

Treasurer's

e - newsletter **December 19, 2005**

The Newsletter this month will focus on end of year/beginning of new year information of which all church treasurers, clergy, and many other lay leaders should be aware. Let's jump right in!

IRS announces 2006 Standard Mileage Rates: Beginning January 1, 2006 the standard mileage rates for the use of a car will be:

- 44.5 cents per mile for business miles driven;
- 18 cents per mile driven for medical or moving purposes; and,
- 14 cents per mile driven in service of charitable organization.

The business rate is up from 40.5 cents which was the rate applicable for the first 8 months of 2005. We all benefited from a special one-time adjustment during the last 4 months of 2005, when the rate was increased to 48.5 cents in response to the price of gas which topped \$3 a gallon. The 2006 rate reflects that the price of gas has dropped since then. There are special rules applicable to Katrina-Related Charitable Miles. If this applies, you may check www.irs.gov for details.

W-2 or 1099 - Which do I use???? All clergy and lay employees must have their respective wages reported on a form W-2. This also includes retired clergy who are regularly serving a congregation. The only clergy to receive a 1099 are supply clergy who serve on call or on a temporary basis. A Form 1099 must be issued to any contractual employee who earned more than \$600 during the year. Forms W-2 and 1099 must contain the respective church's FEIN. Do not use the Diocesan number. All W-2's and 1099's must be in the hands of or mailed to the individual by January 31. Questions - Call Pam Greenfield at the Diocesan Finance Office.

W-2 Preparation Tips: In order to properly prepare a priest's taxable income, gather the following information:

- Salary, not including the housing allowance
- Value of personal use of a church owned or leased automobile
- Self Employment Tax Reimbursement, if applicable
- Auto Allowance or any other non-accountable allowances
- Excess Group Term Life Insurance - Church Pension provides active clergy \$50,000; if the church also provides life insurance, this is excess and the value of the excess is taxable
- Bonus

All of the above amounts are included in box 1 of the Form W-2. Other considerations include:

- A salary reduction contribution to a Tax Sheltered Annuity is deducted from the salary in box 1 and reported in box 12, Code E.
- The Housing Allowance is reported in box 14 and should be marked "housing allowance" (Note, some will argue that the housing allowance is not required to be reported on the W-2. Technically, they are correct. However, since this number is required to reconcile the total paid to the W-2 and since the clergy need this number in order to calculate and pay self employment tax, it is Diocesan Policy that it be reported here.)
- If the priest chooses to have Federal and/or State tax withheld, those amounts would be entered in box 2 and 17.
- NOTHING should ever be entered in box 4 or 6 on a clergy W-2 form!

If you have questions on how to properly prepare a Form W-2, don't hesitate to call Pam Greenfield, the Diocesan Controller.

The Value of Insurance over \$50,000 is taxable: Subject to some limitations and eligibility, the Clergy Pension Fund provides \$50,000 coverage for all clergy active in the Fund. Accordingly, if your church pays for additional life insurance, the value is taxable. CPG provides our office with a list of imputed income applicable to each church which has purchased additional insurance through them. You may call Pam Greenfield in the Diocesan Finance Office for that information or you may calculate for yourself, using the following table:

Cost Per \$1,000 of All Group Life Insurance Coverage Exceeding the \$50,000 Exclusion

<u>Age</u>	<u>Rate</u>
Under 25	\$.05
25 to 29	.06
30 to 34	.08
35 to 39	.09
40 to 44	.10
45 to 49	.15
50 to 54	.23
55 to 59	.43
60 to 64	.66
65 to 69	1.27
Over 70	2.06

Taxable Christmas Gifts: Be certain to correctly handle Christmas gifts made by the church or congregation to a priest or staff member. A cash gift from an employer to an employee is almost always taxable income, whether it be for Christmas, a birthday, anniversary, or even retirement. The principal exception would be if the church were only acting as a collection point for voluntary gifts from parishioners. In this case it is recommended that the church instruct the

donors that (1) cash and checks will be accepted and checks should be made payable directly to the priest or lay employee and (2) no contribution will be received by the church as a charitable contribution. Except when the church is collecting gifts in such a manner as a convenience to the parishioners, such gifts must be included as income on the W-2 (or 1099 in the case of contractors).

Donor contributions are deductible when delivered! A check deposited in the collection plate on Sunday January 1, 2006 to apply to the 2005 pledge cannot be credited to the donor on the 2005 Contributions Report, even if backdated! The only exception is when the check is actually mailed and **postmarked** in 2005, even though it is not received until 2006. Some parishioners may give in 2005 toward their 2006 pledge. Again, these checks would be included on the donor's 2005 Contribution Report, even if the church recognized it as a "deferred income item" for recognition in the church's financial statements as a 2006 pledge!

Year End Contribution Report: Advise your parishioners in the church bulletin, newsletter or letter from the church NOT to file their federal income tax return before they receive their Contributions Report. Some donors may not be able to deduct certain contributions if they file before receiving the church Contributions Report. To assist your parishioners, be prompt in sending the Contributions Report, remembering to include the wording "no benefits received by the donor other than intangible religious benefits".

Housing Resolutions: Churches must designate a portion of each minister's compensation as a housing allowance by December 31 (or prior to the first payday in January) in order for ministers who own or rent their homes to receive the full benefit of a housing allowance exclusion for calendar year 2006. The designation should be adopted during a regular or special meeting of the vestry or bishop's committee and included in the written minutes. Give a copy of these minutes to the minister for his personal records. Churches should also designate a parsonage allowance for any priest who lives in church owned housing and who is expected to pay some of the expenses of maintaining the rectory such as utilities, furnishings, repairs, improvements, yard care, etc. Sample Housing Resolutions are available on the Diocesan Website at www.coloradodiocese.org.

We will send you some more useful information, year end tips and tricks, etc. shortly after the first of the New Year. In the meantime, best wishes to all for the Christmas Season and the New Year from the staff of your Diocesan Finance Department, Bob and Pam.

This e-newsletter is published regularly by the Finance Department of the Episcopal Diocese of Colorado for the benefit of its member churches, the clergy and the lay leadership. Questions may be sent to Bob Leaman, Chief Financial Officer at rleaman@coloradodiocese.org.

