NCC Treasurer, Personnel and Finance Guidance Manual

by the NCC Director of Operations and BOSF
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INTRODUCTION

The NCC Treasurer, Personnel and Finance Guidance Manual contains instructions on how churches, and the treasurers and boards of finance they elect, ought best to account for money and donations they receive and to handle common payroll and tax questions.

This is a companion manual to the NCC "North Central Conference Pastoral Compensation Guidelines." Many of the policies and guidelines relating to setting up accountable reimbursement, structuring a salary, and things of that nature, are included in the Ministerial Compensation guidelines. This Treasurer Guidance Manual is designed to provide assistance in setting up best practice approaches to the day-to-day management and accounting required of most churches.

The bulk of this manual is formatted as questions and answers. The NCC intends to review this manual annually and amend it as changes become necessary.

A TREASURER'S MINISTRY

A church treasurer is one of the generally unsung heroes of the local church. No church can operate well without a competent and dedicated team of individuals who take seriously the responsibility of financial oversight and accountability both to members of the church and to the governmental agencies with which we cooperate in the United States. You are highly valued, though most people in your church will never see you at work or understand the importance of what you do.

It is a blessing to be able to give sacrificially toward the cause of Christ. Our churches, extensions and expressions of the mystical body of Christ, are financially supported primarily through the tithes and offerings of its constituents (attenders, members and friends). Per the Book of Discipline (¶6440) members are encouraged to give at least to the level of a tithe (10% of income). Other creative means of financial support are also available as long they are not a substitute for tithes and offerings, are consistent with the ethical practices of our faith, and the church itself does not serve as a marketing agency for the commercial products of its constituency. The church may raise funds for the benefit of the community and even strategically partner with educational, charitable or commercial enterprises in ways that may tangibly benefit the church so long as this is consistent with our Discipline and the law of the land.

WHO OVERSEES THE WORK OF MANAGING THE FUNDS THAT ENTER THE CHURCH'S ACCOUNTS?

Corporately, this is the responsibility of the elected Board of Administration, under the direction of its chair, generally the appointed Free Methodist pastor. However, very specifically, the elected *treasurer*, is responsible to ensure the proper handling of funds on behalf of the church.

Specifically, a *treasurer* (¶6250.J) – an adult member of the local church who fulfills the criteria of spiritual faith and practice for leaders in the FMCUSA – responsibly records of all money received and expended by the church and provides a report to the church board at a frequency determined by the local board (no less than quarterly while monthly is generally preferred).

The treasurer does not determine the budgetary priorities or practices of the local church. This is determined by the Board of Administration. The treasurer may, as the Board of Administration directs,

work in oversight of a paid bookkeeper (or in fact, be both an elected member of the board who also receives remuneration for services provided) and generally, a treasurer works either as chair or under the chair of a Board of Stewardship (and/or) Finance for the local church. If the treasurer is compensated, he/she may not as a member of the board vote or direct the nature of the compensation.

WHO ACTUALLY COUNTS MONEY?

Each church must select (generally appointed by the Board of Administration) no fewer than two individuals – often referred to as "tellers" – who are responsible to receive and count each offering, documenting cash and check offerings for deposit into the church's accounts. Each offering should be accompanied by a form that carries at least two signatures verifying the amounts to be deposited. The collection of cash and checks should be deposited by the treasurer (or designated teller). The treasurer may be one of the "tellers" but under no circumstances (for the protection of the treasurer) shall the treasurer alone (or anyone alone) account for an offering.

WHAT IF CONTRIBUTIONS ARE ELECTRONICALLY DEPOSITED INTO THE CHURCH ACCOUNTS?

An increasing number of Americans use electronic transfers of funds more than cash for most transactions. In many cases, the only check a family writes is to the local church. It is highly recommended that local churches explore multiple avenues for allowing people to give in the fashion most comfortable for them – and in many cases that fashion is an E-transfer.

Money that is directly deposited into the church treasury does not need the "double count" required of cash and check offerings collected. Electronic deposits are directly transferred to the church account with no possibility of loss.

In general, the use of electronic transfers provides significant benefits to the donor and recipient. It is generally more, not less, secure than cash and check offerings. The funds immediately go where they can be of most use. Donors who engage in automatic deposits into the church account have the benefit of giving whether they are present or not and can account more easily for this charitable contribution. Electronic giving is far more attractive to younger generations, and it is far more convenient to everyone that makes use of this technology.

DO I NEED TO RECEIPT EACH DONATION GIVEN TO THE CHURCH?

As a Free Methodist Church plant, fellowship or society, your church is a legal religious-not-for-profit corporation. Everyone who donates to your church is entitled to verification of every donation made, as these are tax-deductible contributions. It is not legally required that churches do this, unless asked by the donor. However, donors may not deduct contributions to your church unless they are documented by the church. It, therefore, is an ecclesiastical responsibility that the North Central Conference expects of all its churches to provide giving documentation to donors whether they ask for this or not. It is an expectation, and it is best practice that will generate goodwill and the likelihood of trust in and further contributions to your church. Therefore, you are at minimum required to provide receipts to every donor for the total amount given to your church over the calendar year. It is best practice (though not required) to provide a quarterly summary of giving.

If a donor gives a SINGLE OFFERING of $250.00 or more, that donation should be receipted in a timely fashion (within one month) separately from any quarterly or annual summaries that may be provided.

An annual statement is legally acceptable for IRS purposes, but it must be sent to the donor before JANUARY 31 of the following year. Donors may not legally claim their charitable contributions until they have evidence of the contribution from the recipient, so make your donors happy and give them the opportunity to benefit from their gifts to the church.

WHAT MUST BE INCLUDED IN THE RECEIPT TO A DONOR?
For any donation to be legally deductible, the receipt given by the church MUST contain the following!

The legal name of the church or ministry.

The name of the donor. You do NOT need to include a social security number.

The date(s) and amount(s) of the donation.

And the following statement must be included on every receipt for the donation to be deductible: No goods or services were provided to you by the church in connection with any contribution other than intangible religious benefits.

There may be times when a donation is made that is not entirely tax-deductible. For example, a benefit dinner ticket may cost $100.00, but $25.00 of that ticket purchases a meal. In this event, the receipt should be specific and include language like, "This contribution included the tangible benefit of a meal valued at $25.00, $75.00 constitutes a charitable donation for which no goods or services were provided to you by the church in connection with any contribution other than intangible religious benefits."

WHAT ABOUT NON-CASH CONTRIBUTIONS?
There are instances in which in-kind donations (*e.g.,* a computer or clothing) may be given to the church, or stocks and bonds, or land, or labor and such. For most in-kind donations, a written receipt must be given at the time of the contribution which includes all of the information identified above EXCEPT the dollar amount. Dollar amount designations for in-kind donations are the responsibility of the donor to identify. We recommend you direct donors with in-kind gifts to the Salvation Army guide for in-kind donations found at: http://satruck.org/donation-value-guide, or to use tax-tool software such as "itsdeductible" by Intuit.

Very specific guidelines for large in-kind donations, such as a car, boat or land transaction, or stocks and bonds are provided by the IRS. You may review IRS guidelines on the NCC toolbox or the IRS web site (irs.gov). In the event of an in-kind donation valued more than $500 but less than $5000 (a car, for example), the letter for other in-kind donations continues to apply, but the donor should be advised that the IRS form 8283 must also be completed in order for the contribution to be properly deducted.

If the donation exceeds $5,000, the *donor* is required to have the item/property professionally appraised, and this appraisal is attached to form 8282 when filing the donor's 1040. It is not the church's responsibility to value the property for the donor's purposes, but the church should advise the donor in regard to this important legal proviso. The church however *must* complete its portion of the IRS form 8283, and will be required to file an IRS form 8282. If the donation is a car, boat or plane, other reporting requirements come into play as well. See the appendix regarding obtaining appropriate IRS forms.

Unfortunately, it is no longer possible for churches to issue a receipt for the fair market value of LABOR or TIME volunteered. However, materials donated by the laborer are tax deductible. So, for example, a

professional painter volunteers to paint your church nursery. The cost of paint becomes an in-kind donation, receiptable as described above, but the cost of labor is not a legally receiptable contribution. The volunteer may also personally deduct mileage and incidental expenses (food, lodging, etc.) for the period of time invested on behalf of the church, but the church does not receipt this.

ARE GIFTS TAX DEDUCTIBLE?

No. A personal gift is not tax deductible. The church must be clear on this. For example, many church enjoy a "Pastor Appreciation Day" and sometimes gifts are given to the pastor. A collection may go around and people write checks or give cash to the church for the pastor. These are gifts to the pastor. They may be accumulated by the church treasurer and converted to a single check from the church, but this does not make the gift tax deductible.

CAN A GIFT BE DESIGNATED FOR A SPECIFIC PURPOSE AND BE TAX DEDUCTIBLE?

Sometimes. If a contribution is given by a donor to the church with the proviso to benefit a particular person it is not tax deductible. For example, several people hear that Jill needs a car and they want to support Jill, so they give the church $1,000 to help Jill buy a car. This is wonderful Christian generosity, but it is a gift and not tax deductible.

However, if the church has a benevolence program, or a missions program planning to send a missionary, it can and should solicit funds for those particular programs. The individual donor, however, may not specify how those dollars will be spent other than understanding they will benefit the benevolence or missions (or whichever) program to which they designate those funds.

CAN A GIFT BE TAX-DEDUCTIBLE IF IT IS GIVEN TO THE CHURCH ON BEHALF OF ANOTHER ORGANIZATION?

Yes. If the church is promoting an activity to support a local not-for-profit organization, agency, missions program or the like, and provides those funds to that agency, it is the prerogative of the church. Donations raised for that purpose and given to the church may not stay with the church treasury for long (it is a flow-through amount) but they are receiptable and may be included on the annual (or more frequent) summary of contributions.

HOW DO I PAY SPECIAL SPEAKERS OR OTHER VENDORS? THE 1099 IS EVER PRESENT!

You must give a 1099-MISC form to anyone with whom you contract for services (other than your employees) and to whom you pay $600.00 or more in the calendar year. For example, if you hire an evangelist to provide a week of services at the rate of $750.00, you must issue him/her a 1099-MISC for that amount. To do so, you will need to request a social security or tax identification number. This is true if you contract with a garden service, painters, etc. If you pay someone more than $600.00, you must give them a 1099-MISC.

To give a 1099-MISC, you need their taxpayer information, and must request an IRS form W-9 from the vendor/preacher to properly document the 1099-MISC. These forms are online.

If you pay rent, for storage, or other tangible items to a single vendor of $600.00 or more, you should issue a 1099-MISC.

To file the 1099 information you have accumulated over the year with the IRS, you must transmit a form 1096. It is an easy form to complete, asking for a summary of the total number and total of amounts of

1099's issued. Unfortunately, these forms are not easily downloadable but are readily available from the IRS upon request.

All IRS current forms described in this document can be ordered from:
http://www.irs.gov/Businesses/Online-Ordering-for-Information-Returns-and-Employer-Returns

PAYING STAFF

WHERE DO I FIND CURRENT GUIDELINES FOR COMPENSATION OUTLINED BY THE NCC?
Every year, the NCC Board of Stewardship and Finance and Board of Administration updates the NCC Pastoral Compensation Guidelines. These are found online in the NCC Resources/ Conference Resources/ Handbooks/ Compensation Guidelines and are updated annually. Changes made to these guidelines are generally noted during each Annual Conference.

DO I TREAT MY PASTOR LIKE AN EMPLOYEE OF THE CHURCH FOR PAYROLL PURPOSES?
In most cases, yes. Pastors have dual status as far as the IRS is concerned. A pastor is an employee in every taxable regard except for Social Security, for which a pastor is considered self-employed. This is a bit tricky, but the church has a responsibility to treat the pastor's payroll in a manner consistent with current law.

WHEN SHOULD I PAY THE PASTOR(S) OR OTHER EMPLOYEES?
While there is no hard and fast rule, your local board should make a clear determination and follow it. The NCC recommends two paychecks monthly, on the 1st and 15th. Many churches choose to pay every-other week, some weekly, a very few monthly.

DO WE NEED TO ISSUE A 1099 or W-2 TO OUR EMPLOYEES?
Almost always your pastor and staff, whether full time or part time, should receive a W-2 before January 31 of each year. Very rarely will a pastor be considered an independent contractor or self-employed rather than an employee regarding income documentation (and therefore receive a 1099) – such circumstances may include a church planter or short-term interim pastor. If the pastor should receive a 1099, it too is due to be issued before the end of January each year.

WHO IS RESPONSIBLE TO PAY THE PASTOR'S TAXES?
Any employee or self-employed contractor, clergy or otherwise, is expected to pay his or her own taxes. Social Security (FICA) is matched by employers for non-clergy employees. It is not matched by churches for CLERGY, who pay into the Self-Employment-Compensation-Act (SECA) for Social Security purposes.

SHOULD OUR CHURCH MATCH THE EQUIVALENT OF SOCIAL SECURITY COMPENSATION FOR A PASTOR?
Some churches do provide additional income to pastors to offset the costs of Social Security/ Medicare taxes (currently the matching contribution for non-clergy equals 7.65% of gross income). This is perfectly acceptable and it is included in the expectation of "NCC Pastoral Compensation Guidelines"; however it is NOT tax-free income. Pastors will pay both social security (SECA)/ Medicare and income taxes on any of the set-aside funds meant to provide additional support for SECA. It is considered income to the pastor.

WHAT TAXES MUST BE WITHHELD?
All employees must have taxes withheld by law, although as indicated, a pastor has dual status and is not

required to have taxes withheld. Withholdings are required for the paid church secretary, for example. Currently, the following tax withholdings are required of employees/employers:

Type of Tax	Employee	Employer
FICA	6.2%	6.2%
Medicare	1.45%	1.45%
Medicare hospital insurance	0.9%	0.00%

DO WE NEED TO DEDUCT TAXES FROM OUR PASTOR'S PAYCHECK?

The local church is not required to withhold taxes from the pastor's paycheck. The payment of taxes and Social Security/Medicare taxes is the responsibility of the pastor. However, if the local church has the capability and expertise to do so, and if the pastor requests it, the local church should deduct taxes from the pastor's paycheck. This is of great assistance to the local pastor, so he/she would be free from having to file quarterly estimated taxes to federal and state departments of revenue. These tax withholdings by the church must be submitted to the IRS and state department of revenue on a quartly schedule, along with all other church employees. However, any taxes withheld for clergy can only be done after the pastor has provided a W-4 to the church treasurer. It is not assumed that churches will withhold taxes for the pastor. If a pastor elects not to have taxes withheld, he or she is responsible to file quarterly tax payments with vouchers to the IRS on their own.

It is not legally required for the church to withhold and transmit taxes for pastors (though it is required for non-clergy staff, which include non-ordained ministry staff). Pastors, as self-employed individuals (remember the unique dual tax status) may file their own quarterly estimated taxes with the IRS. However, it is a cleaner process with fewer chances for error and penalties if taxes are regularly withheld.

HOW DO IT SET UP A BASIC PAYROLL SYSTEM?

Determine your church's Federal Employment Identification Number. If you need help with this, ask your Board chair or conference Administrator.

1. Determine your church's State or Local Identification Number (these vary from state to state).
2. Determine if you will need to use a W-2 or 1099 (employee or contractor) system.
3. Determine your pay period (which should be the same for all church employees).
4. Have the employee complete BOTH W-4 and I-9 forms. These are sent to the pastor and delegate by the NCC upon appointment to a church but are also available online. Both forms are kept on file at the local church. The W-4 should be updated annually. Most states have their own W-4 which should also be completed to ensure proper state withholdings.
5. New hires must be reported to your state within 20 days of hire, using online or paper notification (see state by state guideline in the appendix).
6. Establish your payroll record for each employee (usually a manila folder in secure cabinet), which must include:
    a. Name, address, social security number of each employee
    b. Total amount and date of each payment
    c. Portion of each payment constituting taxable wage

    d. Copies of W-4s
    e. Copies of your transmitted filings
    f. Copies of undeliverable W-2s.
7. Calculate payroll tax withholdings.
    a. Use the IRS (and state specific) tax tables to determine proper amount of income tax withholdings. Note that South Dakota does not levy personal income taxes.
    b. Because CLERGY must pay for their own SECA, they may (should) request additional taxes to be withheld, this is accomplished via the W-4 completed annually.
    c. For NON-CLERGY, calculate the mandates FICA/ Medicare matching withholding (currently 7.65% of gross income, but you should always check IRS rulings annually).
8. Prepare and file payroll tax returns.
    a. Churches (like all employers) must file quarterly Form 941. This form is due by the end of April for the first quarter's payroll taxes, end of July (2nd Q), end of October (3rdQ), and by the end of January for the fourth quarter's payroll tax.
    b. File your quarterly state taxes at the same time.
    c. The 941 is completed online (though you can print out a copy of your transmittal when you are finished). http://www.irs.gov/pub/irs-pdf/f941.pdf?portlet=3
9. Prepare annual W-3, W-2 (and 1099) forms for distribution before January 31.
    a. Complete the IRS Form W-3, the cover letter for your W2 submissions. (Note the W3 is a Social Security Administration form, but they share with the IRS).
    b. You may complete (recommended) the W-3 online, but you must register your church with the IRS to do so.
    c. The W2 has three parts, A, B and C. Copy A has preprinted red boxes and must be submitted to the Social Security Administration along with the W-3. Copies B and C have preprinted black boxes and are given to the employee.
    d. Your church should keep a copy of each W-2 for its records.

SHOULD I USE ACCOUNTING SOFTWARE?
It is not necessary to use computer or web-based software to operate your church's books and payroll. However, it helps, and we highly recommend that you do so. Using software designed for this purpose greatly eases the complexity of proper form, documentation and transaction management. It allows for a quick and professional system of reports to individual donors, your church board, the annual society, and frankly, to you the treasurer. It may sound daunting to learn software or to transfer your non-digitized records into a new system – and sometimes it is. But after the initial set up and learning curve, you will discover that many of the headaches of organization and reporting are reduced significantly.

FINANCIAL COMMITMENTS TO THE LARGER FMCUSA

I KNOW I'M PART OF A CONNECTIONAL CHURCH; HOW DO WE PROPERLY SUPPORT THE FMC/NCC?
The Free Methodist Church is a global connection of local expressions of Christ's body. Each church, mission outpost, Christian camp, ministry agency and educational institution is interdependent. We do not exist alone and doing God's work in this network of like-minded organisms all over the region, country and world is one of the great strengths of the Free Methodist Church. The work of the regional, national, and global connection is dependent upon our local churches responsibly modeling support for the overall work of the church.

Churches are required, though we believe it is more of a spiritually grounded privilege and family responsibility, to support the work of the Free Methodist Church through tithing to the Conference and committing to generously support Free Methodist missionaries and ministry agencies.

HOW MUCH DOES A CHURCH CONTRIBUTE TO THE CONFERENCE?
All churches are expected to tithe. It is best practice in every healthy and growing church, whether part of a denomination or not, to set aside a tithe (10%) or more of their corporate income to benefit the larger work of global Christianity and ministries. All members are taught and encouraged to tithe (or should be) by its church, and all who serve on local Boards of Administration are expected to tithe as part of the leadership requirement of the church. A significant spiritual blessing and model for the church and members occurs when the church can positively proclaim that its leaders and the local practice tithing. This has a ripple effect of encouraging generosity and demonstrating faithfulness to the church. Not doing so has the equivalent negative ripple effect – it teaches that making budget means shorting God (Malachi 3:8).

WHERE DOES THAT TITHE GO?
Tithes to the NCC are distributed in many ways. The first responsibility of the NCC is to support the work of the Free Methodist Church USA, and in fact, generally 32% of the funds contributed to the NCC as local church tithe constitutes what is called the EQUAL PARTICIPATION PLAN and supports national and global strategic ministries under the direction of the Board of Bishops. The general breakdown of where your tithe goes is as follows (every year some of the specifics shift moderately, but this is the rule of thumb for nearly a decade – how does this compare to your local church priorities?):

43%	Conference staff (Superintendent, Conference Staff, District Leaders, support for Church Planters and occasional contractors)

12% Administrative costs such as building maintenance, travel, mailings, web infrastructure, equipment, for all of the boards and committees that span seven states.

6% Ministries such as camping, youth development, training events for pastors and churches, leadership development.

7% Accomplishing Annual and General Conference (the vast majority of this cost is housing, food and travel for pastors and delegates who attend).

32% Equal Participation Plan contribution to the FMCUSA (the NCC 'tithe').

Church planting and revitalization is typically funded by income generated by the NCC Church Planting Endowment Fund, though grants and other income may be received for this purpose.

HOW DOES THE CONFERENCE DETERMINE THE TITHE FOR MY CHURCH?

While the conference does not specify the amount of tithe to be remitted by each local church, this is the system that the NCC has chosen to use to best provide for the greater work of the Free Methodist Church USA and the North Central Conference. Just as the NCC remits Equal Participation Plan (EPP) to the FMCUSA based on the actual tithe the NCC receives from the local churches, it is expected that the local church will remit a tithe of actual income received on a monthly basis.

There are "deductions" from the tithe that the denomination and NCC believe most benefit the generous nature of the church on mission with Jesus.

These deductions are:

Giving to Free Methodist Missions.
(i.e.-Giving to FMC missions work is deductible, giving to Wycliffe is not deductible for the purpose of the tithe to the FMC/NCC).

Giving to Free Methodist Church Planting.
(i.e.-Giving to any NCC Church Plant is deductible).

Giving of Capital Funds.
(i.e.-When your church is raising a roof or needs a parking lot or is relocating and purchasing property).

Giving to Flow Through Accounts.
(i.e.-When your church raises money to send to the local food bank, and then sends that money to the local food bank).

A tithe means literally 10%. But in your case, it may be a little or even considerably less based on the deductions. Still, just as individuals receive a greater blessing when they tithe on the gross amount, churches are free to tithe to the NCC on the gross amount of income.

The NCC Board of Stewardship and Finance uses the previous year's local church giving reports to develop the NCC's annual budget and is able to fund conference ministries that are designed to support you and all of our local churches and ministries, and provide for the Equal Participation Plan which contributes to the ongoing support of the expanding global mission to spread Scriptural holiness across the land.

Here's an example of how your "tithe" might be calculated…

Annual Reported Income:	150,000.00
(-) minus	
Missions Giving	15,000.00
Church Planting	5,000.00
Capital Funds	20,000.00
Flow Through	1,500.00
(total)	41,500.00
Income minus deductions	108,500.00
Annual Tithe (10%)	10,850.00
Monthly Expectation (total/12)	904.00

HOW DO WE PAY THE CHURCH TITHE TO THE NCC?

Each church should set aside a tithe of its income to be contributed to the North Central Conference monthly. Following the last Sunday of the month, the local church should remit the tithe (10%) to the NCC based on the monthly income minus the allowed deductions.

Currently, the NCC is not sending invoices to the local church for this tithe but is dependent on the voluntary remittance of these funds.

WHAT IF WE CAN'T AFFORD THE TITHE?

The tithe to the NCC is not the same as the tithe expected of local members. It is a requirement of being a Free Methodist Church in global connection. A church that truly experiences financial hardship may petition the conference to develop a plan that will allow for future health and the capability of meeting its commitments. Remember, however, that when a church does not pay its fair share, it puts pressure on all other churches to pay more. Ultimately, this is not fair to anyone.

A church that is chronically incapable of meeting its obligations may require a change in pastoral appointment (this is often a function of leadership priorities), or a change in the church designation from "Society" – fully functioning church with all rights and privileges – to a "Fellowship" – which allows for a simpler structure and fewer requirements but fewer rights and privileges. Unpaid tithes in these instances are in fact a collectible amount, often requiring a plan with the NCC for repayment over time, or in worse case scenarios, placed as a lien against property in the event of the dissolution of the church.

However, the goal of the connection is to help, not hinder or hurt, and every effort is made to be fair and reasonable in this effort.

HOW IS THE NCC BILLED FOR THE EPP?

The FMCUSA calculates its Equal Participation contribution goal for each conference based upon the annual reports of income from churches. It uses a similar deduction system as the NCC to determine the EPP expected contribution each year. The FMCUSA, then, meets with each conference on an annual basis to review contributions made by the conference and their (FMCUSA) expectations for those contributions. The NCC is expected to remit 3.2% of the income reported by all local churches in the annual report. If all churches are remitting a tithe (10%) of their income to the NCC, then the NCC can remit 32% of the tithe received from the local churches to the FMCUSA for EPP. However, if the local

churches do not remit a tithe (10%) of their income to the NCC, the NCC is still obligated to remit to the FMCUSA based on the total of local church reported income. We do not require church plants, however, to tithe for the first year, though we expect them to gradually increase their giving through three years after inception to the level of a tithe. The NCC is nothing but the collection of upper Midwest Free Methodist Churches, so if any church is not paying its tithe to the NCC, other churches are paying your share.

HOW DO WE HANDLE OUR PASTOR'S PENSION?

The FMCUSA offers pastors a healthy pension plan. There are not often many employee benefits offered to FMC pastors, but the pension is one that is both mandatory and very solid. Like any employee benefit, the pension is not considered part of a pastor's salary, but is an employee-related investment made by the church.

The total income of a pastor is used to calculate a pastor's pension investment. The amount invested into the pension is equivalent of 13.5% of the pastor's total compensation. Total compensation includes cash salary, housing allowance and/or fair market value of the parsonage and utilities covered by the church on behalf of the pastor. Other benefits, such as health insurance/medical expenses paid directly by the church, professional expenses, continuing education, etc., are not considered income and not calculated for purposes of the pension.

The FMCUSA Human Resources department manages the pension for pastors. Enrollment for your pastor takes place upon his/her first appointment, and annual change of compensation forms are employed to adjust the pension based on compensation adjustments (up or down). You can locate these forms online at http://fmcusa.org/hr/pensionretirement.

Your church must set up a direct deposit arrangement with denominational Human Resources department to contribute to your pastor's pension. The form for this is also located online. Your conference Administrator or any member of Human Resources can assist you in setting up this arrangement.

HOW DO WE HANDLE MISSIONS GIVING?

Every North Central Conference church is expected to keep the great commission in the forefront of prayers, activity, and support. That starts in your own backyard, includes your community and region, and it includes the whole world. Our Free Methodist connection's greatest success has been its global endeavors, for currently almost 90% of Free Methodists are not in the United States or Canada, and our largest and fastest growing churches are in Africa, Asia, and Latin America.

Free Methodist Missions may well be the best kingdom investments your church will ever make. The collected churches of the North Central Conference identify three missionaries toward which our churches are asked to focus support. These change from year to year (though not with frequency – long-term relationships are the healthiest).

It is not the treasurer's responsibility to identify which missionaries are supported by your church, but you will be asked to send the funds raised for your church's mission projects to the right place at the right time.

There are two common ways to provide the funds your church designates for missions.

Set up a direct deposit or online contribution to your missionaries of choice via the fmcusa.org web portal -- https://give.fmcusa.org. This is the preferred option as it is easy to track, fast to accomplish and with no middleman, less likely to have an error or delay.

Use the monthly conference invoice (which has missions designations) to identify your missions giving along with the check for your missions contributions. These funds will be sent to the denominational missions department and logged manually, and have the same impact as online contributions but they will be delayed in processing by at least a month.

WHY DOES OUR CHURCH NEED TO MAKE A MISSIONS COMMITMENT EACH YEAR?

Missionaries you love, pray for and support are not deployed onto the mission field until they have registered enough COMMITMENTS from churches and individuals to satisfy their budgeted requirements. The commitment process should be accomplished in the Autumn of each year in preparation for annual budgeting and missionary deployments. Information, forms and processes (all very easy to understand and follow) are located at http://fmcusa.org/fmwm. Your NCC Missions Coordinator can help churches through this process as well.

Again, the treasurer is not (by virtue of office) the individual responsible to make commitments to missionaries, but as you pay out your church's great commission offerings, it may be good to ask the question – have we committed to this missionary? It's a good question, because even if you are sending in money for a missionary, they may await deployment until a satisfactory number of commitments (promises to pay over time) have been registered.

INSURING AGAINST FINANCIAL MALFEASANCE AND INJURY

DO I NEED TO BE BONDED AS A CHURCH TREASURER?

Not really. However, your church should be sure to include indemnification against financial malfeasance or financial errors in its insurance policy. This would cover any losses related to anyone who may handle the finances of the church – you the treasurer, your pastor, your tellers, volunteers with charge cards, and the like. Double check with your Board of Administration to be sure of this provision.

DO CHURCHES PAY UNEMPLOYMENT INSURANCE?

No, churches do not pay into the state unemployment insurance programs for their employees. This means that if a pastor loses his or her employment, or if a church janitor loses his or her job, they are not eligible for unemployment benefits.

DO CHURCHES PAY WORKMAN'S COMPENSATION FOR PASTORS AND EMPLOYEES?

Yes. Every church must include Workman's Compensation in its policy that will cover loss of income, potential medical and rehabilitation services that may be incurred by an employee or volunteer while conducting business on behalf of the church.

HANDLING COMMON EMPLOYEE EXPENSES

PASTORAL EXPENSES – HOW ARE THESE HANDLED?

Issues relating to pastoral expenses are described in the NCC Compensation Guidelines manual.

However, there are several items that treasurer's and boards should be aware of in setting up legally compliant systems that benefit the church and pastor and limiting legal liabilities.

HOW DO WE CALCULATE A PASTOR'S HOUSING ALLOWANCE?

One of the few tax benefits to clergy is the housing allowance, which allows for income to be set aside for housing purposes without incurring income tax liability. Three important things need to be understood by the church regarding housing allowance.

> Housing allowance must be approved by the church board of administration, prior to the fiscal year to which it applies. The amount for the housing allowance, however, is determined by the pastor. The written housing allowance resolution adopted by the local BOA may contain a statement that the housing allowance continues for subsequent years until and unless it is revised by a majority of the church's BOA.
>
> The pastor, not the church, identifies the amount of salary to be designated as housing allowance. There is an approved NCC form which identifies the items legally prescribed as part of a housing allowance. Even if the pastor lives in a church parsonage, many items of a housing allowance will apply and virtually every pastor should claim some or all of his or her salary as housing allowance.
>
> If the housing allowance approved by the local board exceeds a pastor's actual housing expenses, it is not the church's responsibility to make a correction or pay taxes due to this miscalculation. This is the pastor's responsibility (and many current tax software programs or professional tax consultants will help your pastor make the proper tax adjustments).
>
> If the pastor underestimates the housing allowance, he or she will pay taxes that are not required by law, which is virtually a tax penalty. There is no penalty for overestimating the allowance if the pastor indeed pays any taxable difference when filing his/her 1040 each year.

Your church board should have language something like this entered into its minutes relating to housing allowance if your pastor owns her own home:

> We resolve that, after receiving Pastor _____'s estimate for housing expenses for the year _____, $_____ is hereby designated as housing allowance. Further, we resolve that as long as Pastor _____ is in our employee, the above amount designated as housing allowance shall apply to all subsequent years until modified.

If your pastor lives in a church provided parsonage:

> We resolve that, after receiving Pastor _____'s estimated housing costs in addition to those provided by the church, that of the pastor's total cash salary for the year _____, $_____ shall be designated as housing allowance. Further, we resolve that as long as Pastor _____ is in our employee, the above amount designated as housing allowance shall apply to all subsequent years until modified.

Your church should also designate the fair market rental value of the church parsonage, which will be used to 1) calculate the pension rates for your pastor and 2) be used by your pastor to calculate SECA liability.

> We resolve that for the year _____, the fair market rental value of the church parsonage located at _____, is set at $_____/annually. We further resolve that this shall remain the fair market rental value of the property in subsequent years until modified.

It is recommended that the local church request a local real estate agent to make a reasonable estimate of the fair market rental value of the parsonage, based on comparable values in the area of the parsonage.

Housing allowance amounts, and those items which are legally construed as part of a housing allowance, are best documented for the church board and pastor using the Housing Allowance Worksheet which is part of the NCC Compensations Guidelines Manual.

HOW SHOULD WE HANDLE THE PASTOR'S PROFESSIONAL EXPENSES?

Some churches set aside a budgeted amount for various expenses (like hospitality or book account or travel) and give that to the pastor as part of his salary. Indeed, that then does become salary rather than a professional expense and should be listed on the W-2 and is liable to taxes. Many of these expenses are deductible by a pastor on his or her annual tax filings assuming he/ she has kept proper receipts of such expenses and identifies these on Schedule A of the 1040 if these itemized deductions exceed the standard deduction allowable. Generally, only a portion of the expense becomes deductible, and it is complicated.

There is a much better way for your church, and it provides a much better tax advantage to your pastor. Use the NCC preference of an "FULLY ACCOUNTABLE REIMBURSEMENT PLAN." Churches can and should identify a budgeted amount for pastor's (or other staff) expenses, but not as part of the pastor's salary. When funds are requested by the pastor against these pre-approved categories, the treasurer should issue a separate check – do not include on the paycheck. If the budgeted amount for a category (say travel) is underutilized in a year, the remainder is not to be considered a bonus or cash gift to the pastor (which then becomes taxable income and defeats the purpose a clearly identified accountable reimbursement plan). It is always possible for a church board to adjust the amount it designates for professional expenses if necessary and prudent.

To document this in our church's records, which is very important for the pastor and church, we recommend a board action such as:

> We resolve that in addition to the salary we provide to our employee, we will reimburse him/her for auto, travel, and all professional expenses considered ordinary and necessary for the completion of his/her duties up to a fixed limit of $_____.

It is best practice, of course, for the pastor to document all expenses under this action with appropriate receipts and explanations reviewed by the treasurer (and/or designated members of a church's board of finance).

DOES OUR CHURCH NEED TO PAY HEALTH INSURANCE?

The North Central Conference expects that churches with full-time ministers and employees provide payment for a health care coverage plan for the clergy household. There are several options available through the Affordable Care Act, and in fact, significant credits given to churches who provide group insurance for their clergy and employees. There are also Christmas medical share plans like Medishare,

Christian Brotherhood, and Samaritan Ministries that can provide inexpensive sharing of medical expenses, though these are not considered insurance plans.

When a church does pay the insurance premiums (or some matching proportion) for their employees, the amount paid by the church to the insurance company is not considered income to the employee and is not taxable. If the church purchases the policy for its employees, and pays at least 50% of the employee's premiums, there is likely a significant rebate the church can receive, even though it is a tax-exempt organization. Filing the Form 8941 is likely to save the church and pastor considerable money when paying for health insurance.

However, if the church reimburses a pastor for his or her own personal insurance policy (or as is common, the policy of a spouse), this is considered taxable income and there are no usual significant church or personal tax advantages.

Some churches and pastors will find benefit from setting up a Health Reimbursement Arrangement (HRA) may provide a significant tax benefit to the pastor and not count as taxable income. The rulings for an HRA are described in the NCC Pastoral Compensation Guidelines, but they are constantly in flux with the federal government.

North Central Conference Treasurer's Guidelines

APPENDIX

Reimbursement Request Form

Offering Count Form

Sample Donor Receipt Letter for In-Kind Gift

Sample Annual Donor Letter and Receipt

Recommended Church Management/Accounting Software

IRS and State Payroll Forms

General Annual Calendar for Church Treasurers

IRS Forms Your Church Should Order

State Guidelines for Payroll

NCC CHURCH or MINISTRY NAME

REIMBURSEMENT REQUEST FORM

Please complete the following information and attach all receipts to the request for reimbursement.

_____ _____

PERSON MAKING REQUEST DATE OF REQUEST

_____

PAYEE (if different from person making request)

TRAVEL REIMBURSMENT				
Date	Purpose	Miles	Rate	Amount
			Sub - Total	

MISCELLANEOUS				
Date	Purpose			Amount
			Sub - Total	

Make Check Payable to		Amount
Approved (Signature)	Total Reimbursed	
Date Paid		
Check Number		
Treasurer (Signature)		

NCC CHURH or MINISTRY NAME

OFFERING COUNT

Date	

Check Count

No.	Donor	Amount	
	Check Subtotal		

Attendance

Worship in Sanctuary	
Children's Church	
Nursery	
Other	
Total Attendance	

Cash Bill Count

Qty	Denomination	Amount	
	$100.00		
	$50.00		
	$20.00		
	$10.00		
	$5.00		
	$1.00		
	$OTHER		
	Bills Subtotal		

Cash Loose Change Count

Qty			
	$1.00		
	$0.50		
	$0.25		
	$0.10		
	$0.05		
	$0.01		
	Change Subtotal		
	CHECK TOTAL		
	BILLS TOTAL		
	CHANGE TOTAL		
	TOTAL OFFERING		

COUNTED BY (Signatures)

1	
2	

SAMPLE DONOR RECEIPT FOR IN-KIND CONTRIBUTION

AWESOME NCC CHURCH or MINISTRY

123 Happiest Lane
Des Moines, IA 99999

December 3, 2014

Dear Frank Smith,

Thank you for the donation of the Dell 2020 All-in-one touchscreen computer system. We are grateful when you and people like you give selflessly to the needs of the local church. This computer system will significantly improve our English as a Second Language ministry, and we will put it to use quickly. You did not receive any goods or services in connection with this contribution other than intangible religious benefits.

As you may know, [Awesome Church] is a qualified organization as described in section 501(c)(3) of the Internal Revenue Code. As a result, your contribution to this church may have a favorable tax impact on your tax return. Under section 170(f)(8)(b) of the Internal Revenue Code, the church is prohibited from estimating the fair market value of your donated personal property.

You may wish to consult your tax preparer concerning the tax benefits of your contribution and the possible need to have the item properly appraised in order to get the maximum deduction allowed by law. If the value of the item exceeds $500 you will be required to file IRS Form 8283. If the value exceeds $5,000 you may be required to obtain a certified appraisal. Consult your tax preparer for additional details.

Once again, we express our gratitude to you for the much needed donation you provided. May the Lord bless the work of your hands and may He grant you peace in your heart as you continue to pursue Him more deeply day by day.

Sincerely,

Designated Church Representative

SAMPE ANNUAL DONOR RECEIPT

AWESOME NCC CHURCH

123 Happiest Lane
Fargo, ND 88888

[DATE – *remember, annual receipts should be received by donors prior to January 31*.]

Dear Mary Jones

We thank God for you! Your gifts to [Awesome Church] throughout [year] are gratefully acknowledged.

Because of your contributions, our congregation has been able to support the work of Jesus Christ locally, regionally and around the world. [BRIEFLY MENTION some examples of what the church has been able to do through its ministry and missions!].

Attached [*or "Here" if it's short, and just list below…*] is an itemized statement of your contributions for [YEAR], according to our records. If you have any concerns about the accuracy of this information, please let us know.

For your income tax purposes, should you wish to claim a charitable deduction, it is important for us to state here that you did not receive any goods or services in return for any of these contributions other than intangible religious benefits. You gave this contributions out of your own generosity and commitment to Jesus Christ.

Once again, thank you for your generous commitment to the work of Jesus Christ through this church.

Sincerely,

(DESIGNATED CHURCH REPRESENTATIVE – usually the treasurer or pastor)
Church Title

NOTE: Many software programs will allow you to print a simple statement for all annual contributions, listed by date and amount. If you do not use software, you may consider using the form attached. Be sure to retain a copy for the church, and be prepared to respond gracefully and accurately to any discrepancies the donor may highlight.

Awesome NCC Church Annual Donor Receipt For YEAR [20--]						
Month	Week 1	Week 2	Week 3	Week 4	Week 5	Total
January						
February						
March						
April						
May						
June						
July						
August						
September						
October						
November						
December						
Total Annual Giving						
Treasurer			Date			

Thank you for your faithful giving. You did not receive any goods or services in return for any of these contributions other than intangible religious benefits.

RECOMMENDED CHURCH MANAGEMENT SOFTWARE

There is no law of the land, nor policy of the Free Methodist Church that requires churches adopt accounting or church management software to accomplish its administrative tasks. However, software does make things simpler and more effective for most financial reporting and payroll functions. We recommend that churches consider the best program or services available to them. Some churches will outsource their administrative and payroll functions to agencies equipped to manage these functions, though not many do. These three software products have proven to be useful and somewhat affordable, but this is by no means a commercial endorsement for any of these products.

Quickbooks Premier for Non-Profits under $400.00

Quickbooks.intuit.com/nonprofit-accounting-software

While not specifically tailored to churches, this industry standard software is familiar to many church volunteers with financial and accounting background, making for an easy transition. The features for non-profits that do donor receipting and fund accounting are very useful as are the excellent payroll features.

PowerChurch Plus about $400.00

Powerchurch.com

Payroll and donor tracking systems with PowerChurch are designed for churches and volunteers who are non-accountants. This software allows for cheaper on-line or cloud-based products that require an initial setup fee and monthly subscription, but may be helpful if volunteers are spread geographically or a church operates multiple sites.

ChurchPro around $500.00 +

Churchpro.com

ChurchPro is a complete church management system. It has numerous premier features and is designed to make church accounting very simple for the novice. However, if questions do arise, their help service is not free, and extra annual charges for premium support are likely.

IRS and STATE PAYROLL FORMS

There are numerous IRS forms you will likely need in order to conduct church business. This appendix contains a number of samples, however the IRS typically scans hard copy forms you submit when processing and therefore you MUST order forms you will use directly from them. It's easy though. Call 1-800-TAX-FORM or visit this link for online form ordering:

www.irs.gov/Business/Online-Ordering-for-Information-Returns-and-Employer-Returns

All W-2's, W-3s, 1099s and 8027s are best submitted online, though these are submitted to the Social Security Administration and not the IRS. To see how, visit:

www.socialsecurity.gov/employer

For all employees who are not clergy, the following federal tax responsibilities exist.

Type of Tax	Employee	Employer
FICA	6.2%	6.2%
Medicare	1.45%	1.45%
Medicare Hosp. Insurance	0.9%	0.0%

GENERAL ANNUAL CALENDAR FOR CHURCH TREASURERS

By January 31 — All donor annual receipts and letters should be in their hands.
File form W-2, Wage and Tax Statements for employees.

By February 28 — If filing PAPER rather than electronic withholdings…
File Copy A of all Forms 1099 with Form 1096.
File Copy A of all Forms W-2 with Form W-3 (with SSA).

By March 31 — If filing ELECTRONICALLY then…
File e-Forms 1099 and 8027 with the IRS.
File e-Forms W-2 & W-3 with SSA.

By April 30, July 31, October 31 and January 31 – QUARTERLY REQUIREMENTS

File Form 941 – QUARTERLY Federal Tax Return

By November 31 — Request updated W-4s from employees

MONTHLY (for churches that withhold $2,500 or more each quarter)

Make electronic payments to the IRS for taxes withheld.
This is done at www.eftps.gov/eftps
(If less than $2,500 is withheld, payments may be made quarterly)

AS NEEDED

Receipt all donors who give a single gift of $250.00 or more.

Obtain W-9 from those you will pay more than $650.00 over the year.

IRS FORMS YOUR CHURCH SHOULD ORDER.

Call 1-800-TAX-FORM or visit this link for online form ordering:

www.irs.gov/Business/Online-Ordering-for-Information-Returns-and-Employer-Returns

1099-MISC	For use to document payments to vendors and non-employees who earn more than $650.00 a year.
W-2	Document the annual wages for each employee.
941	Employers' Quarterly Federal Tax Return
8941	Credit for Small Employer Health Insurance Premiums (because if your church provides the policy for your pastor, you can both save thousands!)
1096	Annual Summary and Transmittal of US Information Returns
W-4	Employee Withholding Allowance Certificate, which employees give to treasurers so the treasurer may withhold according to employee instruction. This goes to the treasurer, not the IRS.
W-9	Request for Taxpayer ID Number – necessary for you to obtain from a vendor or person you pay over $650.00 – this goes to the treasurer, not the IRS.

STATE GUIDELINES FOR PAYROLL

As a rule of thumb, if you withhold any federal payroll taxes (Income Tax, Medicare, Social Security, etc.) your state will also require you to withhold state taxes. South Dakota is the North Central Conference exception to that rule.

ILLINOIS GUIDELINES AND FORMS

http://www.tax.illinois.gov/businesses/taxinformation/payroll/index.htm

MINNESOTA GUIDELINES

http://www.revenue.state.mn.us/businesses/withholding

MISSOURI GUIDELINES

http://dor.mo.gov/business/withhold/

NORTH DAKOTA

http://www.nd.gov/tax/indwithhold/

SOUTH DAKOTA

No income tax is withheld (but you must still handle federal requirements)

WISCONSIN GUIDELINES

http://revenue.wi.gov/faqs/pcs/with.html