Chapter 3: Lay Employees

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3.100: Classification

3.110: Organists, Choir Directors, Nurses, Secretaries and Custodians

Organists, choir directors, nurses, secretaries and custodians, whether full-time or part-time, are employees and subject to income, Social Security and Medicare tax withholding. For limited exceptions, contact your tax advisor. The employer also must pay the employer's share of the Social Security and Medicare tax for these workers.

3.115: Teachers, Parish Workers and Assistants

Teachers, parish workers and assistants not identified on Synod's roster as "commissioned ministers" are to be treated as lay employees for tax purposes.

3.125: Vicars, Interns and Other Students

Teaching interns, deaconess interns and vicars (includes delayed vicars and students in the Specific Ministry Pastor Program assigned as vicars) continue to be regarded as lay employees and must report as income payments received for their work, and the employer must withhold income, Social Security and Medicare tax and pay the employer's share of the Social Security and Medicare tax.

Commissioned ministers (teachers, DCEs, DCOs) who are serving as vicars in anticipation of ordination retain their status as ministers of the Gospel for tax purposes.

3.150: Employee or Self-Employed

The individuals referenced in 3.110–3.125 are treated as employees rather than self-employed. Generally, when the means and methods by which one does one's work are determined by the employer, the recipient of the pay is as an employee (see paragraphs 7.105, 7.110).

3.300: Taxes

3.305: Withholding

Compensation paid to lay employees is subject to income, Social Security and Medicare tax withholding. For the employer to determine how much to withhold from a lay employee's compensation, each lay employee must file with the employer a Form W-4, "Employees' Withholding Exemption Certificate," to indicate the marital status and the number of exemptions claimed. The amount to be withheld is determined from IRS Publication 15, "Circular E" and Supplement 15A.

3.310: Forms Used to Report Compensation

The employer should provide Form W-2, "Wage and Tax Statement," to its employees no later than January 31 of the year following the calendar year in which the compensation was paid.

3.315: Amounts to Be Reported on Form W-2

The individual's salary should be reported on Form W-2 in the box for wages, tips and other compensation, in the box for Social Security wages, and in the box for Medicare wages. Any allowances for which the employee does not account to the employer also must be reported on Form W-2.

Although the employer's payment to a tax-sheltered annuity is not to be reported in the box for wages, tips and other compensation, it should be reported in the box for Social Security wages and in the box for Medicare wages. Also, the amount and appropriate code letter should be included on Form W-2 in the box provided. Insurance premiums for group term life insurance coverage over $50,000 should be reported in the box for wages, tips and other compensation, in the box for Social Security wages, and in the box for Medicare wages. The amount and code E should be included on Form W-2 in the box provided.

Unqualified moving expenses and personal use of an employer-provided auto are to be reported and treated as salary. The first holds whether the payment for the moving expenses is made to the employee or directly to the moving company. Qualified moving expenses are not reported as income. (See 6.140 for the explanation of Qualified Moving Expenses.)

3.320: Reporting Compensation

A layperson should report his/her salary as wages, salaries, tips, etc., on Form 1040. If the layperson receives honoraria, it should be reported as income on Schedule C or Schedule C-EZ.

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3.350:
Social Security and Medicare Tax

Church organizations are required to withhold and remit Social Security and Medicare tax and pay the employer's share for all lay employees. An exception applies if the individual's annual wages do not exceed $100. (For rates, see 7.343.)

3.355:
Amount of Tax

The amount of wages subject to Social Security and Medicare tax and the tax rate are subject to change annually. ***IRS Publication 15, "Circular E," includes the tax rates and tables to determine the amount to be withheld for income, Social Security and Medicare tax.*** The employees' portion of the Social Security and Medicare tax is withheld from their compensation, and the employer must match the amount withheld from the lay employees.

3.400:
Allowances and Other Compensation

Congregations sometimes provide lay employees with allowances, like an auto allowance, or provide other forms of "compensation," such as interest-free loans, debt forgiveness or rent-free housing. For the lay employee, these forms of compensation are taxable income.

Another option for the congregation is to have an Accountable Plan Reimbursement Policy which is described in Section 6.110.

3.405:
Housing and Housing Allowances

The lay worker enjoys no special income tax treatment or special status regarding housing or a housing allowance furnished as an employee of a church. A house or apartment provided to a lay worker is a taxable fringe benefit. Its fair market value constitutes wages; likewise, any utility payments made by the congregation directly to the utility company. These are treated as paid on any basis the congregation chooses but at least as often as once a year. The only circumstances under which the employer-provided housing may be excluded from taxable wage income is if the home is on church premises <u>and</u> it is provided solely for the convenience of the congregation <u>and</u> occupancy of such housing is a condition of the employee's service to the congregation.

3.410:
Educational Assistance Program

If a congregation desires to pay for its employees' educational expenses, it should consider adopting an educational assistance program. This program is a separate written plan that provides educational assistance only to employees under rules set up by the employer that do not favor highly compensated employees. Up to $5,250 of educational assistance paid to an employee under an educational assistance program may be excluded from the employees' taxable wages each year. A reasonable notification of the availability and terms of the program must be provided to all eligible employees.

Qualified educational expenses under an educational assistance program include cost of books, equipment, fees, supplies and post-secondary tuition, including graduate-level courses. The program must not allow employees a choice to receive cash instead of educational benefits. Educational reimbursements that exceed the $5,250 limit or otherwise do not qualify for income exclusion must be added to the employee's wages and are subject to income and Social Security tax withholding. IRS has indefinitely suspended the requirement to file Schedule F (Form 5500) previously imposed on employers maintaining an educational assistance program.

If the congregation doesn't adopt an educational assistance program, reimbursement of educational expenses that directly relates to the job in which the employee was hired to do may also be excluded from the worker's taxable wages. However, such reimbursements are restricted to those more "plain vanilla" types of educational courses and training that either maintain or improve the skills of an employee in his or her employment or is required by his or her employer.

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