

End of Year Reporting – 1099s or W2s?

The **W-2** and the **1099** are known as information return tax documents that churches must file with various taxing authorities after year-end. Copies of these documents must also be given to employees or independent subcontractors by January 31 of the New Year.

- A W-2 is the form used by a church when it pays for services performed by an employee. Federal income tax, social security and medicare, state tax, and local taxes should have been withheld throughout the year. Clergy, of course, may not have had any federal income tax or social security and medicare tax withheld from their pays.
- A 1099 is the form that should be prepared for independent subcontractors who have been compensated \$600 or more for their services in the calendar year. The 1099-Misc form is the form used in these instances. This form is not to be used to report the amount of dollars paid to employees. Please remember that these must be prepared for all individuals, partnerships, and attorneys for whom \$600 or more has been paid for their services. You do not need to prepare for businesses that are incorporated.

This article was started as a question mark but there really should be no question as to whether someone is your employee or an independent contractor. Clergy are the only staff who can be treated as either an employee OR as an independent subcontractor. If you have questions, another article will be coming out shortly that addresses these issues OR call Tammie Wisniewski at the Conference office and she will be happy to discuss with you.

Beginning of the Year Employee Notifications

The New Year is a perfect time to check with your staff to see if they need to prepare a new **Form W-4** which instructs the payroll preparer on how much federal tax to withhold from their pay checks. Individuals' tax situations change from time to time so they should be reminded annually of the opportunity to adjust their federal withholding. If you have any staff member who has claimed exemption from federal withholding on their W-4, they must prepare a new W-4 each year to continue to claim exempt status; exempt status ends every year on February 15 without a new W-4. Also, when requested by the IRS, you must make original Forms W-4 available for inspection by an IRS employee.

You must notify employees who have no federal income tax withheld that they may be able to claim a tax refund because of the Earned Income Credit. (This does not include those employees who claim exemption on their W-4.) You will meet this requirement if you issue the employee Form W-2 with the EIC notice on the back of Copy B, or a substitute Form W-2 with the same statement.

If you have any suggestions or questions for an upcoming article, please contact Tammie Wisniewski at tammie@psec.org or call the conference office at 484-949-8774 X304