage or pay a penalty.

Failure to maintain minimum essential health care coverage will result in a penalty (“shared responsibility payment”) of the greater of $95 or 1 percent of income in 2014, $325 or 2 percent of income in 2015, and $695 or 2.5 percent of income in 2016, up to a cap of the national average “bronze plan” premium. Families will pay half the amount for children, up to a cap of $2,250 for the entire family. After 2016, dollar amounts will increase by the annual cost of living adjustment.

The penalty applies to any period an individual doesn’t maintain “minimum essential coverage.” This is determined monthly, assessed through the tax code, and accounted for as an additional amount of federal tax owed. However, use by the IRS of liens and seizures of property otherwise authorized by the tax code for the collection of taxes does not apply to the collection of this penalty.

KEY POINT. Make a shared responsibility payment if, for any month in 2014, you, your spouse (if filing jointly), or your dependents did not have coverage and don’t qualify for a coverage exemption. See the instructions for line 61 (Form 1040) and Form 8965 for more information.

INDIVIDUALS WITHOUT INSURANCE COULD END UP PAYING...

The greater of $ or % of your income

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>% of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$95</td>
<td>1%</td>
</tr>
<tr>
<td>2015</td>
<td>$325</td>
<td>2%</td>
</tr>
<tr>
<td>2016</td>
<td>$625</td>
<td>2.5%</td>
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*Families will pay half for children, up to a cap of $2,250 for the entire family.

CONSUMER INSURANCE PROTECTIONS

Note these important benefits.

- The Act implements reforms that prohibit insurance companies from refusing to sell coverage or renew policies because of an individual’s pre-existing conditions. Also, in the individual and small group market, the law eliminates the ability for insurance companies to charge higher rates due to gender or health status.

- The Act prohibits new plans and existing group plans from imposing annual dollar limits on individual coverage.

- Insurers will be prohibited from dropping or limiting coverage because an individual chooses to participate in a clinical trial. This applies to all clinical trials that treat life-threatening diseases.

IN THE NEXT ISSUE:

- ACA Demands Large Employers File a 6056 Return
- The Pros and Cons of Ministers Using Tax Preparation Software

[ Senior Editor Richard R. Hammar, JD., LL.M., CPA. Published by Christianity Today. ]
THE POSTPONED “PLAY OR PAY”

Starting in 2015, some large employers will have to pay penalties for not providing health insurance to employees.

The Affordable Care Act doesn’t require employers to provide health insurance for their employees. Instead, it places the responsibility to obtain coverage on individuals and makes them subject to a penalty for noncompliance. However, an “applicable large employer” that does not offer coverage for all of its full-time employees, offers minimum essential coverage that is unaffordable, or offers minimum essential coverage that consists of a plan under which the plan’s share of the total allowed cost of benefits is less than 60 percent, is required to pay a penalty if any full-time employee is certified to the employer as having purchased health insurance through a state exchange with respect to which a tax credit or cost-sharing reduction is allowed or paid to the employee.

The penalty is an excise tax that is imposed for each employee who receives a premium tax credit or cost-sharing reduction for health insurance purchased through a state exchange. For each full-time employee receiving a premium tax credit or cost-sharing subsidy through a state exchange for any month, the employer is required to pay an amount equal to one-twelfth of $3,000. The penalty for each employer for any month is capped at an amount equal to the number of full-time employees during the month (regardless of how many employees are receiving a premium tax credit or cost-sharing reduction) in excess of 30 (80 for 2015 only) multiplied by one-twelfth of $2,000.

For calendar years after 2014, the $3,000 and $2,000 dollar amounts are adjusted for inflation.

The U.S. Department of Health and Human Services (HHS) issued 227 pages of regulations in 2014 that provide the following changes and clarifications, “to ensure a gradual phase in and assist the employers to whom the policy does apply.” HHS regulations provide, for 2015, that:

1. The employer responsibility provision will generally apply to larger employers with 100 or more full-time employees starting in 2015 and employers with 50-99 full-time employees starting in 2016.
2. To avoid a payment for failing to offer health coverage, employers need to offer coverage to 70 percent of their full-time employees in 2015 and 95 percent in 2016 and beyond, helping employers that, for example, may offer coverage to employees with 35 or more hours, but don’t yet offer it to employees who work 30 to 34 hours.
3. While the employer responsibility provisions will generally apply starting in 2015, they won’t apply until 2016 to employers with at least 50 but fewer than 100 full-time employees, if the employer provides an appropriate certification described in the regulations.
4. The regulations provide safe harbors that make it easy for employers to determine whether the coverage they offer is affordable to employees. These safe harbors permit employers to use the wages they pay, their employees’ hourly rates, or the federal poverty level in determining whether employer coverage is affordable under the Affordable Care Act.
5. In addition to the various forms of transition relief noted earlier, a package of limited transition rules that applied to 2014 under HHS regulations is extended to 2015, including the following:

- Employers can determine whether they had at least 100 full-time or full-time equivalent employees in the previous year by reference to a period of at least six consecutive months, instead of a full year. This will help facilitate compliance for employers that are subject to the employer shared responsibility provision for the first time.
- Employers with plan years that don’t start on January 1 will be able to begin compliance with employer responsibility at the start of their plan years in 2015 rather than on January 1, 2015, and the conditions for this relief are expanded to include more plan sponsors.
- The policy that employers offer coverage to their full-time employees’ dependents won’t apply in 2015 to employers that are taking steps to arrange for such coverage to begin in 2016.
- On a one-time basis, in 2014 preparing for 2015, plans may use a measurement period of six months even with respect to a stability period (the time during which an employee with variable hours must be offered coverage) of up to 12 months.

Q: How do I know if I qualify as a “large employer” for Affordable Care Act purposes?

A: The ACA defines an “applicable large employer” with respect to any calendar year as an employer that employed an average of at least 50 full-time employees during the preceding calendar year. In counting the number of employees for purposes of determining whether an employer is an applicable large employer, a full-time employee (meaning, for any month, an employee working an average of at least 30 hours or more each week) is counted as one employee. All other employees are counted on a pro-rated basis. For example, 40 full-time employees employed 30 or more hours per week on average plus 20 employees employed 15 hours per week on average are equivalent to 50 full-time employees. This is based on the regulations prescribed by the Secretary of Health and Human Services.

To submit a question for consideration in a future Q&A, e-mail CFEditor@ChristianityToday.com.
AFFORDABLE CARE ACT BENEFITS

Improving quality and lowering costs.

- Tax credits to make it easier for the middle class to afford insurance will become available for people with income between 100 percent and 400 percent of the poverty line who aren’t eligible for other affordable coverage. In 2014, 400 percent of the poverty line is $46,080 for an individual or $95,400 for a family of four. The tax credit is “advanceable,” so it can lower premium payments each month, rather than waiting until tax time. It's also refundable, so even moderate-income families can receive the full benefit of the credit. These individuals may also qualify for reduced cost-sharing.

- Starting in 2014, if your employer doesn’t offer insurance, you will be able to buy it directly from the Health Insurance Marketplace.

INCREASED ACCESS TO CARE

The Medicaid expansion.

One of the key provisions of the Affordable Care Act is its "Medicaid expansion." The Medicaid program offers federal funding to states in order to assist pregnant women, children, needy families, the blind, the elderly, and the disabled in obtaining medical care. The Act expands the scope of the Medicaid program and increases the number of individuals the states must cover. For example, the Act requires state programs to provide Medicaid coverage by 2014 to adults with incomes up to 138 percent of the federal poverty level, though many states now cover adults with children only if their income is considerably lower, and don’t cover childless adults at all. The Act increases federal funding to cover the states’ costs in expanding Medicaid coverage. If a state doesn’t comply with the Act's new coverage requirements, it might lose not only the federal funding for those requirements, but all of its federal Medicaid funds.

In 2012, the United States Supreme Court ruled the Affordable Care Act couldn’t require states to implement the Medicaid expansion, which had made it optional. Thus far, 27 states have chosen to implement the Medicaid expansion. Americans who earn less than 138 percent of the poverty level (for 2014, approximately $15,856 for an individual and $32,499 for a family of four) will be eligible to enroll in Medicaid in states that have implemented the "Medicaid expansion." States will receive 100 percent federal funding for the first three years to support this expanded coverage, phasing to 90 percent federal funding in subsequent years.

SMALL BUSINESS HEALTH INSURANCE CREDITS

Churches with fewer than 25 full-time equivalent employees may benefit from providing health insurance.

Many small businesses and tax-exempt organizations, including churches, that provide health insurance coverage to their employees qualify for a special tax credit authorized by the Affordable Care Act. The credit is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have. In general, the credit is available to small employers that pay at least half the cost of single coverage for their employees.

For tax years 2014 or later, there are changes to the credit:

- The maximum credit increases from 35 percent to 50 percent of premiums paid for small business employers and from 25 percent to 35 percent of premiums paid for small tax-exempt employers.
- To be eligible for the credit, a small employer must pay premiums on behalf of employees enrolled in a qualified health plan offered through a Small Business Health Options Program (SHOP) Marketplace or qualify for an exception to this requirement.
- The credit is available to eligible employers for two consecutive taxable years.

The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ low- and moderate-income workers. It's generally available to employers who have fewer than 25 full-time equivalent (FTE) employees paying wages averaging less than $50,800 per employee per year. Because the eligibility formula is based in part on the number of FTEs, not the number of employees, many employers will qualify even if they employ more than 25 individual workers.

The maximum credit goes to smaller employers (those with 10 or fewer FTEs) paying annual average wages of $25,400 or less.

**KEY POINT.** The $25,400 and $50,800 amounts are adjusted annually for inflation, and represent the 2014 amounts. They increase to $25,800 and $51,600 for 2015.

**KEY POINT.** The law does not exclude religious organizations from this credit. It states that the term "tax-exempt eligible small employer" means "an eligible small employer which is any organization described in section 501(c) which is exempt from taxation under section 501(a)."

**Example.** If you pay $50,000 a year toward employees’ health care premiums, and if you qualify for a 15 percent credit, you save $7,500. If you saved $7,500 a year from tax year 2010 through 2013, that’s total savings of $30,000. If, in 2014, you qualified for a slightly larger credit, say 20 percent, your savings go from $7,500 a year to $10,000 a year.

The credit is refundable, so churches and other tax-exempt organizations that pay no income taxes may be eligible to receive the credit as a refund so long as it does not exceed their income tax withholding and Medicare tax liability.

Use IRS Form 8941 to calculate the credit. If you are a tax-exempt organization, include the amount on line 44 of the Form 990-T. You must file the Form 990-T in order to claim the credit, even if you don’t ordinarily do so.
Tax Calendar

Important Tax Deadlines in February 2015

In addition to the withholding requirements, church leaders should note the following deadlines.

By February 2
- Churches must issue a 2014 W-2 form to each employee. This requirement applies to all lay employees, and to ministers who report their federal income taxes as employees rather than as self-employed even though they are not subject to federal tax withholding.
- Churches must issue a 2014 1099-MISC form to any self-employed person to whom the church paid nonemployee compensation of $600 or more in 2014. Exceptions apply.
- Churches must issue a 2014 1099-INT form to any person to whom it paid $600 or more in interest during 2014 (a $10 rule may apply).
- Churches having nonminister employees (or ministers who report their federal income taxes as employees and have elected voluntary withholding) must file an employer’s quarterly federal tax return (Form 941) for the fourth quarter of 2014. Enclose a check in the total amount of withheld taxes if less than $2,500 on December 31, 2014.
- Ministers who use the estimated tax procedure for prepaying their federal taxes are not required to make the fourth quarter tax payment for 2014 by January 15, 2015 if they file their 2014 federal income tax return (Form 1040) and pay the rest of the taxes they owe.

By February 10
- Churches having nonminister employees (or one or more ministers who report their federal income taxes as employees and who have elected voluntary withholding) may file their employer’s quarterly federal tax return (Form 941) by this date instead of February 2 if all taxes for the fourth calendar quarter of 2014 have been deposited in full and on time.

KEEP MEMBERS’ CONTRIBUTION STATEMENTS SAFE

Precautions for keeping confidential financial information about donors safe.

1. Keep confidential information in a locked, fireproof file, and give the keys to a designated person, such as the treasurer or senior pastor, depending on the nature of the records involved.

2. Confidential information should not be disclosed to persons without a legitimate need to know. For example, if the board dismisses a staff member due to a confession of misconduct, the pastor and board must recognize that public disclosure of this information can result in legal liability.

3. Confidential information is often stored as files on church computers, and steps must be taken to restrict access to this data by unauthorized persons.

Modified from Richard Hammar’s ChurchLawAndTax.com article, “Keeping Secrets.”

SURVEY SAYS: GIVING STRONG FOR TWO-THIRDS OF CHURCHES

In a September 2014 survey of 1,000 Protestant churches nationwide, Lifeway Research learned that two-thirds were meeting or exceeding their 2014 budgets.

Matching 46%
Below 32%
Exceeding 22%

Compared to the same year-ago period, 74 percent also said giving was at or above 2013 levels, while 21 percent said their giving was down.

Lifeway Research, LifewayResearch.com

BUILDING TIP: FLOOR MATS

When considering building maintenance and upkeep, there are a number of little details that cost little or nothing, but can be cost savers down the road. This winter, use metal mats at all your church doors to protect your church’s carpeting. According to Albert R. Luper at Worship Concepts, “Recessed, corrugated walk-off mats are not very expensive. Every pound of dirt caught in them costs $6 to remove, but $600 to remove if it gets into the carpet.”

“Build for Efficiency,” an article on ChurchLawAndTax.com.

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