

Battershell & Nichols
welcomes you

2020 Year End Update

The presentation will begin shortly...



BATTERSHELL & NICHOLS
A PROFESSIONAL SERVICE CORPORATION

CPE needed?

Within one week, send an email requesting CPE and
list CPE codes provided during presentation to:

info@battershellnichols.com

ALL CPE CODES ARE PROVIDED IN THE PRESENTATION VIA POLLS

2020 Year End Update

December 16, 2020

Other IRS and WA State Reporting

By: Rick Battershell, CPA

Nonemployee Compensation Form 1099-NEC (New in 2020)

- Filing is required for payments totaling \$600 or more for:
 - Services performed by a non-employee (including parts/materials)
 - Each non-employee from whom you withheld federal income tax (any amount)
 - Independent contractor or board of director fees
 - From your church or ministry

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		CORRECTED (if checked)		OMB No. 1545-0118
				2020 Form 1099-NEC
1 Nonemployee compensation		Copy B For Recipient		
PAYER'S TIN				
RECIPIENT'S TIN		This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.		
RECIPIENT'S name				
Street address (including apt. no.)		4 Federal income tax withheld		
City or town, state or province, country, and ZIP or foreign postal code				
FATCA filing requirement				
Account number (see instructions)		5 State tax withheld	6 State/Payer's state no.	7 State income
		\$	\$	\$
		\$	\$	\$

Form 1099-NEC (keep for your records) www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service

Box 1 - Nonemployee Compensation

- Payments are generally subject to self-employment tax
- Includes fees, commissions, prizes and other compensation for services performed for the organization
- Exclude housing allowance and expenses reimbursed under a qualified plan
- Includes payments for personal services unless paid to a corporation :
 - Accountant, Architect or Attorney
 - Auto repair shop
 - Carpet installers
 - Lawn care
 - Painter
 - Subcontract work, etc

Redesigned Form 1099-MISC

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		CORRECTED (if checked)		OMB No. 1545-0045	
PAYER'S TIN		RECIPIENT'S TIN		2020 Miscellaneous Income Form 1099-MISC	
RECIPIENT'S name		Street address (including apt. no.)		City or town, state or province, country, and ZIP or foreign postal code	
Account number (see instructions)		FATCA filing requirement		13 Gross green parachute payments	
1 Rents		2 Royalties		3 Other income	
4 Federal income tax withheld		5 Wholesale and health care payments		6 Substitute payments in lieu of dividends or interest	
7 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale		8 Crop insurance proceeds		9 Gross proceeds paid to an attorney	
10 Section 408A payments		11 Nonqualified deferred compensation		12 State tax withheld	
13 State tax withheld		14 State/Payer's state no.		15 State income	

Form 1099-MISC (keep for your records) www.irs.gov/Form1099-MISC Department of the Treasury Internal Revenue Service

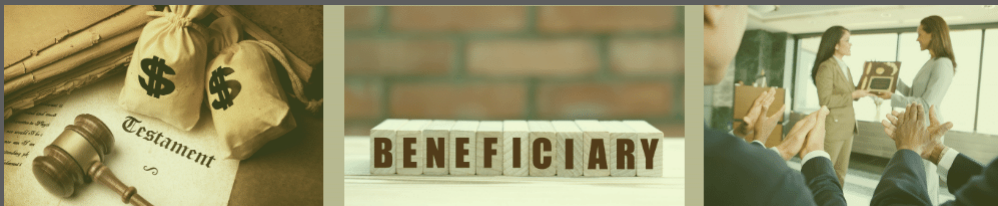
Box 1- Rents

- Real estate, machine, or equipment rentals.
- No reporting required for rent payments made to rental agents
 - But the agent is required to report rent payments to the landlord

Completing Form 1099-MISC

Box 3 - Other income

- Prizes and awards that are not for services performed
- Payments of deceased employee's wages to estate or beneficiary
 - See 1099 instructions for amount to report on Form W-2



Completing Form 1099-MISC

Box 6 - Medical and Health Care Payments

- Exemption: Payments made under flexible spending or health reimbursement plans

Box 10 - Gross Proceeds Paid to Attorneys

- Not for services performed--use 1099-NEC
- Settlement agreements, such payments from an insurance company to a claimant's attorney to settle a claim



Exemptions from Reporting (1099 NEC & MISC)

1. Business expenses reimbursed under an accountable plan
2. Payments to corporations
 - Must report to attorneys
 - Must report to LLCs, sole proprietors, and other types of business
3. Payments for merchandise, telephone, freight, storage, and similar charges
5. Payments to tax-exempt organizations
6. Rent payments to real estate agents
 - The real estate agent must use Form 1099-MISC to report rent paid to the property owner
7. Payments made by credit card
 - Reported under Form 1099-K
8. Scholarship payments – even if taxable
 - See Form 1099-MISC instructions

Filing Form 1099

When filing is required: (see *2020 Church and Clergy Tax Guide*, pg 545)

- Required for payments totaling \$600 or more
 - Rents (office space, machine rentals)
 - Prizes and awards
 - Other income
- Use Form 1099-NEC for services
- Required if federal income tax is withheld

When to file:

- Due to recipients and IRS on February 1, 2021



Other items

- Use Form W-9 (optional) to obtain TIN or to document corporate status
- Withhold 24% - backup withholding
 - If service provider fails to provide the tax ID or if the IRS notifies you to do so
- Use Form 945 to report withholding
- Tax ID numbers - may truncate on recipient statements, not on IRS filing

Filing Form 1099

Online filing available: www.irs.gov/FIRE

- Electronic filing required if you file 250 or more forms
- Form 4419, Application for Filing Information Returns Electronically (FIRE)

Common Errors

- Filing downloaded copy of Form 1099-MISC or 1099-NEC.
 - For IRS filing, use Copy A, which appears in red
 - Official form can be ordered at www.irs.gov/orderforms

Form 990-T

- Tax applies to unrelated business income
 - Required when UBI is over \$1,000
- Rental houses: Exempt if no acquisition debt remaining
- Rental of antenna or cellular tower – taxable personal property rental
- Advertising in church bulletin or newspaper
- Separate 20 min video available

Form 5500

- Generally not required for churches
 - See 5500-C/R instructions
- 403(b) plans must comply with written plan requirements by the first plan year beginning after 12/31/08
 - Exceptions for annuity contracts and certain custodial plans
 - Should be a plan of the organization, not an individual



Unclaimed Property

- Reporting and remittance requirement if checks are uncashed after 1-3 years depending on the type of disbursement
- More info: <http://ucp.dor.wa.gov>

Form 5578 - Certification of Racial Nondiscrimination

Schools

- Must be filed by preschool, elementary, secondary, college - operate, control and principally support schools
 - Unless Form 990 is filed
- Deadline - May 15th for preceding year

Form 1042 – Payments to Foreign Persons

- Nonresident aliens (NRA) performing services in the US
 - Generally NRA doesn't have a Social Security number
- NRA can request lower tax withholding by providing a Form 8233
 - Payee must have an ITIN (Individual Taxpayer Identification Number)
 - Payee uses Form W-7 to apply for ITIN
- 30% income tax withholding
- NRA from Mexico and Canada can avoid tax withholding if they earn less than \$10,000 and submit an ITIN
 - Recommend getting Form 8233 from NRA
- Ministry files Form 1042-S. Due 3/15/21
- See IRS Pub 515 for more info
- Consider donations to foreign ministries

Contributions to International Organizations

- Organizations that distribute to a foreign person or organization must comply with anti-terrorist measures
- Check the OFAC List of Specially Designated Nationals and Blocked Persons (the "SDN List") before sending funds internationally
 - <https://home.treasury.gov/policy-issues/office-of-foreign-assets-control-sanctions-programs-and-information>



Part 2- Preparing for 2021

Housing Allowances
Reimbursement Plans
WA State Reporting

Setting Housing Allowances



1. The benefit is only available to a Minister - tax definition
 - See *2020 Church & Clergy Tax Guide*, Chapter 6
2. When received as compensation for ministerial services
3. Written designation of the amount *in advance* as a housing allowance

Housing Allowance: Recommendations

1. Ask the minister to suggest a designation amount
2. Suggest that the minister estimate high
3. No IRS requirement for churches to verify housing costs
4. Reporting in Box 14 of Form W-2 is optional
 - Do not report in Box 1 wages
5. Optional: Set a maximum percentage of compensation that requires church board approval to exceed (e.g. 60%)

Designating a Housing Allowance

- Document annually in board minutes before the new year.
 - *See samples 2020 Church & Clergy Tax Guide, Chapter 6, pgs 242 and 249*
- Include a safety net housing allowance designation every year.
- "Resolved that the church designates 60% of any minister's compensation as housing allowance for 2021 and all future years, unless otherwise provided by this board."

Housing Allowance - Examples

Example #1 - Designation:

- A church budget contains a line for \$35,000 minister salary and \$18,000 housing allowance. Is this adequate designation?
- **ANSWER** - Yes (but acknowledgement in board minutes is preferable)

Example #2 - In Advance:

- After this seminar, you tell your church board they forgot to designate a housing allowance for the new youth pastor. Can the board retroactively designate a housing allowance? What can be done to avoid future issues?
- **ANSWER** - No, designations are prospective only and can only be effective going forward. Consider a safety net housing allowance.

Retirement Plan Provision

- Church boards can adopt a policy that all future benefits paid from the 403(b) plan to ministers are designated as housing allowance
 - Allowed under the provisions of IRC section 107
 - All ministers must be ordained and qualify to receive a housing allowance



Vendors: I-9 verification

New Employment Eligibility Verification

- When should a new form be requested from rehired workers?
 - If you rehire an employee within three years from the date of the original Form I-9, you may either rely on the employee's previous Form I-9 or complete a new form
 - See section 3 of instructions:
 - <https://www.uscis.gov/sites/default/files/document/forms/i-9instr.pdf>



Accountable Reimbursement Plans

1. Only employee expenses that are accounted for or substantiated within 60 days incurred
 - Business connection
 - Not for personal, living, or family expenses
 - Adequate accounting (within 60 days)
 - Includes purchases on the organization's credit cards
 - Amount, date, place, and business purpose
 - Receipts not required for expenses < \$75
2. Excess reimbursements must be returned to the church within 120 days
3. Accountable reimbursements cannot be in the form of salary reductions
 - Treas Regs 1.162-2(d)(3)
4. Sample Polies:
 - 2020 Church & Clergy Tax Guide, Chapter 7, p. 332
 - Treasury Regs 1.162-17 & 1.274-5(e)(2)

Accountable Reimbursement Examples

Example #1:

- A minister's salary is \$35,000 and he incurred \$3,000 of unreimbursed business expenses by December. He wants to reduce his Form W-2 wages by this and report only \$32,000. Can you do it?
- **Answer** - No, the minister must have accounted for the expenses within 60 days.

Example #2:

- A minister's salary is \$34,000 and was reimbursed for \$3,600 under a **nonqualified** plan (monthly auto allowance). What is reported as Form W-2 compensation?
- **Answer** - \$37,600 (\$34,000 + \$3,600). The qualified plan requirements must be satisfied to exclude reimbursements from W-2 compensation.

WA State Reporting

What to report:

1. Sales tax collected
2. Use tax owed
 - Whenever sales tax is either not charged or not charged at the required rate for:
 - Purchases made out-of-state over the Internet and delivered to WA for use in the state.
 - Any consumer item purchased in another state and brought into Washington for use in the state.
 - Items purchased in Washington, including from private parties, for which the vendor did not charge sales tax.
 - Services, such as construction and installation and repair services, subject to sales tax for which the vendor did not charge sales tax.
 - Digital products, subscriptions, contribution services, and accounting services, unless specifically excluded.

WA State Reporting

Use Tax cont...

○ Examples:

- I. A contractor bills the organization for construction costs on a remodeling project but doesn't charge the sales tax for the materials or labor
 - **Answer:** The organization is responsible to pay use tax on the entire cost
- II. A church member sells the church a piano for \$10,000, which does not include sales tax
 - **Answer:** The church is responsible to pay use tax on the sales price.

COMPANY **Simple Invoice**

1/16/2020
Invoice #: INV-0004

Bill to:

Company Name
ABC Company

Address
4121 Barfield Lane
Indianapolis, IN 46225

Phone Number
317.555.5555

Email
rich.jen@noemail.com

Use Tax
\$21.35

My Products

Description	Quantity	Amount
Product 1	1	\$26.69
Product 2	1	\$53.38
Product 3	1	\$133.44
Total		\$213.51

WA State Reporting

What to report:

3. Income subject to WA State business & occupation tax
 - ❖ <https://apps.leg.wa.gov/WAC/default.aspx?cite=458-20-169>
 - **Retail classification**- any item on which sales tax is collected
 - **Service classification** - commonly overlooked areas:
 - ❖ Weddings - Facility use, custodial, minister fees...
 - ❖ Private school tuition at schools which are not approved by Washington State
<https://apps.leg.wa.gov/WAC/default.aspx?cite=458-20-167>
 - **Fundraising exception**
 - ❖ RCW 82.04.3651 provides a B&O tax exemption for certain fund-raising activities. RCW 82.08.02573 provides a comparable retail sales tax exemption.

WA State Reporting



- Fundraising exception continued...
 - ❖ Fund-raising does not include:
 - ❖ The operation of a regular place of business in which services or sales are made during regular hours
 - ✓ Ex: Bookstore, thrift shop, restaurant, or similar business.
 - ❖ The operation of a regular place of business from which services are performed during regular hours. This depends on the type of business being conducted.
 - ✓ Ex: retail, personal, or professional services

Maintaining a Property Tax Exemption

- Up to 5 acre exemption for churches
- 50 days rule:
 - Loan or rent their facilities to others for nonexempt activities on up to 50 days in a calendar year
- 15 days rule:
 - Allow the use of exempt properties for gain on up to 15 of those 50 days
- Rental to other churches for:
 - Services
 - Church-related activities
- Private school rental
 - IF the organization has a WA property tax exemption
 - Home schools - request WA State property tax exemption certificate
- WA Property Tax Exemption
 - Land rental - loss of property tax exemption for that space
 - In steeple - does not affect exemption

Paid Family Medical Leave

- SBA Grants available:
 - Employers with 150 or fewer employees
 - Up to \$3,000 for costs associated with employees on leave
 - May apply for up to 10 grants per year when an employee is on leave
 - Employers < 50 employees are required to pay the ER portion to be eligible
 - Employer size calculated annually on 9/30
 - Grant process should be online by 1/1/21



Minimum Wage

- WA State:
 - 2020 = \$13.50
 - 2021 = \$13.69
- Seattle minimum wage (2021):
 - Large employers (501 or more)
 - Small Employers (500 or fewer)
 - who do NOT pay at least \$1.69/hour toward the employee's medical benefits and/or where the employee does NOT earn at least \$1.69/hour in tips, is now \$16.69/hour
 - 2021 min wage for small employers who DO pay at least \$1.69/hour toward the employee's medical benefits and/or where the employee DOES earn at least \$1.69/hour in tips is now \$15/hr

CPE needed?

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Thank you for joining us



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Suggested Resources for Ministries

- National Christian Foundation
www.ncfgiving.com
- The Church Network (formerly National Association of Christian Business Admin)
 - National
<http://www.thechurchnetwork.com/>
 - Pacific NW Chapter
 - www.facebook.com/pages/Pacific-NW-Chapter-NACBA/612548092168404
- www.churchlawtoday.com
 - Church & Clergy Tax Guide
- Evangelical Council for Financial Accountability: www.ecfa.org
 - Donor Restricted Contributions
 - Standards and Best Practices for Churches
 - Compensation Data
 - Sample Financial Policies

Suggested Resources for Ministries

- Internal Revenue Service www.irs.gov
 - Charities tab
 - "Search for Charities"
- Washington State Department of Revenue www.dor.wa.gov
- Washington State Department of Labor and Industries www.lni.wa.gov
- Washington Unclaimed Property web site
<http://ucp.dor.wa.gov>