

**FREQUENTLY ASKED
QUESTIONS:**

BUSINESS PRACTICES

**GENERAL COUNCIL OF THE ASSEMBLIES OF GOD
DIVISION OF THE TREASURY**

FREQUENTLY ASKED QUESTIONS CONCERNING BUSINESS PRACTICES

QUESTIONS ADDRESSED IN THIS PAMPHLET

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Who should be check-signers on the church checking account?

There are a couple of key guidelines to keep in mind when determining who should be check-signers and how many signatures should be required on church checks.

First and most importantly, the check-signers should not have access to other accounting records that might permit them to alter records or conceal misappropriation of church funds. Ideally, a check-signer should be someone in authority in the church with no other involvement in the payment process (either in the accounting function or as an approver of payments). A check-signer's duty should be to compare the prepared check with supporting documentation (such as an original vendor invoice or check requisition). If the check-signer finds the check and supporting documentation to be in order and has no other cause for concern about the payment, he/she will sign the check. If there are concerns about the appropriateness of a payment, the check-signer should not sign the check until the matter is resolved.

Second, you should consider the pros and cons of having multiple check-signers. In general, it is recommended that a church have two check-signers for any significant amounts (perhaps \$500 or more). While it may be ideal to have two check-signers on every check, this process might become cumbersome if the church writes a large number of checks, or doesn't have quick access to the check-signers. Nevertheless, having multiple check-signers does allow for additional scrutiny of payments and is an important control that should be in place at least for larger payment amounts.

Under no circumstances should checks be pre-signed to be filled out at a later time. This practice makes it simple for individuals to misappropriate church's funds. If check-signers are not available on a regular basis to sign checks, the church should consider changing the authorized signers to other individuals in church management who are more readily available.

Should the church have more than one checking account?

With the organization and flexibility that is available with most accounting software programs for churches today, there isn't a compelling reason for a church to have multiple checking accounts. In the past, separate checking accounts for the various ministries of the church, or for designated funds such as building construction, was a way to ensure that ministry funds were kept separate. This could also help the church keep from over-spending ministry funds that weren't available. However, a current accounting software program tailored for a church setting is more than capable of keeping ministry funds segregated into separate funds, tracking and segregating funds received and spent, and properly reporting on available funds.

Separating church funds into several bank accounts with multiple check signers and attempting to consolidate these accounts for reporting purposes adds a level of complexity and risk that the church could avoid. The church board and leadership have responsibility to ensure that funds are properly safeguarded, are used for properly authorized expenditures and are accounted for accurately and in a timely manner. The use of separate bank accounts for the church's various ministries or funds, however, could only serve to frustrate all of these goals.

When do we send a 1099 to an evangelist or missionary?

In general, you are required to send an IRS Form 1099-MISC (that reports taxable income in box 7 of the form) if you have paid an evangelist or minister \$600 or more during the calendar year AND those payments are not being accepted and reported upon by another organization. However, if the payments are being directly or indirectly received by another organization (such as a missions organization or the evangelist's ministry corporation) and this organization will accept responsibility to report the income to the evangelist or missionary, the church is relieved of their responsibility to send a 1099-MISC. In either case, it is advisable for you to communicate with the evangelist or missionary concerning who the payment should be made payable to and the tax identification number for the payee or individual organization if a 1099-MISC is to be issued. This is accomplished by having the evangelist complete an IRS Form W-9 indicating the correct payee information and identification number.

EXAMPLE 1: If payment is made in the name of the evangelist or missionary and they are not turning over these payments for reporting to another organization, you should: (1) obtain a Form W-9 from the evangelist or missionary; (2) make payment according to the name provided on the Form W-9 (this is their legal name, official address and Social Security Number); and (3) issue a Form 1099-MISC at the end of the calendar year with the taxable amount paid listed in box 7 of the form (if you paid them \$600 or more for the year).

EXAMPLE 2: If payment is made to the evangelist's tax-exempt organization or if payment is made to the evangelist (but only as an agent for the evangelist's tax-exempt organization), a Form 1099-MISC doesn't need to be issued by the church. Because the evangelist's tax-exempt organization is taking responsibility for the proper reporting of any taxable income, the church is relieved of its responsibility to report on this payment as income to the evangelist. We would strongly recommend that the church request and receive a receipt from the evangelist's organization confirming that the payment has been received and accepted by the organization.

EXAMPLE 3: If payment is made to the General Council, or to the missionary as an agent for the General Council, a Form 1099-MISC doesn't need to be issued by the church if the church receives documentation that the payment has been reported by the missionary to the General Council and the General

Council has issued a receipt to the church. In this case, the General Council is accepting responsibility to report any taxable income for the missionary and relieves the church of this responsibility. However, if the church doesn't receive a receipt from the General Council, the church isn't relieved of this responsibility and should issue a Form 1099-MISC to the missionary. As a result, we recommend the church obtain a "deputational receipt" from the missionary at the time the payment is made. A copy of this deputation receipt is submitted by the missionary to the General Council and acts as a source document for the General Council to issue a receipt to the church. This deputational receipt is especially important if the payment was made in the name of the missionary as an agent for the General Council.

Can a part or all of a church's payment to an evangelist be designated as a housing allowance?

Yes. Even if the church only pays an evangelist on one occasion, this payment, or a portion thereof, may be designated as a housing allowance. This designation must be made prior to payment being made in order for the designation to be effective. The taxable amount listed in box 7 of the Form 1099-MISC would be the total amount paid less the amount designated as a housing allowance. The amount paid as the housing allowance is not required to be reported on the Form 1099-MISC; however, we would recommend providing a separate letter to the recipient that identifies the amount of the housing allowance not included on the 1099.

Can a church rent out its parsonage without paying tax or jeopardizing its tax-exempt status?

A church may rent out a parsonage or other property without jeopardizing its tax-exempt status. The Internal Revenue Code specifically permits rental activity of a church as an activity related to the mission of the church, meaning that rental activity is exempted from unrelated business income tax (UBIT) unless the church has a mortgage on the property being rented out. Church property should be rented out at a market rate to prevent the renter from improperly benefitting from the use and rental of church property.

What are appropriate budget percentages for salary, operations and maintenance?

Due to the great variety in church staffing, the age of a church's facilities, the debt that a church carries, and the activities of a church, it is difficult to make a blanket statement concerning how much of the church's budget ought to be devoted to the various operations of the church. An established, low-debt, fully-staffed church may incur personnel costs that exceed 50% of its budget. On the other hand, a newer church which relies upon bi-vocational pastors and volunteers to fill traditional staff positions may have a more modest portion of its budget devoted to salaries. However, more of their budget may be devoted to activities geared to introducing the new church to the community.

The best source of determining appropriate guidelines for your church (without incurring the cost of a consultant) is to utilize your network of pastors who are in a similar situation or have been through a similar situation. Even if you don't find your church fits precisely into the same model as another church, the comparison of where your church is on staffing levels, debt, facility expenses, number of individuals being served, etc., can be extremely valuable in helping you establish an appropriate budget for your church.

How long should we keep certain church records?

We recommend a church establish a records retention policy. The following list offers some retention guidelines. Boxes containing records should indicate a description of the documents enclosed, the time period that they relate to (i.e., "2010 Accounts Payable"), and how long the documents should be kept. If they are to be kept permanently, they should be marked "Do Not Destroy" or something similar.

Some documents, because of their vital nature to the church, should be stored in a protective environment, such as a safe, a safe deposit box or some other secure and protected location. These are marked in the following list with an asterisk.

Records to be kept permanently:

- Corporate records, including articles of incorporation and bylaws.*
- Minutes to board meetings, including all related reports.
- Audit reports.
- Annual financial statements.
- Tax returns submitted to the IRS or state.
- Annual corporate filings or returns.
- Tax-exemption documents and correspondence for income, sales, property or other taxes.*
- Property records.*
- Insurance policies.

Records to be kept 7 years:

- Bank statements, cancelled checks and bank reconciliations.
- Worksheets and supporting documents for tax returns.
- IRS Form W-2s and 1099s.
- Payroll tax records, including payroll registers, housing allowance forms, W-4 Forms, and payroll deductions.
- Employee expense reports.
- Employee personnel records (keep 7 years after separation from employment).
- Contracts and related correspondence (keep 7 years after expiration or termination).
- Investment records (keep for 7 years after sale of the investment).
- Annual audit records and worksheets (keep 7 years after the audit).
- Insurance letters and correspondence.
- Individual giving records.
- Accounts payable records, schedules and related paid invoices.
- Tax bills, receipts and statements.

Records to be kept 2 years:

- Timecards, timesheets.
- Individual offering envelopes.

How do we obtain an EIN (Employer Identification Number) for our church?

An EIN can be obtained by completing an IRS Form SS-4 and submitting the form either by mail or fax to the IRS. An EIN may also be obtained over the phone or online. For instructions on obtaining an EIN, see "How to Apply for an EIN" on the IRS website www.irs.gov.

We are a new church. Do we need an EIN (Employer Identification Number)?

If a church will have a bank account in its name, have employees, or conduct any business in its own name (including receipting contributions to donors), it should apply for and obtain its own EIN.

Some donors may wish to verify with the IRS that your church is registered as an approved 501(c)(3) organization and that contributions to your church will be tax deductible. In order for your church to be identified on the IRS system as a church that falls under the General Council of the Assemblies of God's tax-exempt umbrella, you must have an EIN and report this to the General Council on your ACMR report. The General Council submits a listing of all of the Assemblies of God churches with their respective EINs so that each church can be properly identified on the IRS system as an Assemblies of God church and, therefore, properly covered by the General Council's tax-exempt status. Without an EIN, an organization cannot be entered into the IRS system.

Does our church have tax-exempt status or do we need to apply for it?

Churches are granted federal tax-exempt status and the right to grant charitable contribution credit to donors without any action being taken by the church. It should be noted that, depending upon your state, you may have to register with your state (and perhaps the IRS) in order to obtain sales and/or property tax-exempt status for the church.

Need More Information?

For more information on issuing IRS Form 1099-MISC, see the chapter on “Ministers and Church Staff: Employees or Self-Employed?” in Rich Hammar’s *2011 Church and Clergy Tax Guide*.

For more information on administering housing allowances, see the chapter on “Parsonages & Housing Allowances” in Rich Hammar’s *2011 Church and Clergy Tax Guide*.

For more information on the taxation of rental income or the tax-exempt status of churches, see the chapter on “Taxation of Churches” in Rich Hammar’s *2011 Church and Clergy Tax Guide*.

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For a current copy of this document, please e-mail treasurer@ag.org.
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