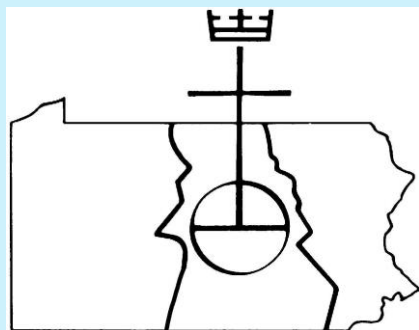


PENN CENTRAL CONFERENCE

UNITED CHURCH OF CHRIST



HANDBOOK FOR

CHURCH TREASURERS AND TRUSTEES

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I. INTRODUCTION

Greetings! Thank you for agreeing to serve your church as its Treasurer or Trustee. Your work is essential to the ministry of your own congregation as well as the larger United Church of Christ. As you carry out your leadership responsibilities, you may find that you need information beyond what you currently know about legal and tax matters, financial management, or communications with the wider church. This Handbook has been prepared by the Stewardship Ministry team of the Penn Central Conference to provide guidance regarding some of the questions commonly asked by church treasurers and trustees. If you have questions that are not addressed in this book, or need additional copies feel free to call the Conference Office (717 652-1560).

Additionally, the Penn Central Conference will provide periodic workshops at various Conference and Association gatherings.

II. THE LEGAL STATUS OF CHURCHES

This section covers the question of incorporation, as well as tax exemptions applicable to churches.

A. Incorporation

A local United Church of Christ congregation may be either a non-profit corporation or a non-profit unincorporated association. A church that has not carried out the legal procedures necessary to incorporate is, by default, an unincorporated association. If you are not sure whether or not your church is incorporated, you can find out by contacting the Pennsylvania Department of State, Corporation Bureau at 717-787-1057. If the church is incorporated, the Secretary of State's office can also provide a certified copy of the church's charter (Articles of Incorporation) for a nominal fee. It is a good idea to have such a copy as part of your church's records.

Incorporation has certain advantages for local churches. Richard R. Hammar, writing for *Church Law and Tax Report* (special report, 1995) strongly recommends incorporation as a means of protecting church members from personal liability for the actions of other members or of the church as a whole. In some instances lawsuits have named all church members individually, or "individually and severally", as defendants. The personal liability of church officers is further discussed in Section IV.C. of this manual.

Legal counsel for the Penn Central Conference suggests that church leaders consider the church's risk tolerance and the nature of its activities in deciding whether or not it makes sense to incorporate. Those churches operating commercial activities (such as day care centers) should either incorporate or create a separate corporation to run those activities. Churches considering by-law changes or other structural changes should consider incorporating as a part of the process.

The process of incorporation requires the assistance of a lawyer. The church must prepare and adopt Articles of Organization and bylaws. Articles of Organization are filed with the Secretary of State for a nominal fee. Sample by-laws may be obtained from your Conference Office (see Appendices A, D, and E).

B. Tax Exemptions

Federal and State laws grant to churches a number of tax exemptions. The tax-exempt status of your church is one of its most valuable assets. It means that most contributions from members are tax-deductible, and that the church can operate at much lower cost than would be possible otherwise. It is important to safeguard this status by using it appropriately - see "caution" below.

1. Federal Income Tax

The Internal Revenue Service has issued a ruling, dated June 10, 1964, which as subsequently amended, grants blanket Federal income tax exemption to The United Church of Christ and all member churches (United Church of Christ Yearbook). The IRS group exemption number for the United Church of Christ is 1665. A letter documenting this ruling is attached as Appendix B.

If you should be called upon to document the exempt status of your church, simply copy this letter along with the page of the Penn Central Conference Directory on which your church is listed. (The Directory is mailed annually to all pastors; additional copies may be obtained by calling the Conference Office at 717-652-1560. This will satisfy most grant-makers, tax authorities and others who may be interested. If you need further documentation, feel free to contact the Conference office for assistance.

2. Federal Tax I.D. Number

Although local churches are blanketed under the UCC Federal tax exemption, each local church needs its own Federal I.D. number for reporting employee payroll taxes and in order to obtain State sales tax exemption.

You can obtain a Federal I.D. number for your local church by filing the first page only of Internal Revenue Service form SS-4, listing the UCC general exemption number ("GEN") under item 8a. This form can be obtained from any IRS office, or downloaded from the World Wide Web (see [Appendix A](#) for web address.) It must be signed by the president or vice president (or comparable officer, such as the moderator) if your church is incorporated, or by "a responsible and duly authorized member or officer" if your church is an unincorporated association. The IRS advises that this form will take 4-5 weeks to process; an I.D. number can be obtained more quickly if an application is made by telephone (see instructions for SS-4).

3. State Income Tax Exemption

Under Pennsylvania law, all local UCC churches are exempt from State income tax by virtue of our Federal exemption.

4. State Sales Tax Exemption

Each local church needs its own exemption from Pennsylvania sales tax. To obtain a sales tax exemption certificate for your church, you need to file a Pennsylvania Department of Revenue form REV-72. You can obtain this form by calling the Pennsylvania State Department of Revenue at (717) 783-5473. The form asks for your Federal I.D. number. You also need to attach a copy of the UCC Federal income tax determination letter (Appendix B) and a copy of the Penn Central Conference Directory page listing your local church.

The sales tax exemption is good for five years. You will need to contact the Department of Revenue as the expiration date nears. In order to renew your church's exemption, you will need to resubmit your Federal I.D. number, income tax determination letter and Directory page copy. You do not have to complete form REV-72 again. Please note: **Many vendors will ask you to register your tax exempt number with them.**

Caution: It is important that the sales tax exempt number be used only for church-related purchases. Other use could jeopardize your church's sales tax exemption.

5. Property Taxes

A church's house of worship, the parsonage occupied by its ordained pastor, and a reasonable amount of surrounding land are exempt from local property taxes, provided these properties are being used exclusively for religious purposes.

Unattached vacant land owned by a church is not exempt, unless the church is actively seeking to build a house of worship or a parsonage on the land. Parsonages and church buildings under construction are exempt.

Many churches lease or rent space to day care centers or other community groups. Leasing or renting church property to individuals or to other organizations, including non-religious non-profit organizations, may result in a full or partial loss of the property tax exemption. Much seems to depend on the local taxing authority, which has some discretion as to how stringently to apply the law.

6. Federal Excise Taxes

Religious organizations are **not** exempt from Federal Excise taxes such as those charged on telephone service.

7. Pennsylvania Hotel Room Use Tax

Religious organizations are **not** exempt from Pennsylvania tax on hotel room use. Churches which hold retreats or other events at hotels should be prepared to pay this tax.

8. Tax Filings

Most not-for-profit corporations are required to file annual financial reports known as Form 990 (Federal) and should also send a completed copy of that form to the Department of State, Bureau of Charitable Organizations in Harrisburg, PA. Churches are not required to file these forms. Churches may be required by local tax authorities to file form 3 ABC in order to maintain exemption from real estate taxes.

III. FINANCIAL MANAGEMENT OF CHURCHES

This section includes recommendations concerning accounting and reporting procedures to safeguard the money entrusted to the church by its members.

A. Record Keeping

As with any organization, all financial records kept for a church should be clear and easy to follow. Good documentation of procedures and transactions help the church to operate smoothly and to ensure that resources contributed by members are used appropriately. Clear records also make it much easier for a new financial officer to take over when the terms of current officers are completed.

B. Computer Software for Church Accounting

There are many software products available as tools for church management, including church accounting. It can be challenging to assess the strengths and weaknesses of each package and determine which is best for your church, especially as the software market changes so rapidly.

C. Protecting the Assets of the Church

All of us expect that our churches will be characterized by trust and honorable behavior among our members. While the instances are not large in number, each year churches do lose money through carelessness or dishonesty on the part of those members or employees responsible for handling church funds. We read about some of these instances in the newspapers; many more are handled privately. Beyond resulting in financial loss, such events can be quite damaging to the relationships within a church community. One important role of the Treasurer and Trustees is to try to prevent such losses.

1. Internal Controls

It helps to make sure that your church has adequate procedures for handling receipts (both checks and cash) and disbursements (payments). Such procedures are known to accountants as "internal controls". Good internal controls make it less likely that money contributed to the church will be stolen or misused.

The following fourteen-step plan for internal controls is from *Internal Controls for Churches* by Manfred Holck (published by Church Management, Inc., and unfortunately out of print. Holck's words are shown in boldface; comments in plain text are added.)

"Internal control is a plan of control, not only to detect error or fraud, but to safeguard assets; to check the accuracy and dependability of financial records and reports; to encourage operating efficiency and adherence to the rules, regulations and policies set by management."

Steps to be followed are:

- i. Do not assign the same person responsibility for more than one of the following tasks: counting the offering, writing checks, recording individual contributions, and reconciling the bank statement.**

To the greatest extent possible, different people should handle different financial duties within the church in such a way that they effectively monitor one another's work. For example, ideally, one individual should open mail containing checks from members, list the checks and make a bank deposit. Another person should update the pledge records using the list of checks received. Likewise, the person who can sign checks should not be allowed to authorize payments, but only respond to requests from those individuals responsible for implementing the church budget.

- ii. Make certain that at least two people are in custody of the offering until it has been safely deposited in the bank or placed in a night depository or safe.**

This procedure protects the church from possible loss of offering plate contributions. Equally importantly, it protects the church members responsible for depositing the offering from any suspicion that they might mishandle the funds.

- iii. Promptly deposit all money - cash or checks - received on Sunday or during the week. A list of checks received should be compared regularly with the bank statement.**

Again, if at all possible, different jobs should be done by different individuals. The person who lists incoming checks should not reconcile the bank statement.

- iv. Encourage all members to use envelopes.**

- v. Do not let just anyone have access to the offerings and to the checking account.**

Access should be limited to persons approved by the finance committee of the church. This committee should vote annually concerning whom has authority to sign checks on behalf of the church, and record this vote in the minutes of the committee.

- vi. Insist that all payments be by check.**

The check provides a more reliable record of the payment than is possible for a cash transaction.

- vii. Require two signatures on every check.**

This provides excellent protection against the possibility that funds might be misspent. Some churches allow a single signature for checks in amounts below a particular threshold but require two signatures for any check in an amount exceeding the threshold.

- viii. Assign someone other than those who handle cash or keep the financial records the responsibility for receiving and reconciling the bank statement.**

Here again, the separation of different financial functions enables church members to monitor one another's work and to have confidence in the church's system of financial management.

- ix. Use a church budget effectively.**

In general, expenditures should be consistent with the planned budget; expenditures to meet unanticipated needs should be approved by the appropriate committee of the church.

- x. Keep marketable securities, notes, valuable personal property, cash (coins, bills, or checks) in a safe place.**

- xi. Maintain an inventory of assets.**

Use a video recorder and record all the church inside and out, and all assets, put film in bank box. List office equipment, furniture, musical instruments and other valuables. An inventory guards against the possibility that physical assets will disappear without being noticed as missing. Also, such a list is invaluable in the event that church property is lost through fire or theft (see [section IV.A.2.](#))

- xii. Make sure an annual audit is conducted.**

See [section III.C.3.](#) below.

- xiii. Put all of your cash handling procedures in writing.**

- xiv. Get a fidelity bond for all cash handlers.**

See [section III.C.4.](#) below.

For more information concerning internal controls and the separation of duties, see "Protecting the Assets of Your Church" by R. Vargo in *Church Treasurer Alert*, July 1995.

2. Treasurer's Reports to Church

The Treasurer should provide monthly financial reports to the governing committee of the church, and provide an annual report to the full church at its annual meeting. These reports should show actual income and expenses compared with budgeted amounts. The Treasurer should also provide information concerning the assets and liabilities of the church - that is, cash balances and investments as well as any debts owed by the church. These reports will assist church leaders and other members to understand the financial position of the church and to make informed decisions about financial matters.

3. Audits

The Penn Central Conference recommends that the financial records of each local church be audited by a Certified Public Accountant once every three years. This is the average term served by church officers; an audit by an outside professional should take place once during each term.

Many church officers are reluctant to engage professional auditors because of the expense involved. However, the costs of dishonesty or mismanagement on the part of those entrusted with church funds are likely to be far higher. Just as we allocate money in our church budgets to pay the costs of insurance, it makes sense to allocate money for periodic audits.

In addition, the Conference recommends that internal audits of church records be conducted annually. An internal audit should be carried out by one or more church members who have no other role in the financial operations of the church. In this way, a person or persons with an independent perspective will monitor the financial management system on a regular basis.

4. Bonding of Staff and Volunteers

The Penn Central Conference recommends that each local church purchase a fidelity bond to cover staff and volunteers who have responsibility for handling money. Such a bond is a form of insurance which compensates the church in the event that it loses money due to the dishonesty of employees or volunteers. This insurance is included in the package offered by the United Church of Christ Insurance Board (see [section IV.A.](#)); or through a local insurance agent.

In most cases, this type of insurance will only pay on a claim if the church is willing to prosecute the person who has embezzled money. It can be very difficult for church boards to decide to prosecute church leaders in cases of wrongdoing. It is far easier on everyone if potential theft can be prevented by means of good internal control procedures.

D. Investments & Endowments

The management of investments and endowments is another area in which good control procedures are crucial. Unfortunately, a number of churches have lost money due to the dishonesty of trusted church officers who claimed to be investing money which was actually being diverted for personal use. Others have lost money because one or two individuals, while trying to act in the best interests of the church, have made unwise investment choices. Of course all investment involves some degree of risk; no protocol can fully safeguard against the possibility that an investment made in good faith may turn out in retrospect to have been a poor one. However, good procedures can reduce the risk that the church will suffer from the results of dishonesty or poor judgement on the part of a key officer.

5. Investment Policy

The Conference recommends that each church adopt a written investment policy, approved by its governing body. This policy should provide guidelines as to how church assets may be invested, and indicate who has the authority to make investment decisions within these guidelines. The policy should also indicate what amount of income from the investments may be used, by whom and for what purpose. Help in developing investment policies may be obtained by contacting the Penn Central Conference Planned Giving Partnership. (See Appendix C).

6. Protecting Investments

As with accounting procedures, responsibilities related to church investments should be distributed among several individuals. In particular, no individual acting alone should have the authority to choose an investment vehicle for the church. Likewise, at least two signatures should be required for any withdrawal of invested funds.

Annual financial reports should include a full accounting of invested funds, and annual audits should include verification of amounts invested. This means, for example, that the auditor should physically examine stock certificates held by the church, and write to banks, brokers and investment firms for independent confirmation of assets held in custody for the church.

7. Investment Vehicles Related to the UCC

Two organizations related to the United Church of Christ which provide investment opportunities for local churches, and individuals are the Cornerstone Fund and the United Church Foundation.

The Cornerstone Fund offers CD's of varying yields and terms to churches and their members. Pooled funds are used to make loans for capital projects in UCC churches. Contact: 1-888-822-3863; 700 Prospect Ave., Cleveland, OH 44115.

The United Church Foundation is a corporation created by the United Church of Christ, chartered to manage investments for churches, associations, conferences and other entities related to the UCC. The Foundation manages investments in accordance with corporate responsibility guidelines determined by its Investment Committee. The Foundation's address is 475 Riverside Drive, Room 1020, New York, NY 10115; phone number: 1-877-806-4989.

8. Endowments

The Conference recommends that each church adopt a written endowment policy approved by its governing body. Help in developing endowment policies may be obtained by contacting an associate from the Penn Central Conference Planned Giving Partnership.

The Stewardship Ministry Team (SMT) encourages each church to consider including the Penn Central Conference/and or the United Church of Christ as a recipient of a portion (a tithe of 10% or more) of any endowment received.

E. Ministers' Discretionary Funds - Tax Implications

Many churches have special funds or budget amounts set aside for the discretionary use of the pastor in response to personal needs or crises in the church or community. If not properly established and documented, such funds can result in additional income tax liability for the pastor, and the contributions made to such funds may not be tax-exempt.

Specifically, unless there is a policy prohibiting the minister from making personal discretionary distributions to self or family, the IRS may consider the full amount of the fund to be income to the minister. This can happen even if the minister never makes a distribution which is personally beneficial. Further, unless the fund is under the full control of the congregation or its governing board, donations to the fund will not be considered to be tax-deductible charitable contributions.

In order to avoid these consequences, the appropriate governing body of the church should establish a written policy indicating that the minister may make distributions from the fund only for specific purposes which are consistent with the congregation's mission. The policy should clearly prohibit any distribution from the fund for the benefit of the minister or any member of the minister's family. Finally, the church or its governing body should maintain administrative control over the fund (i.e., review distributions periodically to make sure that they are consistent with the written policy).

A sample policy concerning a minister's discretionary fund might read as follows:

The Consistory/Council of the First United Church of Christ of Anytown, Pennsylvania establishes a Pastoral Emergency Fund. Contributions to this fund may be made by individuals or by allocations from the budget as voted by the Committee. In order to ensure that contributions to the Pastoral Emergency Fund are tax-deductible, no contribution may be designated for the benefit of any particular recipient. Distributions from the Pastoral Emergency Fund may be made by the pastor to provide confidential assistance to church or community members facing emergency financial need. No distribution may be made to the pastor or to any member of his or her family at any time. The pastor shall report to the Consistory/Council annually all amounts paid out of the fund, listing the dates and purposes of the payments (but not the names of recipients).

IV. MANAGING LEGAL AND FINANCIAL RISK

This chapter contains information and recommendations to help you protect your church and its members from legal and financial risks.

A. Insurance

Like other organizations, churches are subject to various risks for which it is wise to have insurance coverage. Many churches are inadequately insured. Even a well-insured church will face disruption of its ministries in the case of a major fire, employee injury or lawsuit. However, sufficient insurance can make the difference between a crisis that is manageable and one that is devastating.

The United Church of Christ Insurance Board offers a comprehensive program of insurance for local churches. Participation in this plan has a number of advantages: it is designed by professionals who understand the particular needs of churches; it affords higher levels of coverage than would otherwise be feasible because it is a group plan; and the Insurance Board is a corporation formed by the Conferences of the United Church of Christ and thus accountable to the Conferences. The plan is made available in Penn Central through our agent, Miller Insurance Agency whose name and address may be found in [Appendix A](#).

However, many churches find insurance through other sources. The UCC Insurance Board makes available a loss control manual which may be useful to members of church boards in evaluating their church's insurance needs.

Note particularly the following considerations which have been inadequately understood by officers of some of our local churches:

1. Worker's Compensation

Churches are subject to worker's compensation laws in Pennsylvania, therefore it is required that all churches have worker's compensation insurance for all employees. Most health insurance programs, as well as most liability insurance policies, exclude coverage for work-related injuries. This is true of the Pension Boards health plan and of liability insurance purchased through the UCC Insurance Board. If an employee is injured in the course of his or her work, and the employing church has no worker's compensation insurance, the church must pay out of its own funds for medical treatment, lost work time, and (in the case of a disabling injury) income replacement for a period of time required by law. Even a minor injury requiring medical attention can result in substantial costs to the church. A worker's compensation insurance policy may be obtained through a local insurance agent, or through the UCC Insurance Board via the agents listed in [Appendix A](#).

An additional caution regarding worker's compensation concerns contractors hired by the church. Any contractor engaged by the church should be required to show proof of up-to-date worker's compensation insurance coverage. It is very risky to hire a contractor who lacks this coverage, as the church could be held liable for costs resulting from any injury to the contractor (or persons employed by the contractor) incurred while working for the church.

2. Property Values

Many churches have property insurance policies which understate the costs of the covered buildings and their contents. In determining an adequate level of insurance, church officers need to consider what it would cost to rebuild church structures comparable to all the buildings presently in use, and replace all furnishings ("replacement costs"). An appraisal from a professional such as Mutual Inspection Bureau or Industrial Appraisals, Inc. will provide this information and offer annual updates for ten years at reasonable costs.

The United Church of Christ insurance program offers coverage for all properties at full replacement cost. This enables a covered church, in the event of a major loss, to rebuild a structure essentially identical to that which was destroyed, including features such as ornate woodwork and stained glass.

Alternatively, the UCC insurance program provides that a particular building or buildings may be insured at "functional replacement cost" if a church so requests. A church choosing this option would estimate the cost which would be required to replace its existing structures with lower-cost buildings which could serve the same functions as its existing structures. This option must be specified in writing for particular buildings. The benefit payable in the event of a loss would be based on the lower values indicated. This option helps to keep the church's insurance costs down. However, if the building were to be destroyed, the structure built to replace it would probably look quite different than the original building.

In addition to purchasing an adequate insurance policy, it is wise for church officers to document, in detail, the property being insured. Documentation should include a description of each building accompanied by photographs or videotape, a list of furnishings, and photographs of any particularly valuable or unusual items. This documentation should be kept off the insured premises so that it would not be destroyed in the event of a fire or flood at the insured site. In order to collect under most insurance policies, the insured party must be able to document what was lost; otherwise, the insurance company may want to underestimate the loss and the appropriate settlement.

3. Liability Insurance

As more people turn to litigation as a way to resolve disputes and seek restitution, churches are increasingly vulnerable to lawsuits. Liability coverage should be chosen with this vulnerability in mind. Ideally, church insurance should include coverage for sexual misconduct, as this is presently one of the greatest areas of

risk for churches. Likewise, liability insurance should include coverage for good-faith actions of volunteers as well as employees, because members of church decision-making boards (trustees, parish boards, personnel committees) are quite likely to be among the targets if a church is sued.

As in the case of Worker's Compensation coverage, any contractor hired by the church should show evidence of liability insurance coverage. This protects the church in the event that the contractor's actions result in damage to people or property.

4. Use of church buildings by other organizations

Churches frequently ask about the insurance implications of allowing other organizations (Scouts, twelve-step programs, exercise classes, etc.) to use their facilities. In general, it is wise to require those users who represent non-profit or for-profit corporations, as well as individuals who are in business for themselves, to provide a certificate of insurance to the church to verify they have their own liability insurance. Beyond this, each church must check with its insurance agent to determine the level of risk posed by the use of church buildings by other groups. The UCC Insurance Board's plan includes protection for a local church that makes its facilities available to informal interest or support groups as part of its ministry to the wider community.

If your church operates a child-care center or other business on its premises, you should discuss these activities in detail with the church's insurance agent in order to make sure that adequate coverage is in place for all operations.

B. Minimizing Legal Risks to the Church

While it is important to have adequate insurance, it is equally important to try to reduce the chance that the church will be exposed to a lawsuit in the first place. Such legal action can be quite difficult and divisive for a congregation even if monetary losses are minimal. Areas to consider include personnel policies; screening and supervision of volunteers and employees; physical hazards on the premises; policies concerning the use of church vehicles; copyright regulations; and environmental hazards (such as oil tanks, asbestos, etc.).

An excellent tool for evaluating such risks is *Risk Management for Churches - A Self-Directed Audit* by Grange, et al, available from Church Law & Tax Report, PO Box 1098, Matthews, NC 28106, (704) 841-8066.

Minimizing the Risk of Sexual Abuse and Misconduct

Church officers have a profound ethical as well as legal responsibility to implement policies which reduce the risk that any church member will be sexually abused by a church employee or volunteer. Allegations of sexual abuse within a community of faith are deeply disruptive and often devastating, especially where children are involved.

There are excellent resources available to guide you in assessing and, if necessary, improving your church's policies and procedures concerning the prevention of sexual abuse. The Conferences of the United Church of Christ Insurance Board has produced a handbook, *Making Our Churches Safe for All*. Another useful publication is *Reducing the Risk of Child Sexual Abuse in Your Church*, by Hammar 35. Al., published by Christian Ministry Resources ([see Bibliography](#)).

C. Minimizing Legal Risks to Church Volunteers

In recent years a number of lawsuits have tried to impose personal liability on volunteer officers of churches. Areas of potential liability include the following:

1. Liability involving injury to another's person or property. Examples would include negligent hiring or supervision of an employee, copyright infringement, wrongful termination of an employee, negligent operation of a motor vehicle.

A church officer is usually considered to be liable only for those decisions in which he or she is involved. If a church board member is uneasy with a decision of the board, it is wise to have this dissent recorded in the minutes of the meeting.

2. Liability for contracts signed by the officer. If the officer signs a contract on behalf of the church without first being granted authority to do so by the governing board, the officer may be held personally liable for the contract. Even if such authority has been granted, the officer must explicitly include on the document the church's name, corporate status, and the capacity in which he or she is signing (example: "Signed by Mary Jones, Treasurer, for First Congregational Church of Smallville, a Pennsylvania non-profit corporation") in order to avert the possibility of being held personally liable.
3. Breach of fiduciary duty of care. A volunteer may be vulnerable to this charge if his or her inattention allows some kind of loss to occur. Board members who are chronically absent from meetings may put themselves at particular risk in this area.
4. Willful failure to withhold payroll taxes or to pay withheld amounts to the IRS. This is a felony punishable by a fine of up to \$10,000 and/or imprisonment for up to five years (section 7202, Internal Revenue Code). In addition, each officer involved can be personally liable for a penalty of 100% of the amount of tax evaded.

Of course, church volunteers who willfully act in ways that jeopardize the church or its members should not be protected from legal action. However, officers need to be confident that they are protected as long as they honorably exercise their best judgement in the interests of the church.

The risk that officers will be held personally liable can be reduced by making certain changes to the church's legal documents. Churches that are incorporated may amend their Articles of Organization to include a paragraph which effectively exempts officers from liability for honest mistakes (but not for "bad faith" acts such as knowing violations of

the law). A proposed vote for such an amendment is attached as Appendix D. Churches which are unincorporated can amend their bylaws to indemnify officers, to the extent legally permissible, from liability for bad outcomes of decisions made in good faith. Sample wording for such an amendment appears in Appendix E. A higher level of protection is afforded by incorporating - the mechanism of incorporation is designed to insulate leaders from personal liability provided they are acting in good faith and in their corporate capacity. In both cases directors and officers liability insurance should be carried by the church.

V. YOUR CHURCH AS EMPLOYER

Church officers often face questions as to the mechanics of hiring and compensating church employees. This chapter addresses those most commonly asked.

A. Personnel Policies and Compensation of Employees

Each local congregation of the United Church of Christ sets its own personnel policies and compensates employees based on its own programmatic and budgetary priorities. Penn Central Conference has its own set of personnel policies you may use as a guide.

B. Hiring

Current laws require all employers, including churches, to obtain proof of a prospective employee's identity and legal right to work in the United States prior to hiring him or her. A Federal form I-9 must be completed and kept on file for each employee.

It is also necessary for lay employees to complete a Federal tax withholding form W-4, which instructs the employer regarding how much Federal income tax to withhold from the employee's compensation. A clergy person may complete a W-4 form at her or his option (see C-2, below). W-4 forms are available from any IRS office, or on the World Wide Web (see Appendix A for web address.)

C. Payroll Taxes

1. Lay Employees

Churches that employ non-ordained staff are responsible for withholding and remitting the following taxes from employee paychecks: Federal and State income taxes, Social Security and Medicare taxes. The church is responsible for paying the employer's portion of Social Security and Medicare taxes. Churches are exempt from Federal and State unemployment taxes. IRS Circular E is published annually and contains detailed instructions as to how to withhold and remit Federal payroll taxes; the Pennsylvania Department of Revenue publishes REV-580 containing comparable information concerning State income tax.

2. Clergy

Clergy have a unique tax status. They are considered to be employees for income tax purposes and to be self-employed for Social Security and Medicare purposes.

The church should not withhold or pay Social Security and Medicare taxes for an ordained minister. Instead, Conference compensation recommendations include a provision for a "social security allowance" of 1/2 the current rate of self-employment tax; this amount should be paid to the minister as an addition to his or her salary. The minister is then responsible to pay all Social Security taxes.

The minister is responsible to pay all of his or her Federal and State income taxes as well. Some ministers have difficulty in saving money for quarterly tax payments. If your minister requests assistance with this, you may hold back a portion of the minister's pay and keep it in escrow until he or she is ready to make a tax payment. The minister should make a request for such an arrangement in writing, to provide a clear record regarding your payroll procedures.

3. Independent Contractors

Church workers who are classified as self-employed contractors need to have their own worker's compensation and liability insurance coverage, as church insurance policies typically cover only those workers who are employees of the organization. A copy of the insurance coverage is needed before work starts.

Some churches regard their clergy, organists, sextons or other staff members as independent contractors rather than employees. Because this is seldom acceptable to the Internal Revenue Service, the Penn Central Conference strongly recommends that a local church obtain legal counsel before classifying any regular service provider as an independent contractor.

Ministers are almost always considered to be employees by the Internal Revenue Service. The only clergy who might reasonably claim to be self-employed under current IRS regulations are short-term interim pastors. Even interim ministers are almost always better off reporting their Federal taxes as employees. The advantages are:

- a. The cost of health insurance paid by an employer is fully excludable from income, whereas a self-employed individual can presently deduct only 60% of the cost of health insurance premiums;
- b. The risk of an IRS audit is generally lower for employees than for self-employed persons; and
- c. A person claiming self-employed status who is audited by the IRS runs the risk of being reclassified as an employee. He or she may then be subject to additional taxes and penalties (Hammar, *Church & Clergy Tax Guide*, 1997, p.60).

Likewise, it is a rare organist, Christian Education director, sexton or secretary who could reasonably claim to be self-employed. The IRS issued guidelines in 1987 and again in 1994 to help employers distinguish between independent contractors and employees. These guidelines are summarized in Appendix F, and should be considered carefully if there is any question as to a church worker's employment status. In thinking about your church workers, you might begin by considering the following questions derived from the IRS guidelines:

- Do church members expect that the worker will carry out the job him or herself, or is the worker free to delegate work to a subcontractor? If you expect the work to be done personally, the individual is probably an employee.
- Are the worker's services integral to the operation of the church? If so, he or she is probably an employee.
- Is there an ongoing relationship between the worker and the church? This, too, points toward an employer-employee relationship.
- Is the individual paid by the hour, week or month? Contractors are typically paid by the job or piece.
- Does the church provide the premises and equipment necessary for the individual to do the job? If so, he or she is probably an employee.

In addition to creating potential tax problems for the individual, treating clergy or other workers as self-employed contractors may render the church vulnerable to charges of tax evasion. The church could be required to pay overdue payroll taxes, interest and penalties in the event that the IRS determines that an individual claiming to be self-employed is actually an employee.

D. Minister's Housing - Parsonages and Housing Allowances

Federal tax law allows clergy who are employed by churches as ministers to receive a portion of their income as housing allowance. Provided certain guidelines are followed, the housing allowance is exempt from Federal income taxes, although the minister must pay self-employment (Social Security and Medicare) tax on housing allowance amounts.

Budgeted vs. Actual Housing Allowance Amounts

This is a subject which many find confusing. On the one hand, many church budgets include a line for the minister's salary and another line for a housing allowance. On the other hand, it is the minister's job to request that a certain portion of his or her compensation be designated as a housing allowance, based on the minister's estimation of housing costs for the coming year. The minister may request an amount which differs from the amount in the church budget, asking for a smaller salary and a larger housing allowance, or vice versa. There is seldom a reason for the church board to refuse this request, as it is the minister's job to retain proper records and prove to the IRS that

amounts received as housing allowance were in fact spent on housing. If the housing allowance amount included in the church budget differs from the amount requested by the minister and voted by the Board, it is the latter amount which should be used in calculating the amount of salary to report on the minister's W-2 form (see Appendix G).

As an example, suppose the First Church of Smallville, UCC has the following lines in its personnel budget for the year:

Minister's Salary	\$30,000
Housing Allowance	<u>\$10,000</u>
Total	\$40,000

Now suppose that the pastor estimates that his actual housing costs for the year will be \$16,000. He requests that \$16,000 of his annual compensation be designated as housing allowance, and the personnel committee votes this amount at its December meeting. His compensation for purposes of tax reporting will then be as follows:

Salary (reported on W-2 form)	\$24,000
Housing Allowance (not on W-2 form)	<u>\$16,000</u>
Total	\$40,000

1. IRS Requirements for Designating Housing Allowances

A housing allowance must be designated in advance, in writing, by the church board. It cannot be retroactive; that is, if your new minister begins work in September, it must be based on housing costs to be incurred from September through December only.

It is not permissible for a minister to declare a housing allowance which exceeds the "fair rental value" of his or her home, including utilities and furnishings. This can be problematic, as it is easy for reasonable people to disagree as to the fair rental value of a piece of property. Fortunately, it is not the job of the church treasurer or trustee to worry about this - if a minister is audited by the IRS, it will be his or her role to negotiate with the auditor concerning a reasonable fair rental value to assign to the home. However, because an IRS audit can be quite distracting and time-consuming for a minister, you may want to confirm that the housing allowance amount requested appears reasonable to you.

2. Guidelines for ministers living in church-owned parsonages

If your ordained pastor lives in a church-owned parsonage for the convenience of the church, the fair rental value of this housing should not be reported as income for Federal or State income tax purposes. The pastor will need to include it as compensation in computing the correct amount of self-employment tax, but it should not appear on the W-2 form.

Your pastor may also request that a part of his or her cash compensation be designated as a housing allowance and excluded from income taxation. The pastor will request this amount based on anticipated out-of-pocket expenses he or she will incur in order to live at the parsonage, which might include the costs of utilities, furnishings, repairs or trash pickup, for example. A sample form for a minister to use in requesting a housing allowance appears in [Appendix G](#), along with suggested language for a board vote to designate such an allowance.

If a parsonage is provided, serious consideration should be given to establishing a pastoral equity fund in lieu of home ownership.

3. Housing Equity Allowances

Some churches wish to provide their clergy who live in parsonages with a housing equity allowance. This is an attempt to allow the minister to build some assets toward eventual purchase of a home, because clergy living in parsonages do not have the opportunity to build equity in a home through conventional means.

A church wishing to provide a tax-deferred housing equity allowance may do so, within legal limits, by giving the minister an amount of compensation to be placed in an Individual Retirement Account, or by making excess payments to the minister's retirement account with the UCC Pension Boards. A church might also examine the use of a new Roth IRA as a place to deposit housing equity amounts.

The law sets limits as to the percentage of an individual's income that may be protected from immediate taxation. Any contribution to the Pension Boards or a comparable retirement plan counts toward this limit. Therefore, if a church wishes to establish a housing equity allowance for a minister for whom retirement contributions are also being made, it is important to consult with the Pension Boards (or, if another retirement vehicle is being used, with a tax accountant). Write a letter to the Pension Boards (Member Services division – see [Appendix A](#) for address) which includes the minister's name, member number, current year salary and housing allowance, and current year retirement contribution amount. Ask for a calculation of how much additional money may be contributed on a tax-deferred basis.

Note that such housing equity allowance amounts, if deposited in an IRA, are subject to a penalty if withdrawn before retirement. If contributed to a Pension Boards account, they are completely inaccessible until retirement. There is presently no legal way to set aside money for pre-retirement housing needs without first paying income tax on it.

4. Guidelines for clergy who rent or own their homes

If your pastor rents or owns a home, he or she may request a housing allowance based on the expenses directly related to renting or owning, maintaining and furnishing this home. Again, in order for this exclusion to be legal, a rental or housing allowance must be designated in advance, in writing, by the appropriate church board. The amount thus requested and excluded is then exempt from income taxes and should be omitted from compensation reported on the minister's W-2 form. (Your minister will include it; however, in calculating the self-employment taxes he or she must pay.) Suggested language for the minister's request and the board's vote may be found in Appendix G.

If the minister rents a home, he or she should estimate anticipated expenses including rent, repairs, furnishings, renter's insurance and utilities. Your Board should designate this amount of the pastor's compensation as a rental allowance for the upcoming year. (Of course, the rental allowance cannot exceed the pastor's total compensation, as might theoretically be possible in the case of a part-time pastor.)

If your minister owns or will be purchasing a home, he or she should estimate anticipated expenses including down payment and legal fees associated with purchase of a home, mortgage and interest payments, condominium fees, utilities, repairs, furnishings, real estate taxes and homeowner's insurance. He or she may request that the total of these amounts be designated as housing allowance (unless, in the minister's estimation, the total exceeds the fair rental value of the home, in which case it is the minister's responsibility to request the fair rental value only. Also, as with a rental allowance, the housing allowance cannot exceed the total compensation paid to a pastor.)

For a full discussion of clergy housing allowances, see Hammar, *Pastor, Church and Law*, pp. 223-239.

B. Tax Reporting

9. Employees

All employers responsible for tax withholdings must file quarterly payroll tax reports with the State of Pennsylvania (forms WR and WR-1) and with the IRS (form 941).

All employers must file a W-2 form annually for each employee. The form must be provided to the employee by January 31 for the year ended December 31, and copies sent to the IRS and the Pennsylvania Department of Revenue by February 28.

Based on IRS publications, the Stewardship Council of the United Church of Christ recommends that all churches issue W-2 forms to their ministers (see the

annual *Minister's Guide for Income Tax* by Conrad Teitell, published by the Stewardship Council). In the past, due to the unique and sometimes bewildering tax status of clergy (see section C.2.), many church officers have thought it appropriate to issue 1099 forms to ministers. However, because ministers are almost always considered by the IRS to be employees, the W-2 is the correct form to use.

It can be challenging to determine what amounts to include as compensation on a minister's W-2 form. The following amounts should be included, if your minister receives them:

- a. Salary
- b. Social Security and Medicaid (or Self-Employment Tax) Offsets
- c. "Allowances" for travel, books, professional development, etc. (Such business expenses are best handled through an accountable reimbursement arrangement rather than an allowance; see section F below.)
- d. Gifts from the church to the minister, including Christmas and retirement gifts (Hammar, *Church & Clergy Tax Guide*, 1997, p.98). Exception: gifts to the minister that are funded by special contributions from church members are tax-free to the minister, but do not constitute tax-deductible charitable gifts on the part of the donor (see section VI.A. for related information.)
- e. Life insurance premiums for benefit amounts in excess of \$50,000 per employee (see below).

The following payments are exempt from income taxation and should not be included as compensation on the W-2 form:

- i. Housing allowance amounts for ordained clergy, designated and recorded in advance by the appropriate Board of the church
- ii. Health and disability insurance premiums paid by the church to the Pension Boards or other insurance company
- iii. Pension contribution amounts paid by the church to the Pension Boards or other 403(b) plan
- iv. Life insurance premiums paid by the church to the Pension Boards or other insurance company, except to the extent that the amount of coverage exceeds \$50,000 per employee. If an employee is insured for a benefit amount higher than \$50,000, you must calculate the value of the additional insurance according to the Uniform Premium Table as prescribed by IRS regulation 1.79-3. This table is reproduced as Appendix H. The value of the additional life insurance indicated by this table is included as income to the

employee.

- v. Business expenses reimbursed under an "accountable reimbursement arrangement" (see [section F](#)).

For more detailed information concerning clergy income taxes, see Teitell's or Hammar's publications, mentioned above and listed in the [Bibliography](#).

2. Contractors

Any church purchasing services from an independent contractor should report that individual's compensation to Federal and State tax authorities annually on a 1099 form, unless the amount of compensation was less than \$600 for the year. Although there is an exemption from the requirement of issuing a 1099 form to incorporated independent contractors, often times it is difficult to determine whether the independent contractor is incorporated. Thus, as a practical matter, it is better to issue 1099 forms to all independent contractors where the amount paid by the church during the year was \$600 or more.

C. Reimbursement of Business Expenses

Under present tax regulations, the best way to handle employees' business expenses is to establish what is known as an "accountable reimbursement arrangement." Under this kind of arrangement, an employee is reimbursed for amounts he or she spends on business-related expenses, such as travel, training events, books, subscriptions, vestments, and professional dues. Amounts reimbursed to an employee do not constitute income for tax purposes and are not reported on the employee's W-2 form. Likewise, they are not deducted by the employee as business expenses on his or her tax return.

In order for an employee's business expenses to be reimbursable under an accountable arrangement, two requirements must be met:

10. The expenses must be substantiated within sixty days. "Substantiation" includes a description of each expense including the amount, date, place and business purpose of the expense. For each expense of \$75 or more, the employee must also provide a receipt.
11. Any excess reimbursements must be returned to the employer within 120 days after the expense was incurred.

"Excess reimbursements" refers to amounts paid out in advance of actual expenditures. For example, suppose the church advances a minister \$300 for expenses associated with attendance at a clergy development retreat. The minister must, within sixty days, provide a detailed report of the expenses he incurred in order to attend the retreat. If he did not use (or cannot substantiate) the entire \$300 which was advanced, he must return any excess amount within 120 days.

In order to substantiate his or her business expenses, each employee should keep an itemized log or worksheet showing each expense incurred and listing the date, place and

purpose of the expense. In the case of travel expense, the log should include the date, starting location, destination, purpose of the trip and number of miles traveled. Mileage should be reimbursed at the IRS-approved rate (48.5 cents per mile for 2007).

An accountable reimbursement arrangement should be adopted as a written policy, approved by the church board or other appropriate body of the church. The policy should indicate the types of expenses which will be reimbursed to employees, and state clearly that reimbursements are not a part of any employee's salary or wages. A sample policy is attached as Appendix I.

It is important for the church to retain the logs or worksheets and receipts submitted by employees under an accountable reimbursement plan for at least seven years, as they will be needed in the event that the church or one of its employees is audited.

D. Employee Use of Church-Owned Vehicles

Another way to provide for a minister's travel expenses is for the church to purchase or lease a vehicle for the minister's use. In this case there is no need for the minister to keep track of miles traveled on church business. However, the value of any **personal** use of an employer-provided vehicle is considered by the IRS to be a taxable fringe benefit.

Therefore, you must calculate the value of any personal use of such a vehicle and include it on the minister's W-2 form. For a discussion of the four different options allowed by the IRS for making this calculation, see Hammar, *Church & Clergy Tax Guide*, chapter 4 (see Bibliography) or consult a tax accountant.

E. Benefit plans offered by the Pension Boards of the United Church of Christ

Your church is eligible to provide a number of benefits to its employees through participation in the UCC Pension Boards pension and benefit plans. All are available for lay employees as well as clergy. The Conference office can provide you with brochures and enrollment forms for these plans. The Pension Boards will bill your church for the cost of the benefits, and the church will make payments directly to the Pension Boards. The options are as follows:

1. Pension Plan. Pension benefits are provided through participation in the Annuity Fund of the United Church of Christ. This plan is available to all employees, lay and ordained, full- and part-time. The Conference compensation guidelines for full-time clergy recommend that the church contribute 14% of the pastor's salary basis (including housing) to his or her pension account. An employer must contribute at least 6% of an employee's salary basis in order for the account to be considered "active". A minimum contribution of 11% is required for participation in certain other benefit plans (see below).

Contributions to the UCC Annuity Fund (pension plan) are fully vested as soon as they are received by the Pension Boards. They may not be withdrawn prior to retirement or "rolled over" into other vehicles. The pension plan has a particular advantage for clergy over IRAs and other investment vehicles: a portion of a retired clergyperson's pension benefit may be designated as housing allowance (thus reducing income tax liability) because the plan is sponsored by a church. Clergy may

not designate as housing allowance any other kind of retirement income. The ability to designate a housing allowance can make a considerable difference in clergy person's disposable income in retirement, as during his or her working life. In addition, the amount of income that can be sheltered from income taxes often exceeds that which can be contributed pre-tax to other plans.

2. Health Benefits. The Pension Board Health Benefits Plan is available for any employee who works at least 20 hours per week. This plan provides comprehensive coverage including an inexpensive mail order drug component. Employees, lay and ordained, are eligible to join without showing evidence of good health **during their first 90 days of their initial employment by a UCC entity**. In other words, an employee's acceptance into the plan is automatic provided he or she enrolls within 90 days of beginning his or her first job with a United Church of Christ organization.

Penn Central Conference recommends that all UCC clergy participate in this plan, because it provides clergy with consistent coverage throughout their ministry and allows them to move anywhere without forfeiting health coverage. That is, they can keep the same coverage as they move from one UCC church job to another.

Employees who do not enroll in the UCC Health Benefits Plan within 90 days of their initial employment by a UCC entity may join it at a later date **only if they can prove that they and their family members are "insurable"**. In other words, after the first 90 days of employment, acceptance is not automatic. If any member of the family has significant health problems, they are unlikely to be accepted into the plan.

The Pension Boards Health Benefits Plan tends to be more expensive than some HMO-style plans, and many churches and clergy consider using alternative health insurance providers. While this can be tempting and may save money in the short run, it can be very costly in the long run.

Suppose, for example, Rev. Jones begins work at the Anytown, Pennsylvania UCC. She and her family members are healthy, and they are able to join the All-State HMO rather than the Pension Boards plan. The HMO has a slightly lower premium and will cost Rev. Jones less in out-of-pocket expenses than the Pension Boards plan. She works at Anytown UCC for eight years, during which time she is diagnosed with diabetes. She then receives a call to Bigville UCC in the Midwest. She cannot stay with All-State HMO because she is moving out of its geographic range. She is unlikely to be admitted by the Pension Boards plan because of her potentially costly illness. She may likewise have difficulty obtaining comparable coverage with the Midwest HMO given her diagnosis of a chronic illness. Thus, she may find herself unable to obtain adequate insurance for herself and her family if she takes the new job.

Of course, there are circumstances under which it may make sense for an employee to decline the initial opportunity to enroll in the Pension Boards plan. However, the employee should carefully consider his or her long-term plans in making this decision.

Pension Boards Health rates are set annually and may be obtained from the Conference office (see [Appendix A](#) for phone numbers).

3. Dental Benefits. These are available only in conjunction with health benefits coverage. If an employee chooses not to enroll within ninety days of employment, he or she must wait until an "open enrollment" period to join the plan. "Open enrollment" periods usually take place every three to five years.

Dental rates are set annually and may be obtained from Conference office.

4. Life Insurance/Disability Income Benefit Plan. This provides the employee with life insurance and some income replacement in the event of long-term disability. The plan is available only to active participants in the annuity plan for whom contributions are being made at a rate of at least 11% of salary basis. The cost of life/disability insurance is one percent of salary basis.

The disability benefit payable under this plan begins ninety days after an employee ceases work due to total disability (provided the insurance company has accepted proof of the disability). Note that it is up to the employing church to determine its own policy as to whether to continue to compensate the minister during the first ninety days of disability.

Under the Pension Boards Disability Plan, contributions to a disabled employee's pension account are continued as a part of the disability benefit. When a disabled employee reaches retirement age, disability payments stop and pension payments begin. This integration of disability and pension benefits is particularly valuable in ensuring adequate income for a disabled individual during his or her later years.

Penn Central Conference expects that local churches provide disability insurance for their employees. In the absence of such insurance, the long-term disability of an employee can present a church with a serious ethical and financial dilemma. The church must either continue to provide support for an employee no longer able to do his or her job, or consign the employee to live on the very limited income which may be available through the Social Security disability system. Long-term disability insurance thus protects not only the employee but the church as well.

E. Worker's Compensation

As explained in [section IV.A.1.](#), every local church is required to purchase Worker's Compensation insurance. In the absence of such coverage, Pennsylvania law holds an employer directly responsible for medical costs resulting from any job-related injury or illness on the part of an employee. In the case of a serious injury, the church could also be responsible for partial income replacement for the duration of a work-related disability - in other words, for years. Health and accident insurance policies routinely exclude work-related conditions from coverage, as do disability and general liability policies. Worker's compensation coverage may be obtained through the United Church of Christ Insurance Advisory Board, or through a local insurance agent.

F. Housing Equity Allowances

Some churches wish to provide their clergy who live in parsonages with a housing equity allowance. This is an attempt to allow the minister to build some assets toward eventual purchase of a home, because clergy living in parsonages do not have the opportunity to build equity in a home through conventional means.

A church wishing to provide a tax-deferred housing equity allowance may do so, within legal limits, by giving the minister an amount of compensation to be placed in an Individual Retirement Account, or by making excess payments to the minister's retirement account with the UCC Pension Boards. A church might also examine the use of a new Roth IRA as a place to deposit housing equity amounts.

The law sets limits as to the percentage of an individual's income that may be protected from immediate taxation. Any contribution to the Pension Boards or a comparable retirement plan counts toward this limit. Therefore, if a church wishes to establish a housing equity allowance for a minister for whom retirement contributions are also being made, it is important to consult with the Pension Boards (or, if another retirement vehicle is being used, with a tax accountant). Write a letter to the Pension Boards (Member Services division – see [Appendix A](#) for address) which includes the minister's name, member number, current year salary and housing allowance, and current year retirement contribution amount. Ask for a calculation of how much additional money may be contributed on a tax-deferred basis.

Note that such housing equity allowance amounts, if deposited in an IRA, are subject to a penalty if withdrawn before retirement. If contributed to a Pension Boards account, they are completely inaccessible until retirement. There is presently no legal way to set aside money for pre-retirement housing needs without first paying income tax on it.

VI. DONATIONS TO CHURCHES -- TAX DEDUCTIBILITY

A. Contributions from members

Contributions from members are the primary source of income for most local churches. Such contributions are usually tax-deductible. To be deductible, a contribution must meet the following six conditions:

1. The contribution is a gift of cash or other property;
2. made before the close of the year for which the contribution is claimed;
3. unconditional and without personal benefit to the contributor;
4. made "to or for the use of" the church;
5. not in excess of the amounts allowed by law; and
6. properly substantiated.

(Hammar, *Church and Clergy Tax Guide*, 1997, p.221).

The third requirement – that a contribution be unconditional – means that fees for specific services do not constitute tax-deductible contributions. For example, if your church charges fees for the use of its facilities for weddings or other events, those who pay such fees may not claim a tax-deduction for them.

The fourth of these requirements is important in considering contributions designated for particular purposes. Payments made directly to individual ministers, missionaries or individuals in need are not tax-deductible. Likewise, **a contribution given to a church with the stipulation that it be passed along to a particular individual will not generally be deductible.** The IRS assumes, in such instances, that the contribution is made to benefit a particular individual rather than the programs and projects of the church. However, a contribution to a missions board earmarked for a particular missionary is tax-deductible so long as the missions board "has full control of the donated funds, and discretion as to their use, so as to insure that they will be used to carry out its functions and purposes"(Hammar, *Church & Clergy Tax Guide*, 1997, p.234).

Item six, regarding substantiation of contributions, is also of concern to church treasurers. **As of January 1, 1994, donors must receive written acknowledgement from the church in order to substantiate individual contributions of \$250 or more.** Cancelled checks no longer constitute sufficient documentation. The written acknowledgement must include the donor's name and an itemized list of each contribution of \$250 or more. In most cases it should also include the following statement to the donor:

"Present IRS guidelines provide that charitable deductions are limited to the amount of a contribution which exceed the value of any goods and services provided to you. We affirm that (*church name*) provided you no direct or indirect goods and services other than intangible religious benefits in consideration of your gift(s) totaling \$(*amount*)."

The only circumstance under which this statement should be omitted is if the donor in fact received tangible goods or services in exchange for his or her contribution. (Note that services typically offered to church members - such as attendance at worship and Sunday School, pastoral guidance, and participation in fellowship and mission opportunities - are not considered by the IRS to be tangible goods or services.) In this case, the goods and services should be listed along with a fair estimate of their value. The amount of the charitable contribution is then the difference between the amount given to the church and the value of the goods or services received in exchange.

Finally, the acknowledgement should be received by the donor before he or she files a timely tax return. Since contributors may file tax returns as early as February for the preceding year, it is advisable to provide these statements by January 31. Sample formats for written acknowledgement of contributions are attached as Appendix J.

B. Fund Raising Events

Money paid to the church in exchange for goods or services (such as concert tickets or craft items) is tax deductible only to the extent that the amount paid exceeds the fair market value of the goods or services purchased. IRS regulations require that tickets or receipts issued in connection with a fund raising event state clearly how much of the amount contributed is deductible.

C. Gifts of Property

IRS regulations require that individual contributions of property valued at more than \$250 be substantiated via a receipt from the church. The receipt should include the name of the church, the date and location of the contribution, and a description of the donated property. The church should not attempt to estimate the value of the property, though the receipt may state that "the donor has valued the property as of the date of the contribution at (estimated value)".

The rules governing substantiation of gifts of property valued in excess of \$250 are very complicated. If a member of your church wants to make such a gift, refer to Richard Hammar's *Church and Clergy Tax Guide* for further information.

D. Planned Giving

Church members wishing to make a provision for the church in their wills, or to contribute through life income gifts, may obtain information and assistance by contacting an associate from the Penn Central Conference Planned Giving Partnership. Likewise, church boards seeking to invite or administer such gifts may call a Planned Giving Partnership associate. (Appendix C)

VII. REMITTANCES AND REPORTING TO THE WIDER UCC

This chapter provides information to help church treasurer's process mission payments and complete the Annual Report to the National Office of the United Church of Christ.

A. Remittances

1. Our Church's Wider Mission Basic Support

Our Church's Wider Mission Basic Support is contributed by local churches to support United Church of Christ mission and program in wider settings. It supports the ongoing work included in the operating budgets of the Conference and the national UCC. A portion of Basic Support (55%) is retained by the Penn Central Conference; the remainder (45%) is sent on to the national United Church of Christ as National Basic Support. These proportions are voted by the Annual Meeting of the Conference.

Just as it is helpful to the local church when members make weekly or monthly payments on their pledges, it is helpful to the wider church to receive regular monthly or quarterly Basic Support from member churches.

Our Church's Wider Mission Basic Support contributions should be mailed to the Conference office along with a transmittal form ([Appendix J](#)). Transmittal forms may be obtained by calling the Conference office or downloaded from the website (www.pccucc.org). Please include your church number on your transmittal form, as this helps to ensure that the correct church will receive credit for the contribution.

2. Our Church's Wider Mission Special Support

Our Church's Wider Mission Special Support comprises gifts for particular offerings, projects, agencies or institutions of the United Church of Christ. Special offerings of the UCC include One Great Hour of Sharing, Neighbors in Need, Strengthen the Church, Christmas Fund and other institutions listed in the Directory of the United Church of Christ *Yearbook* fall into the Special Support category. Gifts for particular projects of Penn Central Conference, likewise constitute OCWM Special Support.

Penn Central Conference strongly encourages local churches to send Our Church's Wider Mission Special Support contributions to the Conference office. This simplifies bookkeeping for recipient organizations and allows better records to be kept by the Conference. Each check should be accompanied by a transmittal form ([Appendix J](#)) indicating the amount and destination of each contribution. You may remit Basic Support and Special Support using a single check; the transmittal form allows you to list the separate components of the gift.

3. Other Gifts

These are mission contributions to organizations not carried out under the direct auspices of a UCC group listed in the national *Yearbook*.

In remitting other gifts, local church treasurers have two options:

- a. Send them directly to the recipient organization. This speeds up the process by a few weeks, but involves more check writing on the part of the Treasurer.
- b. Send them via Penn Central Conference, using a transmittal form to indicate your intended recipients and amounts. This enables you to write a single check to cover a number of contributions, and enables recipient organizations to process a single check comprising contributions from a number of churches. However, these donations are sent monthly in batches, so the recipient waits an average of two weeks longer for a contribution sent in this manner.

Disaster relief in particular is best sent through the Conference office, with a transmittal form clearly stating to what disaster your church is responding. Conference personnel can then make certain that the money is directed to the appropriate UCC or ecumenical agency.

B. UCC Local Church Yearbook Report – Financial Section

Each UCC church is asked to complete an annual report to the National United Church of Christ. The data collected via these annual reports is published in the UCC *Yearbook*. A copy of the yearbook report form and instructions is mailed to each church from the Penn Central Conference office annually in December.

The financial information to include is as follows:

Income

Total income from all sources - this should include pledges, offerings, investment income, bequests, rental income and all other kinds of income received by the church.

Total income from pledges and offerings – self-explanatory. This figure reflects the ongoing support received by the church from its current members and friends.

Expenditures

Line 1.A. - OCWM Basic Support Total

Please list the total amount of Our Church's Wider Mission Basic Support sent by your church to Penn Central Conference during the calendar year on this line.

Lines 1.B. and C. - Special Support for Our Church's Wider Mission

OCWM Special Support includes the following:

- All UCC Offerings (One Great Hour of Sharing, Neighbors in Need, Strengthen the Church, Christmas Fund)
- Contributions to Campaigns and other restricted gifts to the Penn Central Conference
- Other gifts to other UCC entities. These are organizations and institutions listed in the *UCC Yearbook*

The yearbook report asks that you divide your church's total OCWM Special Support into two components: the amount sent via the Penn Central Conference (to be listed on line B) and any amount sent directly to other UCC bodies and institutions (to be listed on line C).

Line 1.D. – Total OCWM

This line should show the sum of lines A through C.

Line 2. – Financial Support for Non-UCC Agencies and Projects

This line should reflect all contributions made by your church to entities not listed in the *UCC Yearbook*. Gifts to community agencies, local food banks, ecumenical and secular relief organizations (such as Church World Service and Oxfam) would all fall into this category.

Line 3. – Capital Payments

On this line you are asked to report money spent for capital projects – that is, money used to purchase or renovate buildings, or to buy major equipment such as motor vehicles.

Please do not include expenditures made with borrowed money – instead, include the payments your church makes on the borrowed funds. However, do include amounts spent on capital purchases if they were funded via savings or member contributions.

For example, suppose your church spent \$150,000 on renovations in 2003. \$50,000 was contributed for this purpose by members during the year, and \$100,000 was borrowed from a local bank. Line 3 should show capital payments of \$50,000 for 2003. If the church makes payments totaling \$20,000 on the loan during 2004, the 2004 Annual Report should show \$20,000 on Line 3.

Line 4. – Operating Expenses

This line includes the ongoing expenses which make up most of the church's budget: salaries, benefits, utilities, office supplies, maintenance, insurance, postage, etc.

Bequests by Will or Other Gifts of Assets

Items A and B ask that you report bequests and gift annuities received by your church. Item C asks whether your church holds any endowment funds. Endowments are funds whose principal amounts may not be spent, which are invested to provide an ongoing source of income for the church.

APPENDIX A

PENN CENTRAL CONFERENCE

900 S. Arlington Ave. Suite 112, Harrisburg, PA 17109-5024

Phone: 717-652-1560; Fax: 717-652-4769

Web Site: <http://www.pccucc.org> **e-mail:** pccucc@pccucc.org

CONFERENCE MINISTER

Rev. Dr. Marja Coons-Torn

mcoons-torn@pccucc.org

AREA CONFERENCE MINISTERS

Rev. Dr. Allen M. Fluent, 600 Buffalo Road, Lewisburg, 17837

570-523-9628

Rev. Dr. Karen Elizabeth King, 145 Hess Blvd., Lancaster, 17601

717-560-0268

Rev. Char Burch, 2604 Derry Street, Harrisburg 17113

717-525-7348

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717-667-2431

5725 Old U. S. Highway 322

Milroy, 17063

hartmancenter@embarqmail.com

Agents for the United Church of Christ Insurance Board

UCC Insurance Board, Penn Central Conference Field Agents

Miller Insurance Agency

Ken, Dale and/or Barry Miller,
5 North Market Street,
Selinsgrove, PA 17870
millerins@verizon.net

Office: 888-717-4137, Fax: 570-374-6905

United Church of Christ Pension Boards

475 Riverside Drive, Room 1020
New York, NY 10115
Member Services: 1-800-642-6543
www.pbucc.org

Web Site for IRS Forms

http://www.irs.gov/prod/forms_pubs/top-forms.html

Web Site for PA Forms

<http://www.Revenue.state.pa.us>

Web Site for UCC

<http://www.ucc.org>

APPENDIX B

Letter documenting Federal tax-exempt status of UCC churches

PLEASE NOTE: This is an illustration of the letter from the national offices of the United Church of Christ. If you require a better copy, please call the Penn Central Conference Office.

(add printed letter from National Office)

Appendix C

PLANNED GIVING PARTNERSHIP

Help in the area of Planned Giving

is available from any of the persons listed below

Ms. Meggan Kerber
Bethany Children's Home
1863 Bethany Road
Womelsdorf, PA 19567
(610) 589-3333/877-270-1200
(610) 589-5771 FAX
mkerber@bethanyhome.org

Mr. Charles Fehr
Phoebe Ministries
1925 Turner Street
Allentown, PA 18104
(610) 794-5153
(610) 794-5414 FAX
cfehr@phoebe.org

Rev. Keith Tussing
Lancaster Theological Seminary
555 West James Street
Lancaster, PA 17603
(717) 290-8738
ktussing@lancasterseminary.edu

Rev. Dr. Marja Coons-Torn
Penn Central Conference
900 S. Arlington Ave, Room 112
Harrisburg, PA 17109
717-652-1560
717-652-4769 FAX
mcoons-torn@pccucc.org

Ms. Victoria Velez
United Church of Christ Homes
30 North 31st Street
Camp Hill, PA 17011
(717) 303-1502
(717) 303-1607 FAX
vvelez@ucc-homes.org

Ms. Brenda Wiley
Hoffman Homes for Youth
P. O. Box 4777
Gettysburg, PA 17325
(717) 359-7148 X2800
(717) 359-2600 FAX
bwiley@hoffmanhomes.com

Ms. Barbara Everett
Uplands Retirement Village
86A Church Drive, PO Box 168
Pleasant Hill, TN 38578
(931) 277-3518
(931) 277-5396 FAX
beverett@tnaccess.com

APPENDIX D

**Sample Amendment to
Articles of Organization to Protect Church Officers**

PROPOSED VOTE:

VOTED: To amend the Articles of Organization by adding the following new paragraph:

No officer or director of the corporation shall be personally liable to the corporation or its members for monetary damages for breach of fiduciary duty as an officer or director, provided, however, that this provision shall in no way be construed to eliminate or limit the liability of an officer or director (i) for any breach of his or her duty of loyalty to the corporation or its members, (ii) for acts or omissions not in good faith or involving intentional misconduct or a knowing violation of the law, or (iii) for any transaction from which the officer or director derived an improper personal benefit.

Appendix E - Sample By-Law Indemnifying Church Officers

Note: This is an example only, and should not be adopted as written without considering your own church's structure. Legal counsel has cautioned us that "the bylaw example refers to the "Board of Trustees" as the decision making authority...the decision making authority may be a different Board or Committee in a different church depending on the bylaws of that church. It is difficult to recommend an indemnification provision for use by all churches without reviewing the existing bylaws of the particular church to ensure that the appropriate bodies are named in the indemnification provision and that the provision is not contrary to other provisions of the bylaws."

ARTICLE: Indemnification

- C. Indemnification for Officers and Members of Boards and Committees.** To the extent legally permissible, the Church shall indemnify each present or former Officer or Member of a Board or Committee of the Church against all liabilities, costs and expenses, including but not limited to amounts paid in satisfaction of judgement, in settlement or as fines and penalties, and counsel fees and disbursements, reasonably incurred by him or her in connection with the defense or disposition of or otherwise in connection with or resulting from any action, suit or other proceeding, whether civil, criminal, administrative or investigative before any court or administrative, legislative or investigative body, in which such person may be or may have been involved as a party or otherwise or with which such person may be or may have been threatened, while in office or thereafter, by reason of his or her being or having been such an Officer or Member of a Board or Committee, or by reason of any action taken or not taken in any such capacity, except with respect to any matter as to which such person shall have been found by vote of a majority of the disinterested trustees of the whole Board of Trustees then in office not to have acted in good faith in the reasonable belief that his or her action was in the best interests of the Church. Expenses, including but not limited to counsel fees and disbursements, so incurred by any such person in defending any such action, suit or proceeding, may be paid from time to time by the Church in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the person indemnified to repay the amounts so paid if it shall ultimately be determined that indemnification of such expenses is not authorized hereunder which undertaking shall be accepted without reference to the financial ability of such person to make payment.

- D. **Settlements.** As to any matter disposed of by settlement by any such person, pursuant to a consent decree or otherwise, no such indemnification either for the amount of such settlement or for any other expenses shall be provided unless such settlement shall be approved as in the best interests of the Church, after notice that it involves such indemnification, (a) by vote of a disinterested majority of the whole Board of Trustees then in office, or (b) by vote of a majority of the whole Board of Trustees then in office, but only if the Board of Trustees shall have been furnished with an opinion of independent legal counsel to the effect that such settlement is in the best interests of the Church and that such person appears to have acted in good faith in the reasonable belief that his or her action was in the best interests of the Church. No such approval shall prevent the recovery from any such Officer or Member of a Board or Committee of any amounts paid to such person or on his or her behalf as indemnification in accordance with the preceding sentence if such person is subsequently adjudicated by a court of competent jurisdiction not to have acted in good faith in the reasonable belief that his or her action was in the best interests of the Church.
- E. **Insurance.** By action of the Board of Trustees, notwithstanding any interest of the Trustees in such action, the Church may purchase and maintain insurance, in such amounts as the Board of Trustees may from time to time deem appropriate, on behalf of any person who is or was an Officer or Member of a Board or Committee of the Church against any liability incurred by such person in any such capacity, or arising out of his or her status as such, whether or not the Church would have the power to indemnify such person against such liability.

Appendix F - IRS Guidelines to Aid in Distinguishing between Employees and Independent Contractors

The "20-factor" test

The IRS issued a "20-factor" test in 1987 (Revenue Ruling 87-41), as an aid in determining whether an individual is an employee. The IRS cautioned that the degree of importance of each factor may vary according to the specifics of the case; it is not necessary for all of the following factors to apply in order for an individual to be considered an employee. The following factors tend to indicate employee status:

1. The individual must comply with instructions about when, where and how to work.
2. The individual is trained by an experienced employee or by other means.
3. The person's services are integrated into the business operations of the organization.
4. The services must be rendered personally by the individual in question. (In contrast, an independent contractor may delegate responsibilities to another individual in his or her employ.)
5. Any persons hired to assist the worker in question are hired, supervised and paid by the employer rather than the individual in question.
6. There exists a continuing relationship between an individual and the organization for whom he or she performs services.
7. Set hours of work are established by the employer.
8. The worker is required to devote full time to the business of the employer. (However, the fact that an individual works part-time does not, in itself, indicate that he or she is an independent contractor.)
9. Work is done on the employer's premises.
10. The worker is required to perform services in an order or sequence set by the organization for whom he or she performs the services.
11. A worker must submit regular oral or written reports to the employer.

12. The individual is paid by the hour, week or month rather than by the job in a lump sum.
13. The employer pays the worker's business or travel expenses.
14. Tools or materials are furnished by the employer.
15. All necessary facilities (equipment and premises) are furnished by the employer.
16. The worker is not in a position to realize a profit or loss from the provision of services to the organization.
17. The worker serves one organization at a time, rather than working for several persons or organizations.
18. The worker does not make his or her services available to the general public.
19. The organization has the right to discharge the individual.
20. The individual has the right to terminate the job at any point without incurring legal liability.

The "seven-factor" test

In 1994 the US Tax Court made use of a "seven factor" test in two rulings regarding the tax reporting status of clergy. The test requires consideration of the following factors:

1. The degree of control exercised by the employer over the details of the work.
2. Which party invests in the facilities used in the work.
3. The opportunity for the individual to realize a profit or loss.
4. The right of the employer to discharge the individual.
5. Whether the work is part of the employer's regular business.
6. The permanency of the relationship.
7. The relationship the parties believe they are creating.

The court further stated that "the threshold level of control necessary to find employee status is generally lower when applied to professional services than when applied to non-professional services" (Hammar, 1997, p.51).

Appendix G

Sample Letter and Board Vote Requesting Housing Allowance Designation

SAMPLE MEMO

To: (Governing Body, Local United Church of Christ)

Fr: (Ordained staff member)

Re: Housing Allowance for 2008

In order to assist the (Governing Body) in setting the amount of my housing allowance for the year 2008, I certify that the amounts set forth below represent to the best of my knowledge and belief a true estimate of the payments to be made by me during 2006 to rent or provide a home within the meaning of Section 107 of the Internal Revenue Code of 1954:

ITEM	AMOUNT
Rent on leased premises or mortgage payments (principal and interest)	
2. Garage rental, if not included in (1), above	
3. Taxes	
4. Insurance	
5. Heat (gas or oil)	
6. Utilities (electricity, water, sewer)	
7. Repairs and Maintenance	
8. Furnishings	
9. Condominium Fee	
10. Other housing costs	
TOTAL	

I accept full responsibility for maintaining all records and other documentation which may be required to support any exclusion which I may claim in my personal income tax return with respect to my housing allowance.

Date _____ Signature _____

SAMPLE VOTE DESIGNATING A HOUSING ALLOWANCE:

Pursuant to Internal Revenue Code 107, the (name of governing body) of the (full name of church) approves a housing allowance in the amount of (amount) for (name of minister) for (year).

Example:

Pursuant to Internal Revenue Code 107, the Parish Board of the First Congregational Church of Anytown, Pa., approves a housing allowance in the amount of \$15,000 for the Rev. John Smith for 2008.

*****Note that the housing allowance must be voted prior to the start of the period for which it is granted.*****

Appendix H

Sample Accountable Reimbursement Plan

The First Church of Smallville, UCC, hereby establishes an accountable plan to reimburse its employees for business expenses incurred in the course of their work.

Substantiated expenses are to be reported to the church treasurer on a regular basis (at least every other month) and will be reimbursed by the treasurer from operating funds. Substantiation must include the date, place, amount and business purpose of each expense. Travel mileage will be reimbursed at the rate allowed by the IRS. Any cash advance must be accounted for and any excess returned to the church within 120 days of the advance.

Expense which may be reimbursed include the costs of automobile mileage and tolls, lodging, and meals, supplies, books and periodicals, continuing education and training events, and dues for membership in professional associations.

Funds for the reimbursement of business expenses will be established as a line item in the church operating budget each year. These funds are not to be considered part of any employee's salary; rather, they are operating expenses of the church.

Appendix I - Sample Charitable Contribution Receipt

First Church, Anytown, UCC
Statement of Contributions
For the year ending December 31, 2006

Jane Doe
123 Main Street
Anytown, PA 11111

Date	Amount	Contribution Type
1/16/06	\$ 75	General
2/12/06	\$ 75	General
3/15/06	\$ 75	General
3/29/06	\$300	Missions
4/14/06	\$ 75	General
4/25/06	\$250	One Great Hour of Sharing
5/17/06	\$ 75	General
6/15/06	\$ 75	General
9/15/06	\$225	General
10/16/06	\$ 75	General
11/10/06	\$ 75	General
11/20/06	\$300	Missions
12/15/06	\$ 20	Christmas Fund
12/18/06	\$ 75	General
Total	\$ 1770	

Present IRS guidelines provide that charitable deductions are limited to the amount of a contribution which exceed the value of any goods and services provided to you. We affirm that First Church, Anytown provided you no direct or indirect goods and services other than intangible religious benefits in consideration of your gift(s) totaling \$1770.

*****Please save this receipt for income tax purposes.*****

APPENDIX J – Penn Central Conference Remittance Form

Available to download from the Conference website: www.pccucc.org

APPENDIX K – Our Church’s Wider Mission Goal Setting Worksheet

CHURCH #:

CHURCH NAME:

WORKSHEET FOR OCWM (Our Church’s Wider Mission) BASIC SUPPORT GOAL SETTING

In 1983 the Fourteenth General Synod of the United Church of Christ established the guidelines for OCWM Basic Support from local congregations to be an amount equal to at least 25% (.25) of Current Expenses (total local budget minus benevolences and capital payments). The Synod further challenged congregations to achieve that level by increasing the percentage ratio by 1% (.01) per year. Penn Central Conference strongly endorses that guideline and challenge.

This form provides your budget or finance committee with the formula to calculate your 2008 self-assignment goal in a faithful and intentional way.

In 2006:

- a. Your current expenses were: \$ _____
(total budget minus benevolences and capital payments)
- b. Your OCWM Basic Support actual giving was: \$ _____
- c. Thus your OCWM Basic Support % of Current Expenses was: _____
(b divided by a)

In 2007:

- a. Your Current Expense budget (fill in actual amount) was: \$ _____
(total budget minus benevolences and capital payments)
- b. Your OCWM Basic Support actual giving was: \$ _____
- c. Thus your OCWM Basic Support % of Current Expenses was: _____
(divide b by a)

In 2008 we ask you to increase that percentage by a minimum of 1%

- a. Your projected Current Expenses budget will be: \$ _____
(total budget minus benevolences and capital payments)
- b. Your OCWM Basic Support % will be: _____
(increase by a minimum of 1% [.01])
- c. Your OCWM Basic Support goal for 2008 will be: \$ _____
(multiply a times b)

Please fill out the enclosed report form and return it to the Conference Office by January 31, 2008.

**Thank you for your faithful participation in our mutual ministry as the
United Church of Christ in central Pennsylvania.**

BIBLIOGRAPHY AND RESOURCE LIST

I. Source materials published by Christian Ministry Resources, P.O. Box 1098, Matthews, NC 28106, (704) 841-8066:

1. *Church Law and Tax Report* (published monthly). Section IV.C. of this handbook draws particularly on Hammar, Richard R., "The Personal Liability of Members of Unincorporated Churches," 1995, a Church Law and Tax Report special report.
2. *Church Treasurer Alert!*, published monthly. Section II.B. of this handbook draws on Vargo, R., "Protecting the Assets of Your Church", Church Treasurer Alert!, Volume 3, Number 7, July 1995.
3. Grange, Hammar & Cobble, "Risk Management for Churches – A Self-Directed Audit", 1994.
4. Hammar, Richard R., *Church and Clergy Tax Guide* (published annually).
5. Hammar, Richard R., *Pastor, Church & Law*, Second Edition, 1991.
6. Hammar, Klipowicz and Cobble, *Reducing the Risk of Child Sexual Abuse in Your Church*, 1993.

II. Source Materials published by the Stewardship Council of the United Church of Christ, available from United Church Resources (800) 537-3394:

1. Gray, Stephen C., *Mission Giving in the United Church of Christ*, 1992.
2. Teitell, Conrad, *Minister's Guide for Income Tax*, published annually.

III. Source Materials available through Penn Central Conference United Church of Christ, 900 S. Arlington Avenue, Room 112, Harrisburg, PA 17109, (717) 652-1560:

1. *The Local Church and Sexual Abuse*, a packet of articles and recommended sample policies and procedures published by the Commission for Local Church Life and Renewal, available upon consultation with the Associate Conference Minister for Local Church Life.
2. *Making Our Churches Safe for All*, an abuse prevention resource handbook produced by Conferences of the United Church of Christ Insurance Board.
3. *Caring for Our Churches*, a loss control handbook produced by the Conferences of the United Church of Christ Insurance Board.

