WHAT'S NEW

Mileage Rates Set for 2015
The IRS recently announced the standard mileage rates for 2015. Effective January 1, 2015, the standard mileage rate is 57.5 cents per mile for business miles driven (up from 56 cents in 2014). The rate for miles driven by volunteers in service of a charitable organization remains 14 cents per mile. Speaking of gas prices, Kiplinger Letter says oil is projected to cost 10 percent to 15 percent less in 2015, which may keep gas prices down and the costs for fueling up church-owned vehicles lower.

Constitutional Exemption from Unemployment Benefits
A Texas court recently ruled that the exemption of services for a part-time employee of a church from the unemployment compensation system did not violate the First Amendment's prohibition of the establishment of religion. A church fired its pianist, who then filed a lawsuit arguing that the exemption of church employment in establishing a claim of unemployment benefits violated the First Amendment's guarantees of the nonestablishment and free exercise of religion. The court disagreed. Its conclusion will be a useful precedent for future challenges in other states. Spicer v Texas Workforce Commission, 430 S.W.3d 526 (Tex. App. 2014).

Tax Provisions Extended
In late 2014, Congress extended several tax provisions, which now are available in reporting taxes for 2014, including: (1) the $250 above-the-line tax deduction for teachers for school expenses, and (2) the deduction of distributions to charity of up to $100,000 from IRA accounts by persons age 70½ or older. Order the 2015 Church & Clergy Tax Guide (ChurchLawAndTaxStore.com) to read about these changes and more.

THE PROS AND CONS OF TAX PREP SOFTWARE FOR CLERGY

The minister’s guide to the benefits and pitfalls of electronic tax tools.
By Michele M. Wades

Tax preparation software packages, such as TurboTax and CompleteTax, are popular ways for individuals to prepare their own income tax returns. However, these software packages are not designed to address all of the specific tax rules unique to ministers. Ministers who use a tax software should be familiar with these unique rules, and should seek the advice of tax professionals with experience in preparing ministers’ tax returns to ensure that their returns are prepared accurately.

Software benefits
Most of the leading income tax software products are offered in boxed, downloadable, or online versions, making them easily accessible. They are also relatively inexpensive, generally in the $30 to $60 range for the federal version, with an additional cost to prepare a state income tax return (some versions are even free to lower income individuals).

These packages also offer the ability to electronically file the federal (and sometimes the state) income tax return, which greatly speeds up the refund process. A top-notch package will also include additional features (sometimes for an additional price), such as:
- The ability to import tax data from other sources (e.g., from investment accounts or from Quicken/QuickBooks);
- An interview interface to guide users;
- Error-checking;
- A deduction finder;
- Easy access to IRS publications;
- Tax planning assistance;
- Audit defense (in case an error by the software results in an IRS audit); and,
- Financial or retirement planning assistance.

Rules unique to ministers
While the benefits noted above can make the use of tax preparation software packages an attractive to ministers who prepare their own returns, these packages are often limited in their ability to address some of the unique tax rules applicable to ministers. Three rules,

IN THE NEXT ISSUE:
- “Maximize the Budget You Have”
- “Bookkeeping Basics: When Is It Time to Start Over?”

THE GROWTH OF ELECTRONIC TAX FILING (estimated in mil)

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tr>
<td></td>
<td>142.5</td>
<td>146.6</td>
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<td>0 50 100 150 200 250</td>
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Source: TaxPolicyCenter.org

outlined below, are only applicable to duly ordained, licensed, or commissioned ministers who are paid for services performed in the exercise of their ministry.

1. Social Security and Medicare Taxes. Under federal tax law, ministers employed by a church have a dual tax status. They are considered employees for federal income tax purposes, but are considered self-employed for federal employment tax purposes. Therefore, a minister will generally receive a Form W-2 from his employing church for wages earned, but those wages are not subject to Social Security or Medicare (also known as FICA) taxes. Instead, ministers must pay the full amount due into the Social Security and Medicare systems through the payment of self-employment (also known as SECA) taxes, computed on Schedule SE of their income tax returns.

Ministers who are conscientiously or religiously opposed to the acceptance of any public insurance (such as Social Security or Medicare) with respect to their ministerial earnings may elect out of the Social Security/Medicare system by filing Form 4361.
with the IRS within the first two years they have earnings from ministerial work. Ministers who make this election would enter "Exempt-Form 4361" on the dotted line next to Form 1040, line 57 (self-employment tax). Ministers who use tax preparation software should check to make sure that the software accepts their Form W-2, since a properly prepared Form W-2 will not show their wages as subject to Social Security or Medicare taxes. The minister should also make sure that their wages are properly treated by the software package as self-employment income, for purposes of computing the self-employment tax, if applicable to the minister. For ministers who elect out of the Social Security system, check to make sure that the tax software package makes the notational entry on line 57 of the Form 1040.

2. Parsonage or Housing Allowance Exclusion. Ministers may exclude from their income the annual fair rental value of a parsonage provided rent-free by their church as part of their compensation package. Ministers may also exclude from their income cash payments that have been properly designated by their employing church as a ministerial housing allowance, up to the lesser of: (1) the amount used to pay for housing-related expenses (such as mortgage payments or rent, utilities, repairs, furnishings, insurance, property taxes, improvements, maintenance, and homeowners' association dues), or (2) the fair rental value of the home, which includes furnishings and utilities. The parsonage/housing allowance is deductible for income tax purposes only. For ministers who have not opted out of the Social Security system, their parsonage/housing allowance generally must be included to determine their self-employment tax. Ministers who use tax preparation software should therefore check to make sure the package properly limits the housing allowance exclusion based on the limitations noted above, and that the package properly includes the parsonage/housing allowance amount in the calculation of self-employment income.

3. Limitations on Business Expense Deductions. Many ministers may incur expenses in connection with their church employment that are not reimbursed by the church. They may also incur expenses, such as travel expenses, in connection with ministerial income earned outside of their employment (such as honorarium payments received for speaking engagements, weddings, or funerals). Unreimbursed employee business expenses (which are reportable on Form 2106 and Schedule A) and other business expenses (reportable on Schedule C) incurred in connection with ministerial earnings are not deductible for federal income tax purposes to the extent that they are allocable to the tax-exempt parsonage or housing allowances. In order to compute the nondeductible portion, a minister should first determine his total ministerial income, including the parsonage/housing allowance. He should then divide the parsonage/housing allowance by the total ministerial income to determine the nontaxable percentage. This percentage should then be applied to any business expenses incurred to determine the nondeductible portion. Only the deductible portion should then be reported on Form 2106/Schedule A or Schedule C. Many of the tax software packages do not automatically calculate the nondeductible portion of business expenses allocable to the tax-free portion of a minister's income. Ministers will therefore need to manually adjust these expenses and input the reduced figure into the software to compute the income tax deduction. However, since the parsonage/housing allowance is included in the computation of the amount subject to the self-employment tax, the full amount of the business expenses should be used to compute the net earnings from self-employment reportable on Schedule SE.

Exercise caution

Tax preparation software packages offer many benefits and conveniences. Ministers who use an income tax software package should carefully check their returns to ensure that the situations outlined above are addressed correctly.

Michèle Wales, CPA, is a shareholder in the firm of Batts Morrison Wales & Lee, an Orlando-based accounting firm dedicated exclusively to serving nonprofit organizations.

Q: Are there specific things that churches should avoid during the mortgage application process?

A: Don't hire a broker or a consultant to go to the bank with your loan application. Banks put money out over an extended period of time, and they want to assess, during the application process, the business acumen within the church staff. The relationship, going forward for many years, is not going to be with some consultant the church hired for the purpose of getting the loan. They want to interact with the resident business skill set from within the congregation.

Banks have to have tough conversations with churches who are sending them financial statements that show their accounts are down to zero, there's no cash reserve, their attendance may be good but giving has declined. If they find out that the person they're talking to at the church doesn't have a basic understanding of a set of financial statements and can't talk their way through them, they get concerned.

That's when they have a real problem as a lender. Consequently, the lender's posture may shift to a different tone. The banker is reporting to the risk manager about how the church plans to manage through the financial downturns. The risk manager is reviewing the conversation notes and can see the disconnect between the comments from the church and what the numbers on the statements show. At that point, there is diminished optimism on the lender's part as it appears the lender is dealing with people who cannot talk the same language about what the circumstances are and how they will be addressed.

It's really important that the church understands that the bank is looking to enter into a relationship with it, and relationships have to happen between people. There has to be a certain amount of compatibility in the content of the conversation. It's not just about numbers—it's about leadership and how this organization is managed.

Dan Mikes, Bank of the West, "Business Acumen Matters to Church Lenders," ManagingYourChurch.com

To submit a question for consideration in a future Q&A, e-mail CFTeditor@ChristianityToday.com.
FILING THE 6056 RETURN

A new large employer reporting requirement begins for the ACA in 2015.

By Richard R. Hammur

The Affordable Care Act added section 6056 to the Internal Revenue Code, which requires "applicable large employers" that are subject to the employer shared responsibility provisions ("play or pay") to file annual information returns (the "6056 return") with the IRS and provide statements to their full-time employees about the health insurance coverage the employers offer.

An applicable large employer is an employer that employed an average of at least 50 full-time employees on business days during the preceding calendar year. A full-time employee generally includes any employee who was employed on average at least 30 hours per week and any full-time equivalents (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).

**KEY POINT.** There is no exemption for religious or other nonprofit employers from the reporting requirements.

An applicable large employer may be a single entity or may consist of a group of related entities (such as parent and subsidiary or other affiliated entities). In either case, these reporting requirements apply to each separate entity.

The IRS will use the information provided on the information return to administer the employer shared responsibility provisions of the Act and determine whether an employee is eligible for the premium tax credit under section 36B of the tax code.

Large employers that sponsor self-insured group health plans also are required to report information about the health coverage they provide.

The information reporting requirements under section 6056 are first effective for coverage offered in 2015. A large employer must file information returns with the IRS and furnish statements to employees beginning in 2016; these returns and statements will report information about the employer’s offers of health coverage to its full-time employees for calendar year 2015.

IRS Notice 2013-45 provides transition relief for 2014 from the section 6056 reporting requirements and the section 6055 reporting requirements for health coverage providers and, thus, the employer shared responsibility provisions as well. Accordingly, neither the reporting requirements nor the employer shared responsibility provisions apply for 2014. However, in preparation for the application of the employer shared responsibility provisions beginning in 2015, employers and other affected entities may comply voluntarily for 2014 with the information reporting provisions and are encouraged to maintain or expand coverage in 2014.

An applicable large employer is an employer that employed an average of at least 50 full-time employees on business days during the preceding calendar year.

In implementing new information reporting requirements, short-term relief from reporting penalties is frequently provided. This relief generally allows additional time to develop appropriate procedures for collection of data and compliance with the new reporting requirements. Accordingly, the IRS won’t impose penalties on large employers that can show that they have made good faith efforts to comply with the information reporting requirements.

**KEY POINT.** An employer can hire a third-party administrator or other third-party service provider to file the return with the IRS and furnish the statements to employees required under section 6056.

Large employers must file Form 1095-C for each employee and a transmittal form (Form 1094-C) with the IRS on or before February 28 (March 31 if filed electronically) of the year immediately following the calendar year for which the coverage information is reported. Because transition relief applies for section 6056 reporting for 2014 (see above) the first section 6056 returns required to be filed are for the 2015 calendar year and must be filed no later than March 1, 2016 (February 28, 2016, being a Sunday), or March 31, 2016, if filed electronically. Regulations under section 6056 address extensions of time to file information returns.

Large employers must furnish the statement to each full-time employee on or before January 31 of the year immediately following the calendar year to which the information relates. This means that the first section 6056 employee statements (the statements for 2015) must be furnished to employees no later than February 1, 2016 (January 31, 2016, being a Sunday).

The regulations require electronic filing with the IRS of section 6056 information returns except for employers filing fewer than 250 section 6056 returns (employee statements) during the calendar year. The regulations permit, but don’t require, employers to furnish electronically the section 6056 employee statements to full-time employees. However, an employer must obtain consent from the employee before the section 6056 employee statement may be furnished electronically.

The penalty under section 6721 may apply to an applicable large employer that fails to file timely information returns, fails to include all the required information, or includes incorrect information on the returns. The penalty under section 6722 may apply to an applicable large employer that fails to furnish timely the statement, fails to include all the required information, or includes incorrect information on the statement. The waiver of penalty and special rules under section 6724 and the applicable regulations, including abatement of information return penalty for reasonable cause, may apply to certain failures under section 6721 or 6722.
Tax Calendar

Important Tax Deadlines in March 2015

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

March 2

- Churches must submit to the Social Security Administration "Copy A" of each W-2 form issued to employees for 2014 along with a W-3 transmittal form on or before this date.
- Churches must submit to the IRS "Copy A" of each 1099-MISC form issued to self-employed persons for 2014 along with a 1096 transmittal form on or before this date.
- Churches must file Form 1098-C (Copy A) with the IRS by this date to report the sale or use of a donated vehicle.

Source: Economist.com

SOCIAL SECURITY STATEMENTS TO RESUME MAILING

Make sure you and your fellow church employees know what's arriving in the mail.

The Social Security agency will resume the periodic mailing of Social Security statements, which highlight one's complete earnings history and gives future benefit estimates. The statements will allow church employees to verify if the earnings amounts listed are accurate, as well as ensuring they're correctly classified.

The average mailing for most people will be once every five years. Beginning last September, workers ages 25, 30, 35, 40, 45, 50, 55, and 60 who are not receiving Social Security benefits and are not registered with an online Social Security account will receive their statement in the mail three months before their birthday.

Encourage church employees to create a secure "my Social Security" account online for immediate access to statements by registering at socialsecurity.gov/myaccount.

BENEVOLENCE BENCHMARKS

The Department of Health and Human Services provides guidance.

One way to determine whether a person or family is sufficiently needy to qualify for benevolence assistance is to see if they fall below the poverty guidelines published each year by the U.S. Department of Health and Human Services (HHS). For example, the 2014 guidelines define poverty for a family of four as income of less than $23,850 (this amount is higher in Alaska and Hawaii). This can act as an objective benchmark as your church determines who needs assistance the most.

RELIGIOUS HOUSEHOLDS TAKE ON LESS DEBT BUT STILL SPEND

A survey of religious households with a strong commitment to their faith are more likely to avoid debt, large mortgages, or fancy appliances. They were also more likely to spend money on religious activities. While these are all prudent financial decisions, these households are also likely to spend their money on life insurance and jewelry.

Source: Mashable.com

DON'T SPEND A LOT ON CLOUD STORAGE

Affordable file storage on the cloud is one of the greatest challenges for computer users these days, as many services can tack on hefty prices for space upgrades. However, you can use Google Play's music storage service for free, get an additional 3 GB of storage on Dropbox if you use Carousel, selectively sync your files, and earn additional space through referrals.

KEEP BUILDING COSTS DOWN

Lowering the need for roof maintenance.

A key way to minimize roof maintenance and repair costs is to minimize the number of roof penetrations for things such as ventilation pipes. Each penetration is another opportunity for leaks. Also, avoid placing air conditioning units on the roof. Not only do the additional penetrations create leak opportunities, but the need to constantly service the units increases roof traffic. Walking on the roof wears away its protective layers and shortens roof life. Put these units behind a screen within the building, in a structure at the back of the building, or on the edge of a parking lot.

Source: Christian Today

Modified from the ChurchLawAndTax.com article, "Build for Efficiency."

Church Finance Today

VITAL ACCOUNTING, FINANCE, AND TAX DEVELOPMENTS FOR CHURCH TREASURERS.

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