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GENERAL INFORMATION

PURPOSE OF MANUAL

This manual is intended to complement the Accounting Manual and to help the parishes and institutions in the Diocese of Nashville accomplish the many exacting financial and administrative tasks required of them in today's business environment. We will attempt to provide periodic updates to keep the information as current as possible. You are encouraged to submit suggestions for information to be included in the manual, as well as requests for items that may need to be updated. Updates to the manual will be made as changes occur.

ADVANTAGES OF STANDARDIZED PROCEDURES

The use of uniform accounting and administrative procedures offers potential advantages to parishes and institutions of the diocese. Typical of these advantages are the following items:

1. Simplification of transitional challenges for pastors, business managers, bookkeepers, finance boards, etc. since accounting and administrative procedures will be the same in each parish.
2. Improvement in the overall quality of information, financial and otherwise, throughout the diocese.
3. Identification of trends within the diocese.
4. Education to correct current or potential financial problems.

GENERAL TAX INFORMATION

All parishes and organizations that are listed in the Official Catholic Directory (OCD) which is published annually by P. J. Kenedy & Sons are exempt from Federal income taxes under Internal Revenue Code Section 501(c)3. Contributions to them are tax deductible by the donors for federal income tax purposes. Copies of the federal exemption letter can be obtained from the office of the Chief Financial Officer when needed. Additionally, it is available on the USCCB website at <http://www.usccb.org/ogc/groupruling.pdf>.

Churches, church related institutions, and related religious activities under their control, generally are exempt from most other taxes (in addition to federal income taxes). However, parishes and institutions may be exposed to, must pay, or must collect some of the following taxes:

1. Federal income taxes associated with unrelated business income.
2. Federal income taxes withheld from employees.
3. Social Security taxes (both employer and withheld portions).
4. Real estate property taxes.

5. State sales taxes on items sold.

Federal income and Social Security taxes must be withheld from each lay employee's earnings in accordance with the rates and limits set by the federal government in *Circular E (Publication 15)*, "Employer's Tax Guide." The amount of Social Security taxes withheld from lay employees' earnings must be matched by the employer. Federal income taxes withheld and all Social Security taxes must be remitted to the Federal government within a specified time period. (See instructions on this topic with regard to priests on page 3 of this section.)

Parishes and institutions must file the appropriate reports (Form 941, Form W-2, Form W-3, etc.) on a timely basis for employee compensation, withholdings, and Social Security taxes. (*Circular E [Publication 15]*, or individual letters from the IRS provides filing dates.) Parishes and institutions are also responsible for obtaining IRS Form W-9 from vendors and contractors and for issuing the applicable IRS Form 1099 to contractors and vendors at calendar year end.

Failure to comply or to pay proper tax liability can result in severe penalties.

Churches, church related institutions, and related activities are exempt from real estate property taxes. However, property which is not used or is vacant or used for unrelated business purposes may not be exempt from property taxes.

Churches and church related institutions generally are not exempt from payment for licenses, permits, and fees, e.g., automobile license plates, inspection fees, and building permits.

With regard to State sales tax, churches, schools, and school support groups are exempt from sales tax in the following situations:

1. Items being purchased for the organization's own use.
2. School lunch programs.
3. Purchase of textbooks and workbooks.
4. Admissions to sports and recreation events.
5. When fund raising events are held. (Two fund raising events are allowed per year per entity, and the fund raiser must be thirty days or less in duration).

Schools and each of their support groups are considered separate entities. If an entity has three fund raisers in a year none are exempt from sales tax. School support groups are those that exist primarily to support school activities. Examples of support groups are the Home & School Association (PTA), Band Boosters, and Athletic Boosters.

Except as provided for above, State sales tax should be paid on all items purchased for resale. The law provides that sales tax will be paid on the purchase price of the items instead of the selling price. The purchaser should tell the supplier to charge tax. If the supplier does not charge and collect sales tax, then the purchaser becomes liable for the tax. Questions

about the State sales tax should be referred to the State of Tennessee, Department of Revenue, Sales Tax Division at 1-800-342-1003 or at (615) 741-2594.

PRIESTS SALARY AND CAR ALLOWANCE

In order to assure correct and uniform reporting of priests' salaries and expenses the following standards have been developed for the Diocese:

1. Salary payments to priests are not subject to withholding of Social Security and Medicare taxes. Social Security and Medicare taxes will be paid by each individual priest on his own Federal tax return.
2. Salary payments to priests are not subject to Federal income tax withholding unless requested by the priest. Each priest is responsible for making his own estimated tax payments.
3. Salary payments to the priests should be reported each quarter on the Form 941, as "Total Wages and Tips". These amounts, however, should not be reported as "Taxable Social Security Wages" or as "Taxable Medicare Wages". Since no taxes have been withheld, tax liability or deposits should not be affected.
4. Each priest should receive a Form W-2. The total salary paid during the year should be included in the box labeled "Wages, Tips..." There should be no entries in the following boxes: Federal Income Tax Withheld (unless requested), Social Security Tax Withheld and Medicare Tax Withheld, and Social Security Wages and Medicare Wages.
5. Salary payments to transitional deacons should be treated the same as priests.
6. Business expense allowance is considered an advance for mileage or other professional business expenses. Mileage and business related expenses must be claimed on expense reports. Any mileage in excess of 1,000 miles per month or any other business expenses exceeding the monthly business expense allowance should be reimbursed to the priest. Failure to file expense reports will require the advance to be treated as additional salary and included on the Form W-2.

NOTE: Religious Order priests must be considered on an individual basis as the requirements of the Orders vary.

WHO ARE EMPLOYEES?

The IRS instruction Circular E (Publication 15) provides information for the determination of the answer to this question. According to Circular E, whether an employer-employee relationship exists under the usual common law rules will be determined (by the IRS), or when there is any doubt, by the facts in each case. The following is a list of factors or elements that show control under the common law test:

1. A person who is required to comply with instructions is ordinarily an employee.

2. Training of a person by an experienced employee working with him or her, by correspondence or by required attendance at meetings.
3. Integration of the person's services in the business operations generally shows that he or she is subject to direction and control.
4. If the services must be rendered personally it indicates the employer is interested in the methods as well as the results.
5. Hiring, supervising, and payment of assistants by the employer generally shows control over all the men and women on the job.
6. The existence of a continuing relationship between an individual and the person for whom he or she performs services is a factor tending to indicate the existence of an employee-employer relationship.
7. The establishment of set hours of work by the employer is a factor indicative of control.
8. If the worker must devote his full time to the business of the employer, it implies control.
9. Doing the work on the employer's premises is not control in itself; however, it does imply the employer has control.
10. If a person must perform services in the order or sequence set for him by the employer, it shows the worker is not free to follow his own pattern of work.
11. If regular oral or written reports must be submitted to the employer, it indicates control.
12. Payment for work by the hour, week, or month is usually the manner for paying employees, whereas, payment on a commission or job basis is customary where the worker is an independent contractor.
13. Payment by the employer of the worker's business and/or travel expense is a factor indicating control over the worker.
14. The furnishing of tools, materials, etc., by the employer is indicative of control over the worker. Materials are the most important factor.
15. A significant investment by a person in facilities used by him or her in performing services for another tends to show an independent contractor status.
16. A person who is in a position to realize a profit or suffer a loss as a result of his or her services is generally an independent contractor.
17. If a person works for a number of persons or firms at the same time, it usually indicates an independent status because in such cases the worker is usually free from control by any of the firms.
18. The fact that a person makes his services available to the general public is usually indicative of an independent contractual relationship.

19. The right to discharge is an important factor in indicating that the person possessing the right is an employer.
20. An employee has the right to end his or her relationship with his or her employer at any time he or she wishes without incurring liability.

TAX GUIDE FOR CHURCH AND RELIGIOUS ORGANIZATIONS

IRS Publication 1828 contains helpful information from the IRS regarding the tax status of churches and religious organizations. Examples of topic include jeopardizing tax-exempt status, unrelated business tax income, compensation for ministers, recordkeeping requirements and rules regarding charitable contributions. The full guide is available on the IRS website: <https://www.irs.gov/pub/irs-pdf/p1828.pdf>