

Towards A Fruitful Ministry, Sam Gore

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Every employer, including organizations exempt from federal income tax, that pays taxable wages to employees is responsible for withholding, depositing, paying, and reporting federal income tax, social security (FICA) tax, and federal unemployment tax unless specifically exempted by law. Churches are exempted from paying federal and state unemployment taxes on their employees.

A church's obligation to withhold federal income tax and FICA tax from employees' wages, and to deposit such withheld taxes and periodically report the amounts withheld to the IRS, generally are referred to as a church's "payroll tax obligations." Compliance with the various payroll tax obligations represents perhaps the most significant reporting obligation for most churches. This is so for two very important reasons. First, the payroll reporting obligations apply to most churches. Second, there are very serious penalties for failing to comply with these requirements. For example, the church, and even church board members individually, may be responsible for the payment of these taxes if they are not withheld from employee wages. Accordingly, it is essential for the church board to familiarize itself with the church's payroll tax reporting obligations, and to be certain that these obligations are being properly discharged. This is not as easy as it sounds, for several reasons. First, churches often use volunteer treasurers or bookkeepers who serve for limited terms and are unable to devote their full time and attention to such matters. This has a tendency of making church accounting practices sloppy. Second, a surprisingly large number of church leaders continue to assume that they are immune from legal obligations that apply to everyone else because they represent the church. Third, the payroll tax reporting procedures are complex. In fact, one private organization presented its annual "most incomprehensible government regulation" award to tax code provisions dealing with payroll tax reporting requirements. These rules are complex, and they are even more complex in the context of church reporting—since special rules apply.

All of a church's payroll tax reporting obligations are summarized in chapter 10 Federal Payroll Tax Reporting Requirements.