

# Glossary (Volume I)

## **Accountable Plan**

A plan adopted by an organization for reimbursing out-of-pocket business expenses to volunteer workers and employees. The plan must be adopted by the responsible body. Each business expense should be substantiated with adequate records and receipts to the organization within a reasonable time for reimbursement or to close an advance payment. Any unused advance payment must be returned.

## **Annuity**

A contract that pays a monthly (or quarterly, semi-annual, or annual) income benefit for the life of a person or for a specified period of time.

## **Cafeteria Plan**

The Cafeteria Plan comes from Section 125 of the Internal Revenue Code. Section 125 allows employers to offer workers a choice of cash or certain employer paid benefits including group term life insurance, medical insurance premiums, reimbursements of certain medical expense and dependent care. Note that the worker must have the option of receiving an employer paid benefit or cash. If cash is selected by the worker the amount paid is included on the W-2 while qualified benefits are not included on the W-2. (See also, Flexible Spending Arrangements below.)

## **Compensation**

The total cost of a worker to the organization including salary, allowances and benefits, but exclusive of reimbursed expenses.

## **Contribution**

In the context of the Church Treasurer a contribution is a gift of cash, services, time or property for which a value can be fixed and for which a receipt may be required.

## **Debt Financed**

Property purchased by securing a mortgage loan.

## **Deferred Compensation**

Method of supplementing an individual's retirement benefits by deferring a portion of his or her current earnings. To qualify for a tax advantage, the IRS requires a written agreement between an individual and the employer stating the specified period or deferral of income. An election by an individual to defer income must be irrevocable and must be made prior to performing the service for which income deferral is sought.

## **Employer Identification Number (EIN)**

An EIN is necessary for an organization once it incorporates. This number must be used on all forms and

filings to the IRS, and for opening a checking or savings account in the organization's name.

## **Endowment Fund**

Permanent and true endowments—funds created by third-party donors with the stipulation, as a condition of the gift, that the principal is to be maintained inviolate in perpetuity (principal is not expendable) and that only the income resulting from the investment of the fund may be expended in accordance with instructions by the donor.

Term endowments—similar to permanent or true endowments except that the terms of the gift instrument permit the principal to be expended all or in part upon the happening of a particular event or the passage of a stated period of time.

Quasi endowments—funds established by the board of directors or church council and functioning like an endowment fund. However, they are subject to change and restoration to current operating funds at the discretion of the board.

## **Excess Group-Term Life Insurance**

The Internal Revenue Service has ruled under Internal Revenue Code Section 72(m) that the cost of group-term life insurance, or its equivalent, for benefits in excess of \$50,000 purchased as a part of a qualified plan is to be included as part of the gross income of the participant for the tax year. The IRS has also ruled in IRC Section 79 that such cost is also subject to Social Security tax (FICA or SECA). The cost for such benefits is established by the IRS and is based on the age of the worker.

## **Excise Tax**

Tax imposed on an act, occupation, privilege, manufacture, sale, or consumption.

## **Federal Forms**

**FORM W-2**—"Wage and Tax Statement"—This form is used to report annual income given to an employee. Three copies go to the employee, one is retained by the employer, and the fifth is submitted to the IRS, along with Form W-3.

**FORM W-2C**—"Statement of Corrected Income and Tax Amounts"—This form is used to correct an error on a previously distributed Form W-2. If the taxpayer has not yet filed an income tax return for the year shown, he or she must attach a copy of the original Form W-2 along with a copy of this Form W-2C to their income tax return.

**FORM W-2G**—"Certain Gambling Winnings"—This form is filled in by the payor of gambling winnings. A copy is given to the winner. A copy is also filed with IRS. If any income tax has been withheld, also submit Form 945 to IRS.

**FORM W-3**—“Transmittal of Income and Tax Statements”—This form is used when submitting the Form W-2s to the Social Security Administration for the various employees.

**FORM W-3C**—“Transmittal of Corrected Income and Tax Statements”—This form is used when submitting the Form W-2C(s) to the Social Security Administration.

**FORM W-4**—“Employee’s Withholding Allowance Certificate”—This form is filled in by an employee upon hiring. The employee designates his or her withholding allowances for tax purposes. The information is then used to calculate the required amount of funds withheld from the employee’s pay.

**FORM W-9**—“Request for Taxpayer Identification Number and Certification”—This form is used to obtain the correct TIN from someone or some company that provided your business a service.

**FORM 637**—“Certificate of Registry”—This form is used by nonprofit schools to obtain a federal excise tax exemption on communication services.

**FORM 843**—“Claim for Refund and Request for Abatement”—This form is used to request a refund of overpaid taxes, including the tax paid on gasoline or diesel fuel used in school buses.

**FORM 941**—“Employer’s Quarterly Federal Tax Return”—This form is used for the submission of quarterly payments of FICA taxes, both the employee and employer portion, and federal income taxes.

**FORM 941-X**—“Adjusted Employer’s QUARTERLY Federal Tax Return or Claim for Refund”—This form is used to correct errors reported on a previously filed Form 941.

**FORM 945**—“Annual Return of Withheld Federal Income Tax”—This form is used for withholding reported on Forms 1099 and W-2G.

**FORM 990**—“Return of Organization Exempt From Income Tax”—This form is used by a tax-exempt organization to provide IRS with information about its programs and accomplishments. However, churches, church-operated schools, church auxiliaries, and separately incorporated schools below college level are not required to file this form.

**FORM 990-T**—“Tax-Exempt Organization Business Income Tax Return”—This form is used to report all income from unrelated businesses if the gross amount received is over \$1,000.

**FORM 990-N**—“Electronic Notice (e-Postcard) for Tax-Exempt Organizations . . .”—This form does not apply to churches, their integrated auxiliaries, or church-operated schools below college level.

**FORM 1040**—“U.S. Individual Income Tax Return”—Used for filing individual income tax.

**Schedule A**—For reporting itemized deductions from income.

**Schedule C**—For reporting profit or loss for a business.

**Schedule SE**—Used for recording expenses and income by self-employed individuals.

**FORM 1040ES**—“Estimated Tax for Individuals”—These vouchers are used on a quarterly basis by ordained and commissioned ministers expecting to owe at least \$1,000 in federal income tax and self-employment taxes.

**FORM 1096**—“Annual Summary and Transmittal of U.S. Information Returns”—This form is used when submitting various forms (such as 1099’s) for informational purposes to the IRS.

**FORM 1098**—“Mortgage Interest Statement”—This form is used to report mortgage interest payments made by the borrower to the lender. The lender fills-in the form, gives one copy to the borrower, retains one copy, and submits the third copy to IRS. However, if a congregation assists its minister with the purchase of a home by means of a Church Extension Fund loan, the congregation is the entity responsible for completing and distributing the form.

**FORM 1098-C**—“Contributions of Motor Vehicles, Boats, and Airplanes”—This form is used to provide a contemporaneous written acknowledgement to the donor (copies B, C) and when reporting the same information to the IRS (copy A) when valued at \$500 or more.

**FORM 1099-MISC**—“Miscellaneous Income”—This form is used to report miscellaneous income given to an individual. One copy is given to the individual, one is retained by the employer, and the third is submitted to the IRS using Form 1096.

**FORM 1099-R**—“Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.”—Filled-in by Concordia Plan Services and distributed to retirees under CRP and the Pension Plan for Pastors and Teachers.

**FORM 2106**—“Employee Business Expense”—Employees file this form to deduct ordinary and necessary expenses for their jobs.

**FORM 5578**—“Annual Certification of Racial Nondiscrimination for a Private School Exempt from Federal Income Tax”—This form is used to provide the IRS with the annual certification of racial nondiscrimination required by Rev. Proc. 75-90, 1975-2 C.B. 587.

**FORM 8282**—“Donee Information Return”—Form used by donee organizations to report information to the IRS about dispositions of certain charitable deduction property made within three years after the donor contributed it.

**FORM 8283**—“Noncash Charitable Contributions”—Used by donors when claiming a tax deduction for any noncash contributions that exceed \$500.

**FORM 8300**—“Report of Cash Payments Over \$10,000 Received in a Trade or Business”—Used to report any single cash transaction or two or more related transactions (i.e. any receipt, other than contributions) that exceeds \$10,000.

**FORM SS4**—“Application for Employer Identification Number.”

**I-9 Employment Eligibility Verification**—This form is filled in by an employee upon hiring.

### **FICA**

Federally Insured Contributions Act (Social Security and Medicare). The employer and employee pay an equal share of the tax.

### **Fiduciary**

A person having responsibility for the assets of another or others. A treasurer has fiduciary responsibility to the church as an institution and to the members as donors for the proper management of assets and gifts.

### **Flexible Spending Arrangements (FSA)**

The Flexible Spending arrangement (FSA) is a form of cafeteria plan. In this form the employee may designate a portion of his or her salary for qualified health or dependent care expenses as pre-tax dollars. Funds must be used in the year designated or they will be forfeited. Employers may offer only one of the 2 following options or none at all: 1) it can provide a “grace period” of up to two and a half extra months to use the remaining FSA money, or 2) it can allow employees to carry up to \$500 per year to use in the following year. Amounts designated by the employee are not included on the W-2. The employer also receives a tax saving through reduced FICA compensation and Worker’s Compensation premiums. Federal reporting requirements are the same as for cafeteria plans.

### **Health Reimbursement Account (HRA)**

An account established by an employer to help cover employees’ out-of-pocket healthcare expenses; it has an unfunded account balance; the account is reimbursed by the employer as claims are incurred.

### **Health Savings Account**

A health care option that combines an employer’s high deductible health plan with a savings account to help cover the employee’s qualified health care expenses. The account is owned by the employee.

### **Housing Allowance**

A portion of a minister’s gross salary designated by resolution used to furnish and maintain a residence. The allowance offers certain tax options and may be used with a furnished parsonage, an owned home, or rented residence.

### **IRA**

Individual retirement account.

### **IRC**

Internal Revenue Code —The code containing the rules and regulations of the Internal Revenue Service. Codes are usually noted by section.

### **Offset Payment**

(See Special Equalization Payment)

### **Point of Service**

New managed-care program implemented in many areas by Concordia Health Plans.

### **Qualified Organization**

An organization eligible to receive tax deductible contributions under the Internal Revenue Code. All Synodical congregations and their auxiliaries and school are “qualified organizations” under the Synod’s blanket tax exemption.

### **Quid Pro Quo**

Something for something, exchange. Used for substantiation of gifts to the IRS. Payment made partly as a contribution and partly for goods and services.

### **Recognized Service Organization**

An organization formally recognized by The Lutheran Church—Missouri Synod that extends the mission and ministry of the Synod, but is not a part of the Synod as defined in the constitution and bylaws.

### **Reimbursement**

Pay back for expenses incurred.

### **SECA**

Self Employment Contributions Act—Funds Social Security benefits for those individuals who are self-employed. Minister of the Gospel is subject to SECA.

### **Special Equalization Payment (Formerly Offset)**

Payment for participation on an offset basis in Concordia Retirement Plan. A payment (the difference between the regular basis and full basis premium) is made directly to the minister, rather than the Plans. Employer’s requirement to pay this discontinues effective July 1, 2014.

### **Substantiation Charitable Contribution**

A receipt or written acknowledgement provided to a donor by a qualified organization reporting a donation and required for compliance with the Internal Revenue Code.

### **Tax Sheltered Annuity (TSA)**

Employer sponsored tax deferred retirement plan available to non-profit organizations. It is also called a 403(b) plan.

### **Unrelated Business Income (UBI)**

In a non-profit organization income unrelated to the business for which the company is incorporated.

