



**Contact:**  
**Linda Howard**  
**972.739.1268**  
[lhoward@sstcpa.com](mailto:lhoward@sstcpa.com)

## Top Ten Ways A Church Can Safeguard Its Most Important Asset

Safeguarding your 501c3status and following IRS guidelines can be a complex task. Do you know the answers to these questions?

- **Do you know how the IRS can gain access to a church?**
- **Do you know how to safeguard cash receipts?**
- **Do you know how to report different types of compensation and payroll?**
- **Does someone watch over your financial statements?**
- **Do you know the difference between employees and contract labor?**
- **Should the church have its own credit cards?**
- **Should I operate on a calendar or fiscal year?**
- **Does the church need to segregate gifts given with restrictions?**
- **Who is a minister for tax purposes?**
- **Can the church get involved in lobbying activities?**

### **Q: Do you know how the IRS can gain access to your church?**

A: Because of the separation of church and state as afforded in the U.S. Constitution, the IRS is cautious about its investigation of churches. However, the most common method of gaining access is to investigate issues arising from payroll taxes...incorrect filings, complaints filed by employees or former employees and incorrect reporting of ministers' earnings and taxes are common ways. The IRS also uses a clipping service whereby they scour local publications (newspapers primarily) for articles – typically investigative in nature – which talk about situations within the church that may warrant further investigation.

### **Q: Do you know how to safeguard cash receipts?**

A: The best way to safeguard cash receipts is to have a defined system with multiple people involved. The system should employ good internal controls where custody and recording are segregated between different people. Accountability amongst different individuals is a good policy.

### **Q: Do you know how to report different types of compensation and payroll?**

A: Ministers' compensation – more specifically its reporting for tax purposes – is confusing and thereby fraught with the potential for incorrect reporting. The dual tax status afforded ministers, self employed status for Social Security and Medicare purposes, and reporting housing and parsonage allowances properly are areas that create this complexity which can lead to questions from the IRS.

### **Q: Does someone watch over your financial statements?**

A: There should be a responsible person, persons or committee who review financial transactions and reports and do not have responsibility or authority to record them. In short, no one person should have the ability to record and approve the same transactions.

### **Q: Do you know the difference between employees and contract labor?**

A: The issue here is primarily payroll taxes and who is responsible for them. A contract laborer (a.k.a. self-employed) is responsible for both the employer and employee portions of Social Security and Medicare taxes. In an employee environment, the employer and employee equally share these taxes. The IRS contends that most work relationships are employer/employee. Therefore to meet the independent contractor status, there are specific questions the IRS has identified that must be considered. To approach this classification decision without considering those questions is leaving the church open to IRS scrutiny.

### **Q: Should the church have its own credit cards?**

A: While there's no prohibition against "business" cards for ministers and others to use for church business, the risk of a church asset being abused is increased. Since a credit card can be used for personal purchases as well as business ones, a system of control needs to be in place to approve expenditures as having a valid business purpose.

### **Q: Should I operate on a calendar or fiscal year?**

A: Churches typically use a calendar year even though their operating cycles run fall to summer. Because up to 40% of annual contributions are received in December, you may want to consider a summer or fall year end. Also, if your December giving is not as

you expected and budgeted, no time remains for alternative plans. Finally, December and January are both busy; one with all the Christmas events and the other with all the payroll and contribution reporting that's required by the IRS.

**Q: Does a church need to segregate gifts that are given with restrictions?**

A: Yes. A church, or any other nonprofit, has a fiduciary responsibility to use monies given for specific purposes (assuming the requested purpose is legal and fits with the mission of the organization). You, as the church, can refuse a designation if you're not comfortable with it. Accordingly, you need to have an accounting and reporting system that allows you to comply with donor wishes.

However, a purpose designation is fine; a specific person is not. It is not allowable to give to a person by funneling through a nonprofit for the charitable deduction to the donor. The issue is one of control. The church needs to control the use of the resources on a specific person basis while complying with the broader general use request by the donor.

**Q: Who is a minister for tax purposes?**

A: Ministers are individuals who are duly ordained, commissioned, or licensed by a religious body constituting a church or church denomination. Ministers are given the authority to conduct religious worship, perform sacerdotal functions and administer sacraments according to the practices of that church or denomination. Anyone licensed or commissioned must be able to perform substantially all the religious functions of an ordained minister.

**Q: Can the church get involved in lobbying activities?**

A: Churches may not qualify for Sec. 501(c)(3) status if a substantial part of its activities involves attempting to influence legislation. Too much lobbying activity by a church may jeopardize its tax-exempt status. A church will be regarded as attempting to influence legislation if it contacts or urges the public to contact members or employees of a legislative body for the purpose of proposing, supporting or opposing legislation.

Churches may conduct educational meetings, prepare and distribute educational materials, or consider public policy issues in an educational manner without jeopardizing their tax-exempt status. In determining substantial activity the IRS considers a variety of factors, including the time devoted (by both compensated and volunteer workers) and the expenditures devoted by the organization to the activity.

Still have questions? Call Julie Fry or Bill Sims at 972-392-1143.