WHAT'S NEW

Overtime Rule Faces Legal Challenge

Two lawsuits were filed in Texas challenging the US Department of Labor's new overtime rule, reported Politico, "one by attorneys general in 21 states and the other by 50 business groups led by the US Chamber of Commerce. The rule, which takes effect (December 1), will double (to $47,476) the salary threshold under which virtually all workers are guaranteed time-and-a-half pay whenever they work more than 40 hours in a given week." Both suits question the legality of the rule. Labor Secretary Tom Perez responded quickly with a statement, saying that he was "confident in the legality of all aspects of [the] final overtime rule."

Watch for updates on the lawsuits, and any effects they have with the implementation of the new overtime threshold, on ManagingYourChurch.com and ChurchLawAndTax.com. For an explanation of the changes, see the September/October issue of Church Law & Tax Report on ChurchLawAndTax.com.

New Banking Rule Will Limit Loan Opportunities

Churches planning to obtain loans for future building programs will want to anticipate a new banking rule. The rule can be adopted in 2019 and becomes mandatory in 2020, reported the Financial Times. "Currently, banks don't have to report a loss until they believe it has occurred," The Kiplinger Letter said. "Under the new rule, they will have to estimate losses they project will be incurred over the lifetime of the loan as soon as it is originated." Doing so, said Kiplinger, "will cause banks to ratchet up their reserve levels and thus make fewer loans." When the new rules take effect, a church may have a tougher time borrowing to build that new worship center, additional campus, or educational wing.

IN THE NEXT ISSUE

Producing Effective Financial Reports

Five Tips for Finance Professionals Joining a Church Staff

Experts emphasize the unique rules and dynamics churches face.

By Bobby Ross Jr.

Jennifer Neal wanted to be successful—as a woman, as a mother, and as a financial controller at a multibillion-dollar company. "I was desperately trying to make my mark and have it all," she said.

What Neal didn’t intend was for Jesus, as she put it, "almost taking a two-by-four to my head."

But in 2012, when her church began looking for a director of finance, nine people emailed and encouraged her to go for it. Her career ambitions certainly didn’t include a ministry position. However, she couldn’t help but feel "the Lord was leading me to at least apply."

After much time spent in prayer, and much deliberation over the benefits of a more stable schedule as she raised her three children, she embraced her new calling with the College Park Church in Indianapolis.

Although Neal took a significant pay cut, she quickly found fulfillment using her gifts to further God’s kingdom. "It just gives me a great deal of satisfaction in my position," she said.

Even so, Neal readily admits that the differences between a church and a business is overwhelming at times and the learning curve can be high.

Church Finance Today interviewed editorial advisors and church financial leaders about making the switch from a for-profit business to a nonprofit ministry. Their insights helped develop five tips to keep in mind when navigating the complexities of church finance and tax issues:

1. Finances in the church are very different from a for-profit business.

The church treasurer role requires changing from a profit-oriented business management mindset to a focus on serving others and working with ordained ministers, said Dan Busby, president of the Evangelical Council for Financial Accountability.

"That transition in culture," he said, "is often underestimated."

Often those making the transition come into the church expecting it to operate as smoothly as their former workplace, said Elaine Sommerville, a CPA who works on compliance aspects of nonprofit organizations. "A lot of times when we see people making this transition, they're coming out of higher-level positions in some larger companies, and they're used to a well-defined structure of operation," she said.

In Neal's case, she learned to extend "extravagant grace" to her fellow ministers whose primary focus isn't financial matters.

"You have to be a lot more understanding, communicate a lot more, realize that the person that didn't get you the expense report on time was up late dealing with some significant crisis in a person's life," Neal explained. "And at the end of the day, it was way more important and valuable that he was there than doing my expense report."

2. Tax-exempt rules are complicated.

The unique tax and regulatory climate for churches and ministries requires getting up to speed in a hurry, said Michael Batts, managing partner of an Orlando-based CPA firm serving nonprofits, ministries, and churches. Financial staff need to learn about specific differences between business structures and church
structures, such as “tax law structure, employment law structure, employee benefits law structure, etc.” Batts said.

There is also a big difference in the risk matrix, said Frank Sommerville, a CPA and attorney. In the for-profit world, if a company pays somebody too much, a disallowed deduction may occur and result in a small penalty, he said. In a church setting, a seemingly small error can result in a big penalty and even put the church’s tax-exempt status at risk, he noted.

“When you get into a nonprofit world, consequences are much more serious,” he stressed. “[Financial staff] have to be educated on those consequences.”

“Most people think, ‘Well, we’re nonprofit. We don’t pay taxes. What’s the big deal? Nothing applies to us.’ And the truth is, the nonprofit industry is highly regulated in a lot of areas and churches and ministers face numerous tax-related requirements, added Elaine Sommerville.

3. Charitable contributions are a complicated source of revenue.

In the business world, there’s one big pot of money to be used how the company sees fit. In the church world, there can be a number of different pots with specific purposes—and that complicates how and where it can be spent, the experts said.

“Businesses primarily receive revenue from sales and fees, whereas churches primarily receive revenues from charitable contributions,” Busby said. “So the focus of financial administration turns to quality gift administration with churches instead of the for-profit world focusing on sales, cost of sales, and margins.”

Under nonprofit rules, the accounting and financial reporting framework must include both nonrestricted and restricted funds.

“An unrestricted contribution means the donor has not placed any restriction on how those funds should be spent,” Frank Sommerville explained. “A restricted fund is just how it sounds—the donor has restricted that money to be used for a specific project or a specific purpose. There’s not really a comparable concept in the for-profit world.”

For example, a restricted fund might be as broad as money given for a building fund or as narrow as a check earmarked specifically to buy a piano.

More Insights on Switching from Business to Ministry Settings

Dan Busby offers four more insights on the ways church financial leadership differs from the business world—and how those with a business background can make the transition.

What are the core tax differences and penalties between a for-profit business and the church as a nonprofit ministry?

In the for-profit world, organizations are taxed on profits, and in the nonprofit world, churches are generally tax-free. There can be some taxes on unrelated business income. There can be sales and property taxes. But as far as the income tax, which is the biggest tax on for-profit corporations, there is no income tax. So, a lot of the planning that is done in the corporate for-profit world is to minimize taxes, corporate taxes, and that challenge totally gives away in the church world.

Are there any financial/business practices that shouldn’t change when moving out of the for-profit sector and into the church?

Well, sure. The focus on high integrity is the same across the board. Focusing on minimizing risks, that broad concept, is the same from the business world to the church world. Focusing on quality of work and producing financial reports that are readable, accurate, and timely—those concepts are the same.

How should treasurers/financial managers respond to pastors and other church leaders who don’t seem to understand important financial practices?

As the financial administrator, you just need to continually emphasize the importance of doing everything with integrity because we’re doing our work for the King of Kings, and we simply must demonstrate quality in all we do when we’re working for a king.

What financial principles should church treasurers/business managers always tenaciously hang on to?

They must hang on to being accurate, being faithful administrators of the funds, preparing financial statements based on solid data, and when communicating data to church leaders and church boards, focusing on the big picture.

“So you have to separately create an account for these restricted gifts and make sure that you flag the restriction on the front end receiving it,” Frank Sommerville said. “And you set up the accounting side on the other end to see that the church has complied with the law with those restrictions when it spends the money.”

4. Tracking and documenting expenses is crucial.

Church finance demands tracking—and documenting—every expense. It protects the church’s reputation and it ensures the church complies with the law.

“We’re talking about God’s resources that [people] give to the church to be used for kingdom purposes,” Busby said. “So that would require us to step up to a higher level of integrity with respect to how those funds are handled.”

Tim Samuel, chief financial officer for Bridgeway Community Church in Columbia, Maryland, stresses to pastors that financial documentation is not a matter of lacking trust.

“I tell that to every new [pastor who] comes in because the pastor is always going to think, What, you don’t trust me?” said Samuel, who made the transition from a for-profit CPA firm in 2007. “This has nothing to do with trust. This has to do with [being able to] open up our books and tell myself and the world, ‘Hey, we’ve got these internal controls in place.’”

He recommends a patient-but-firm approach with fellow staff members for whom such controls may be a new and challenging concept.

“Start requiring documentation or don’t write the check,” he said. “Every check should have some kind of documentation. I track the money the whole way through.”

Professionals transitioning from the business world may be surprised by a lack of internal controls in many churches, Elaine Sommerville said.

“It’s not unusual to find one person doing everything, from processing donations to writing checks to reconciling the bank account,” she said. “The church has a tendency to think the fewer people you have involved, the better. And internal control works off of the [idea that] the more you split up accounting duties, the better it is.”

5. Education and training are essential.

The need for training when moving to a nonprofit is immense, Batts said.

From tax laws to accounting rules to the unique governance structure of particular

continued on page 3
Q: Can restricted funds be used for anything but their intended purpose?

My church currently has a large surplus in its benevolence budget but a shortfall in its missions budget. The board is planning to transfer a substantial amount from benevolence to missions. But isn’t it illegal to use restricted funds for anything other than their intended purpose?

A: Every state except Pennsylvania has adopted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), a model law that addresses, among other things, investment of assets by nonprofit organizations and the handling of restricted funds. Each state’s version can vary (it was up to each state’s legislature to determine whether to modify the model law).

UPMIFA contains language that addresses what to do legally when an organization has determined that it is “unlawful, impracticable, impossible to achieve, or wasteful” to carry out a donor restriction for a fund covered by the law. It might be somewhat challenging to prove that your church meets one of these four criteria with respect to its benevolence fund. It is one thing to deal with a building fund where the building project is canceled, but the needy are always among us.

Some states’ versions of UPMIFA provide different options for redirecting a restricted fund depending on the dollar amounts involved. In some cases, a court order is required. There may be other state or federal legal issues to consider—some of which could carry very significant risks.

I strongly suggest that any church contemplating the redirection of donor-restricted gifts do the following:

1. Consider the policy implications and member relations issues that could arise even if the church were able to find a legally permissible way to redirect the funds and evaluate whether doing so would be wise.

2. Do not take steps to redirect donor-restricted funds without a clear, well-written opinion from competent legal counsel specifically experienced in this area of law.

For a detailed discussion of restricted funds and UPMIFA, see chapters 1, 3, and 6 in Church Finance—a book I coauthored with Richard Hammar (available on ChurchLawAndTaxStore.com).

—Michael Batts, CPA and editorial advisor for Church Finance Today

To submit a question for consideration in a future Q&A, email editor@churchlawandtax.com.

organizations, he said, “a measure of diligence and intentionality is required to get up to speed in these areas to an appropriate level.”

“It won’t happen casually,” Batts said. “Getting briefings from professional advisors, reading internal documents, and attending relevant conferences and training seminars are typically the most effective ways to get up to speed quickly.”

Neal echoed the recommendations for ongoing education. She said she regularly reads articles and resources from organizations she trusts. Doing so has helped her redefine success and see how her knowledge and skills can set up her church for success.

“I really wanted to be ‘successful’ in the world’s eyes,” Neal said of her past outlook. “But I’ve really been able to find a passion in helping further the kingdom of Christ.”

“I know I’m not the frontline pastor preaching on the stage every Sunday,” she added. “But I’m really finding the right niche and I’m passionate about doing that so I can equip others . . . and [that] really just changed my attitude.”

Key Tax Deadline

January 1, 2017

• The Social Security and Medicare tax rate for employers and employees remains at 7.65 percent of employee wages for 2017 for a combined tax rate of 15.3 percent.

• Beginning on this date, churches having nonminister employees (or a minister who has elected voluntary withholding) should begin withholding federal income taxes according to the tables and instructions available on IRS.gov.

The free Tax Calendar—available on churchlawandtax.com/tc—provides reminders about regular, semimonthly, and monthly withholding requirements, plus other upcoming dates and deadlines related to church taxes.
Notes & Numbers

Build a Financial Advisory Board

On BrianDoddonLeadership.com, Brian Dodd recommends that churches develop a financial advisory board. He suggests looking for these qualities in board members: spiritual maturity, regular givers, committed to the church’s mission, and practical experience in business and finance. Here are some possible ways Dodd said this board can guide a church’s finances:

- Review income and giving trends and recommend a percentage budget change for the next year.
- Evaluate...a staff compensation philosophy and verify that you are following it consistently.
- Review drafts of annual budgets and ask questions or share observations about the items in that budget.
- Review monthly financial reports (summary) and work with the [church staff] to review and question those reports if needed.
- Be available for special financial projects, as requested, for things like building loan details and other debt or large leases.
- Help shape financial policy around issues like what to do with excess cash, cash reserve minimums and maximums, and so on.

Why Online Fees Are Worth the Cost

One thing that scares many churches away from online giving is the prospect of fees... The main reason to assume the cost of online giving is that there is a cost to forgoing online donations. It takes time to process and sort cash and check donations...[The most important factor to remember is that online giving usually comes with a steep jump in donations, [which] more than pays for small fees associated with it.]

—ChurchTechToday.com

Salary, Staff, and Budget Trends of Large Churches

Pay Raises 3.1%
This percentage was the most common pay raise given to executive staff.

Attender-to-Staff Ratio
76 to 1
For every 76 worshipers, there is an equivalent of one full-time staff person—counting everyone from custodians to pastors (does not include staff of church-sponsored schools).

Who Knows Your Salary? 81%
Around 8 out of 10 churches say knowledge about specific salaries is mostly limited to the board, a board subcommittee, or senior staff.

Outsourcing on the Rise 33%
A third of those churches surveyed increased the outsourcing of staff over the past five years to handle custodial, payroll, and Information Technology (IT) needs.


Source: 2016 Large Church Salary Study, Leadership Network and VanderBloom Search Group. Based on data voluntarily provided from 1,251 churches—all of which have 2,000 or more people in weekly attendance.

Church Finance Today

Volume 24 • Number 12 • December 2016

Editorial Advisers
Richard Hennmar (senior advisor)
Michael Balts • Dan Busby
Ann Buvala • Gregg Capin
Chip Grange • Jim Giurini
Gledis Kefter-Douglas • Stuart Lark
Vonna Laue • David Middiebrook
Danny Miller • Kevin Miller
Midge Parker • Lisa Runquist
Elaine Somerville • Frank Sommerville

Download Your SkillBuilders!

Download the November/December SkillBuilders on "Weighing the Costs of Church IT Staffing." Visit CLTStore.com/SkillBuilders by December 31, and enter the code at checkout.