

OPP 3.4 – PAYROLL PROCEDURES

PURPOSE: To provide guidance, policy and procedures for the payment of wages and salaries to church employees and for the conduct of payroll administration.

POLICY: It is the Administrative Team's responsibility through the Treasurer to pay church employee wages and salaries as well as to track leave benefits accrued and leave benefits taken. The proper amount of any Federal and State taxes levied and accrued from wages or salary is to be withheld from payments to employees and timely payments are to be made of those withholdings (and other payroll tax liabilities) to the Internal Revenue Service (IRS) or other duly constituted government entity.

PAYMENT TIMING AND PAYROLL SCHEDULE

Payment of wages or salary due to employees are to be made at least monthly. With agreement between the employee and the Treasurer, arrangements may be made to pay wages or salaries more frequently than monthly but not before those wages or salaries are considered earned. The Treasurer will document standard payroll periods by annually making available to employees a *payroll schedule* that establishes expected pay periods, time sheet submission dates and expected payment dates for the calendar year.

Requests for salary advances are discouraged, but may be granted with the approval of the Moderator, Treasurer, and Senior Minister.

TIME ACCOUNTING

Hourly rate employees are required to submit a time sheet (or enter into an approved timekeeping system) all time worked or leave taken (including paid holidays) for a given pay period. Salaried employees with leave benefits may be required to use the time sheet, timekeeping system or other method to report and document leave taken.

Employees attest to the accuracy of time reported by signing a timesheet or making authorized entries into an approved timekeeping system. The Treasurer is responsible for making available to employees a standard timesheet (or timekeeping system) that allows for employee entry and authentication of time worked, leave taken, approval by a supervisor and instructions for properly making timekeeping entries.

Time sheets must be approved by the employee's supervisor, the Senior Minister, or the Chair of the Administrative Team Personnel Committee as appropriate.

TAX STATUS AND WAGE, SALARY OR BONUS PAYMENTS

All Employees

All employees will complete and submit Form W4, Employee's Withholding Allowance Certificate, on or before the first day of employment to indicate their tax status and desired withholding options. An employee may revise or change withholding information at any time by submission of a new Form W4. Refer to the IRS website at www.irs.gov for more information

on the use of Form W4. The form is available for download and if desired can be completed on line and printed.

Called Ministers

Any Called Minister serving at RRCC in a position designated as a “ministerial position” fits the IRS definition of Minister for tax purposes. See in RRCC OPP 4.7 – Personnel Policy for Ministers, for more information on ministerial positions at RRCC.

For tax purposes Ministers are both self-employed contractors and employees of the church at the same time. As an employee of the church, a Minister’s income must be reported to the IRS using Form W2 (not Form 1099-MISC). As a self-employed contractor no Federal Income taxes or FICA taxes are withheld from a Minister’s salary.

As an exception, guest Ministers who receive an honorarium can be considered self-employed contractors for income purposes and have their income reported on Form 1099-MISC.

Self Employed Contractors

Current IRS regulations require that a Form 1099-MISC be issued to anyone who earns more than \$600. Self-employed contractors include any individual who performs a service for the church and does not represent themselves as an employee of a business or company. Examples are Guest Ministers, Pathways counselors, or any person not already an employee of the church that is individually paid to provide a specific service to the church.

Any individual paid for services rendered to the church, who is not a self-employed contractor, must be treated as a church employee, complete a Form W4, and be paid directly by the church.

Fees or honorariums paid to Ministers, musicians, music directors or others for activities, such as funerals and weddings, should normally be paid directly by the family sponsoring the event. If the sponsoring family chooses to make a donation to the church and directs that part or all of that donation be given to a church employee for services provided during a wedding, funeral, or other event, the church will include those amounts in the employee’s regular paycheck and it will be considered as income with the appropriate tax withholding applied to it.

Staff Bonuses and Love Offerings

Bonuses or “Love Offerings” may be authorized for RRCC Employees. Any such Bonuses or Love Offerings paid by RRCC are considered taxable income by the IRS and must have appropriate taxes withheld by RRCC as the employer.

PAYROLL TAX LIABILITY PAYMENTS AND REPORTING

Monthly and Quarterly Tax Payments

The IRS requires at a minimum quarterly payments of Social Security, Medicare, and Federal Income Tax Withholdings, including both the employee and employer portions of those taxes. The Treasurer should regularly make monthly payments and make those payments the first week of the month for the previous month.

Payments can be made using the IRS *Electronic Federal Tax Payment System (EFTPS)* found at <https://www.eftps.com/eftps/index.jsp>. Use of this site requires the church's Employer Tax Identification Number (TIN), an internet password assigned by the IRS and a user password chosen by the user. This account information should be kept in the Treasurer's files. The EFTPS system assesses no fees, and the payment is deducted directly from the church's checking account, usually the next day.

Year End Tax Reporting

After the calendar year ends, the Treasurer must prepare and issue appropriate Form W2 and/or 1099-MISC for each church employee and qualifying self-employed contractors. These statements must be sent to the employees and self-employed contractors no later than January 30th of the following year. The Form W2 and Form 1099-MISC information must also be submitted to the IRS and the Social Security Administration using the appropriate forms and deadlines specified by those agencies.

The church owned financial software, Quick Books, provides a means of generating and printing the required Form W2s, Form 1099-MISCs, and required reporting forms. However, the blank forms to print on must be purchased separately each year, and are available from local office supply stores. The forms are also available from the IRS at no charge but are 6-part forms which must be completed by hand and cannot be used by computer software. The Treasurer should check each year to see if the IRS is making pre-printed forms usable by computer software available at no charge.

DEFINITIONS

Time Sheet - A timesheet (or time sheet) is a method for recording the amount of a worker's time spent on the job. Timesheets may record the start and end time of tasks, or just the duration. They may also be used to track the use of leave time used in lieu of work time.

FICA - FICA stands for "Federal Insurance Contributions Act". FICA taxes are comprised of two separate taxes (Social Security and Medicare) that are paid on wages earned for services performed. Employers are required to withhold and pay their employees' share of the FICA taxes and also pay the employer share to the IRS on at least a quarterly basis.

REFERENCES

- *Tax Guide for Churches and Religious Organizations*, Benefits and Responsibilities Under the Federal Tax Law. IRS website: <http://www.irs.gov/pub/irs-pdf/p1828.pdf>
- *Instructions for Forms W2 and W3, Wage and Tax Statement and Transmittal of Wage and Tax Statements*. IRS website: <http://www.irs.gov/pub/irs-pdf/iw2w3.pdf>
- *Form W4, Employee's Withholding Allowance Certificate*. IRS website: <http://www.irs.gov/pub/irs-pdf/fw4.pdf>
- *OPP 4.7 – Personnel Policy for Ministers*, Operating Policy and Procedures Manual, Round Rock Christian Church. RRCC website: <http://www.rrdisciples.org/OPPs.html>

AUTHORITY: *Section IV, B, 5 and Section VI, A, 1 of the Bylaws of Round Rock Christian Church. The Administrative Team is entrusted with the financial resources of the church.*

The Treasurer is responsible for payment of all accounts of the congregation as authorized by budget or special action of the Guiding Board and providing accurate records of all expenditures.

EFFECTIVE DATE

December 13, 2010

LAST REVIEW DATE

December 13, 2010