WHAT'S NEW

ACA Fines Delayed—But Still Coming
The May 2014 issue of Church Finance Today reported the $100 per day per employee penalty churches would face as a result of the Affordable Care Act if they continue to pay or reimburse employee health insurance costs. The Internal Revenue Service recently delayed enforcement of these penalties to July 1, 2015, for employers with fewer than 50 full-time equivalents. Large employers (50 or more FTEs) can seek penalty relief using IRS Form 8928. The IRS also informally confirmed that if an employer with less than 50 employees treated its payment or reimbursement of an employee’s private health insurance in 2014 as a taxable benefit (in order to avoid the penalty), it can amend the employee’s 2014 Form W-2 and treat the reimbursements as pretax, according to attorney Danny Miller, an Editorial Advisor for Church Finance Today.

Looking ahead, churches are not exempt from these penalties, so compliance with these rules remains important. ECFA recently noted many churches likely are violating the new rules unintentionally.

Giving Gains in 2014
The Blackbaud Index said overall giving to nonprofits in 2014 grew 2.1 percent. Atlas of Giving said giving to religious organizations, including churches, rose 6.4 percent.

Blackbaud also said online giving increased year-over-year by nearly 9 percent, representing nearly 7 percent of total fundraising.

Changes on Tap for ACH
The Automated Clearing House (ACH), an option many churches offer donors, may speed up payment processing from next-day to same-day payment processing starting in 2016, according to Kiplinger Letter. The current method takes several days.

RESPONDING TO FINANCIAL REALITIES

What to do when either giving or expenses—or both—don’t go according to plan.
By Vonna Laue

Have you ever created a budget that was perfectly on target? Did you end a year and realize revenues and expenses were exactly what you expected? If so, you are among a very rare group of people—and it almost certainly hasn’t happened more than once. In Church Finance Today’s survey of more than 2,000 churches last year, 41 percent of churches said giving was higher than expected and 29 percent said it was lower than expected, meaning 70 percent of churches probably came in above or below their adopted budgets. Coming right in on budget usually is the exception, not the rule.

That means it is smart to create contingency budgets that define what will happen if various changes in funding occur during the year at your church. From a primary budget, build one that is a certain percentage lower and build another that is a certain percentage higher. Doing this can minimize controversy later. If you find yourself above or below budget, you’re already ready to act with cuts or additions based on the overall vision of the church—not on the basis of who asks or complains the loudest.

Four Common Scenarios
A budget is a tool but it doesn’t guarantee results. The following four scenarios are the most common for churches to face during the course of a year:

- Giving below budget, spending above budget. This is obviously the most difficult scenario. Hopefully, your church built up necessary reserves to carry it through times such as this. Every decision must be weighed carefully. Use caution to avoid short-sighted decisions. Instead, consider the unintended consequences of each cost-saving decision you make.

- Giving at budget, spending above budget. Donations are in line with projections. That’s encouraging. But spending is more than budgeted. That’s tough from a cash-flow standpoint. This situation can easily arise when there is growth in attendance. It often takes newcomers about 18 months to begin financially supporting a ministry, but expenses related to serving them are immediate.

- Giving below budget, spending below budget. This scenario may not be ideal, but it isn’t threatening to a church. If both giving and spending are below plan, it is typically because intentional cutbacks have been made to align spending with giving. That is prudent. But exercise caution with the cutbacks as well as any unintended consequences from those cutbacks.

- Giving above budget, spending below budget. What an envious scenario, right? But it can present its own challenges. What do you do with the excess? Will donors see it as a positive reflection of financial management? Or will they think their money isn’t needed? Make sure you know what you will do with extra revenue; perhaps it’s the establishment of needed reserve funds or the replacement of outdated equipment. Whatever the plan, make sure you communicate what your church plans to do and why continued faithful giving is so important.

Revenue and Expense Tips
There is no magic budget tip, and you’ve probably considered and implemented many options. Let the following tips offer you and your leadership team helpful reminders or newfound inspiration as you consider how to build contingency budgets or respond when an unexpected situation arises.

IN THE NEXT ISSUE
- More on the ACA Fines Guidance and the Tax Treatment of Benefits
Addressing Decreased Giving:
- **Offer more giving options.** Encourage other forms of giving. One is gifts of appreciated securities or property, which are attractive to donors now while the market is strong and they can minimize capital gains taxes. What about online or automated clearing house (ACH) giving? Many churches continue to see significant increases with digital giving and it may be time to promote (or explore, depending on your situation) such options again. For instance, my daughters’ school recently changed to an online payment format, which has shortened the cash collection time from 10 days to 5 minutes. Also, don’t forget to investigate a mobile app. It may appeal to certain givers and make it faster and easier for people to give.
- **Make donors aware.** Do the congregation and other supporters know that giving is down? They may increase their involvement if they are made aware through a thoughtful approach.
- **Consider restricted giving.** Many donors, especially young people, will support a specific cause or project faster than they will support the general operations of the church. Explain the cause and the need, then celebrate when it is accomplished. One church I know published photos of parking lot potholes in the bulletin along with information about a campaign, then celebrated with photos of the completed project made possible by funds raised beyond the general budget.
- **Create a stewardship series.** When did your pastor last preach a stewardship series? Take a holistic approach beyond money, too, by including stewardship of time and talents. Churches often avoid certain “uncomfortable” topics, but these are no less true or needed. Some churches trace a direct correlation between teaching on stewardship and increases in giving.
- **Understand your demographics.** Do you have a young, growing demographic, or is the average donor 60 or older? Monitoring these trends helps predict where the church is headed and gives you more options and more time to implement change.

**Tips to Reduce Expenses:**
- **Conduct an expense reduction review.** Has an outsider looked at your expenses? Sometimes an objective set of eyes can identify cuts. Possible areas of savings someone else might uncover include an energy audit, research into technology and communications expenses (and lower-cost alternatives and plans), and a review of benefit plan costs.
- **Ask the staff.** Church staff, especially frontline employees, often know where to save money in the ministry.
- **Compare your ministry to others.** Comparing budgets and other financial arrangements with other churches may identify areas where you are spending too much. Personnel costs and loan interest rates are two areas churches often find run higher than their peers.
- **Find synergy among departments.** Is there ministry overlap? Places where one program can meet the needs or goals of multiple departments? One example: Pair the missions director and youth pastor to plan a short-term missions trip that meets the goals of both ministries.
- **Consider activities and their results, not just costs.** Focusing on costs tends to perpetuate spending that has occurred in the past. Instead, evaluate various types of activities and their results. That helps prioritize what is spent compared to the results—and overall value—the activity brings. It also may reveal excessive costs that may be addressed through alternatives, whether it’s outsourcing a particular function or partnering with another group or church.

**Thoughts about Change**
Change is difficult, and so it’s vitally important for your church to communicate any contingency plans ahead of time.

A strong understanding of the financial strength or weakness of your church is valuable before you conduct a budgeting process. Consider financial indicators, such as previous financial performance, the amount of cash reserves, liquidity ratios, and not only how much cash the ministry has but how much cash should be set aside for restricted purposes. Being aware of these measures, as well as how they have changed over the past few years, will better
prepare you to plan for the future and minimize the size of any later contingency plan you have to implement.

Hard work at the beginning can make the budget process work more smoothly through its adoption—especially if an unforeseen scenario with giving or expenses unfolds. Remember the words of Jesus in Luke 14 when he emphasizes the value of sitting down first and computing the cost before building a tower. The right planning creates the right foundation, and it helps make certain nothing crumbles when surprises arise.

Vonna Laue is a managing partner and West Region Director with Capin Crouse LLP, a certified public accountant firm serving ministries and nonprofit organizations. She is an Editorial Advisor.

Q: Can a minister who previously opted out of Social Security change his or her mind?

A: A minister's earnings from performing ministerial duties are considered "net earnings from self-employment" under IRC Section 1402(a)(8). Due to this legal definition, ministers are considered self-employed for purposes of Social Security and Medicare—even if they are considered common law employees for all other employment tax purposes.

While a minister's earnings are defined as self-employment income, ministers are given the ability to opt out of the system by filing a Form 4361. To do so, the minister must conscientiously object or religiously oppose the acceptance (with respect to services performed by him or her as a minister, member, or practitioner) of any public insurance paid in the event of death, disability, age, or retirement, or payments toward the cost of, or provided services for, medical care (including the benefits of any insurance systems established by the Social Security Act) (IRC Sec. 1402(e)(1)).

The due date for filing Form 4361 is the due date of the minister's tax return (including extensions) for the second year after he or she received proper credentials by a church and has self-employment earnings of $400, any portion of which are for performing ministerial services.

Once a minister's form is approved, it is good for life. It can only be ended if the IRS determines it was incorrectly filed or if Congress offers an opportunity for a minister to opt back into the system. Congressional opportunities are rarely granted, occurring only twice in the past 30 years.

One thing to note: Any earnings a minister logs from other forms of employment resulting in payments into Social Security can be drawn from in the future, provided the minister is considered fully insured.

— Elaine Sommerville, Editorial Advisor

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

FRAUD TREND REPORT REINFORCES NEEDS FOR ACTIVE MONITORING

Strong internal controls, reviews can prevent—or minimize—threats.

The Association of Certified Fraud Examiners (ACFE) recently released its biannual report on fraud trends. It provides helpful guidance for churches as they look for ways to minimize the risks of fraud within their own ministries.

The 2014 Report to the Nations on Occupational Fraud and Abuse relied upon nearly 1,500 cases submitted by nearly 35,000 CFEs worldwide between October 2013 and December 2013.

Among the findings from the report:

- "The median loss caused by the frauds in our study was $145,000. Additionally, 22 percent of the cases involved losses of at least $1 million."
- "Asset misappropriations are the most common tactic, occurring in 85 percent of the cases in our study, as well as the least costly, causing a median loss of $130,000."
- "(More than) 40 percent of all cases were detected by a tip—more than twice the rate of any other detection method."
- "The smallest organizations tend to suffer disproportionately large losses due to occupational fraud."
- "The presence of anti-fraud controls is associated with reduced fraud losses and shorter fraud duration."
- "Small businesses are both disproportionately victimized by fraud and notably under-protected by anti-fraud controls ... such as an anti-fraud policy, formal management review procedures, and anti-fraud training for staff members."
- "While independent audits serve a vital role in organizational governance, our data indicates that they should not be relied upon as organizations’ primary anti-fraud mechanism."
- "Many of the most effective anti-fraud controls (such as proactive data monitoring) are being overlooked by a significant portion of organizations."
- "The vast majority of occupational fraudsters are first-time offenders. ... (O)ngoing employee monitoring and an understanding of the risk factors and warning signs of fraud are much more likely to identify fraud than pre-employment screening."

Source: ACFE.com

IN DEPTH

Go deeper on fraud prevention on ChurchLawAndTaxStore.com:

- Essential Guide to Internal Controls for Churches eBook
- Finance Committee Professional Pack II: Embezzlement, a downloadable bundle of training resources

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THE ENVELOPE, PLEASE

"Churches that mail offering envelopes to members also see an uptick in overall gifts. I have heard numerous stories from church leaders of the importance of this church practice. One church leader told me his church eliminated the practice, and offerings declined almost 20 percent. The church reinstated the mailing of offering envelopes pretty quickly."

"Seven Trends in the Offering in Churches," by Thom Rainer, ThomRainer.com

SAVINGS-STARVED

"More than half of American households have less than one month of income available in readily accessible savings to use in case of an emergency, a new report from the Pew Charitable Trusts finds. Most advisers say families should hold three to six months' income, in case of a job loss or an unexpected major expense."

Source: The New York Times

KEY FIGURES FOR 2015

The IRS makes adjustments annually for certain tax items that are required to be inflation-adjusted. Below are some of the inflation-adjusted amounts for 2015 that are most relevant to churches:

Limits on Employee Salary Deferrals for 401(k) and 403(b) Plans:

- Individuals born after 1965: $18,000
- Individuals born before 1966: $24,000

SOCIAL SECURITY

2015

Wage Base: $118,500

Level of Compensation Causing a Church Employee to be Considered "Highly Compensated" for Purposes of Certain Qualified Benefit Plans*: $120,000

*The definition of what is included as "compensation" varies depending upon the specific circumstances.

Annual Cap on Deductible Pay-Ins to Health Savings Accounts (HSAs):

- Single coverage: $3,350
- Family coverage: $6,500
- ESA owners born before 1961: $1,000 more than the amounts listed above.

Source: Michael Batts, Batts Morrison Wales & Lee

Tax Calendar

Important Tax Deadlines in May 2015

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

May 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 April 30 if all taxes for the first calendar quarter have been deposited in full and on time.

May 15

- Unrelated business income tax return (Form 990-T) must be filed by this date by churches and any other organization exempt from federal income tax that had gross income from an unrelated trade or business of $1,000 or more in 2014.

- Annual certification (for calendar year 2014) of racial nondiscrimination by a private school exempt from federal income tax (Form 5578) must be filed by this date by schools that operate on a calendar-year basis. Fiscal year schools must file the form by the 15th day of the 5th month following the end of their fiscal year. This form must be filed by preschools, primary schools, and secondary schools.

- Does your church operate a preschool? An elementary school? A secondary school? A college? If you answered "yes" to any of these questions, then you are required to submit Form 5578 to the IRS each year.

Some independent religious schools are required to file Form 990. These schools make their annual certification of racial nondiscrimination directly on Schedule E of Form 990, and not on Form 5578.

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