

church must give its supplier' a *Nebraska Resale or Exempt Sale Certificate* (Form 13) as proof of its exempt status.

The state of Nebraska has very narrowly defined the term "exclusively for religious purposes" and has been adamant in not approving a sales tax exemption number to newly formed associations and to our convention.

Federal and State Unemployment Tax

Churches in Kansas and Nebraska **are exempt** from Federal and State unemployment taxes.

Property Tax

Kansas churches must file a request for property tax exemption on a form entitled, ***Application for Tax Exemption***, with the office of the County Appraiser of the county in which the property is located. The County Appraiser' s office must approve the request and send it to the Kansas Board of Tax Appeals, Topeka, KS, for final approval. Each county has the option of automatically accepting the exemption year after year or requesting an annual filing to maintain the property exemption.

Nebraska churches must file a request for property tax exemption on a form entitled, ***Exemption Application***, with the County Assessor of the county in which the property is located. The approved exemption shall continue for a period of four years, beginning with years evenly divisible by four. The first year of each period is known as an application year (e.g., 2000, 2004, 2008 etc.). If application for exemption is made and approved in an intervening year, the exemption shall continue for the remainder of the applicable four-year period.

To continue the exemption for a succeeding four-year period, the church must file an ***Affidavit of Use for Continued Tax Exemption*** form with the assessor on or before December 31 prior to an application year. If this form is not properly and timely filed, **the property will be taxed.**

Unrelated Business Income

Income the church earns from an **unrelated trade or business regularly carried on** may be subject to income tax reporting. This includes rental income received on property on which the church has debt. The church can receive up to \$1,000 per year in "unrelated business income" before it is subject to income tax reporting. Generally the key question is whether the church has debt on its facilities. If the facilities are free from any indebtedness the rental income is not subject to "unrelated business income." The IRS has ruled that rental income is exempt from unrelated business income tax (UBIT) even though the property is "debt-financed," if the rental arrangement is "**substantially related**" to the charity's exempt purposes.

Important Internal Revenue Service Forms

Form W-4 — Employee's Withholding Allowance Certificate:

Employees report withholding allowances on this form. Churches are **required to withhold** from all employees except ordained staff. An ordained staff member can elect **voluntary withholding** by submitting a completed W-4 form to their employing church to withhold a sufficient amount each pay period to cover both income tax and self-employment tax. This withholding is **reported as income tax** and can be used to pay income and self-employment tax. **All non-ordained employees** should complete this form each year.

An ordained minister could request the church (in writing) to withhold a certain amount each pay period and **pay the minister** prior to the dates for filing **self-employment estimates**, namely: April 15th, June 15th, September 15th and January 15th.

Form I-9 — Employment Eligibility Verification:

The church should have this form on file for each employee, including ministerial staff. It is a result of the Immigration Act of 1986 and is self-explanatory. Failure to have I-9' s for every employee could result in fines for each occurrence. The I-9 is a Department of Labor regulation.

Form 941 — Employer's Quarterly Federal Tax Return:

This form is used by employers (the church) for reporting to the IRS all wages paid to employees, income taxes and FICA taxes withheld each quarter. Churches must file this form quarterly with the IRS if they have at least one employee other than ordained staff. The amounts reported on a church's W-2 forms at year-end must reconcile with the 941 forms filed during the year. Churches with only one employee, and that employee is ordained, are required to file only a W-2 form.

Form W-2 — Wage and Tax Statement:

This form is used by employers (the church) to report annual compensation, withheld income and FICA taxes for each employee. Churches must issue this form to each employee on or before **January 31**. Ordained ministers pay self-employment taxes instead of FICA taxes.

Every church should issue a W-2 form to all employees including ministerial staff. The W-2 for ministerial staff should not include housing in box 1 (Wages, tips, other compensation). In fact, housing does not have to be shown on the W-2, nor should any other tax-free benefits such as annuity or insurance be included in box 1.

Form 1099-MISC — Miscellaneous Income Returns:

Churches use this form to report compensation of \$600 or more paid to non-employees for services during any one year. This includes but is not limited to evangelists, guest speakers and self-employed persons who perform miscellaneous services for the church (plumbers, cleaning, lawn maintenance, etc.) who are not incorporated. 1099's are not required to be issued to corporations. Churches must issue this form on or before **January 31**. It is helpful to obtain Form W-9 (Request for Taxpayer Identification Number and Certification) at the time of payment.

Important Tax Information for Ministers

Ordained ministers are **employees for income tax reporting and fringe benefit purposes** and **self-employed for Social Security purposes**. Ordained ministers are also **employees for the purpose of complying with workers' compensation laws**. In addition, many ministers who are employees of the local church are self-employed for some purposes. For instance, the pastor will be considered self-employed with regard to guest speaking appearances in other churches and services performed directly for individual members.

Definition of Minister for Federal Tax Purposes:

A minister, for federal tax purposes, must satisfy all of the following conditions:

- Be ordained or licensed.
- Administer ordinances and sacraments.
- Conduct worship services.
- Have management responsibility in a local church or denomination.
- Be considered a religious leader by one's church or denomination.

Housing Allowance for Ordained Ministers:

A housing allowance is available to every minister as defined for federal tax purposes. A housing allowance is available even to those who live in church-owned housing with or without utilities paid. The housing allowance should be predetermined by the minister and submitted to the church or appropriate committee for approval prior to the beginning of the tax year. This approval does not imply that the minister must answer to the church or any committee as to the details of spending the housing allowance. The minister answers to the IRS in case of audit. The minister should maintain accurate and complete records of housing expenses. The minister should overestimate housing so as to provide enough monies for unforeseen expenses. At the close of the tax year, the minister must report unspent housing on his tax return as income and must pay appropriate taxes on that unspent portion. All housing allowances and church-furnished housing are subject to self-employment taxes. See Illustrations A and B. **Church-furnished housing is also subject to fair rental value** and should be included with **church-paid utilities** when reporting remuneration for workers' compensation purposes.