

FEDERAL/STATE TAX INFORMATION

The Internal Revenue Service (IRS) and State Department of Revenue laws and tax codes change from year to year. Suggestions made now may be changed in years to come. This information is designed to give your church some basic guidelines and by no means is an exhaustive or complete discussion of the topics included.

Important Tax Identification Numbers

Employer Identification Number:

This nine-digit number is secured by filing form number SS-4 with the IRS and is used on all federal payroll tax forms.

State Identification Number:

In Kansas, this number is secured by filing Form CR-16 and is used on all state payroll tax returns.

In Nebraska, this number is secured by filing *Nebraska Tax Application* Form 20 and is used on all state payroll tax returns.

State Sales Tax

Kansas churches are exempt from state sales and/or use tax as well as any applicable city and county sales tax as of July 1, 1998. A form entitled *Religious Organization Exemption Certificate* (Form ST-280) must be completed for every vendor before purchases are made.

Only **direct** purchases by a church of items to be used exclusively for the church are exempt. A direct purchase is a sale that is billed directly to the church or is paid for by the church's check or credit card. A payment in cash will not qualify as an exempt transaction. Purchases made by employees or church members with their personal funds are **taxable**, even if they are later reimbursed.

Churches are exempt from collecting sales tax in Kansas for "isolated or occasional sales of tangible personal property, services, substance or things."

There is not an exemption from sales tax for the sales of meals by the church. Voluntary donations are acceptable as long as there are no required donations for such meals and people could eat and do eat without a donation. The church may want to pay sales tax on the food and related purchases for the meals and operate the meals as strictly a cost recovery.

Construction, Remodel, or Repair Projects: When a church contracts for the repair, remodeling, or construction of a building, or to make other improvements to real property it owns and uses exclusively for religious purposes, it must request and obtain a *Project Exemption Certificate* from the Kansas Department of Revenue so that the contractor, subcontractor, or repairman (carpenter, electrician, etc.) may purchase materials for the project exempt from sales tax. To apply for a project exemption, submit Form PR-76, *Request for Project Exemption*. In the absence of a *Project Exemption Certificate*, only the contractor's labor service is exempt as a direct purchase. The contractor's invoice to the church will include the sales tax paid or accrued on the materials used.

If asked for a sales tax number in Kansas, you can use your *Federal Tax Identification Number*.

If a purchase is made from a vendor in Kansas that refuses to exempt sales tax, keep all documentation of the purchase and send same to the state sales tax office for refund.

Nebraska churches are exempt from state sales tax. The church must apply for and receive a *Nebraska Exempt Organization Certificate of Exemption* from the Nebraska Department of Revenue. This certificate assigns the church an exemption number (05-XXXXXXX), which must be used in claiming its exemption. The

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.