



# THE ULTIMATE YEAR-END CHECKLIST

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## INTRODUCTION

The holiday season is upon us and the end of the year is quickly approaching. During this time of year we reflect on all of God's goodness in what he has done throughout the year, and we anxiously anticipate what he will do in the coming new year. It is, however, important that we not allow ourselves to get distracted from some important "end of the year" tax and administrative responsibilities. This checklist contains 28 items that your church should consider before ringing in the new year.

### ITEM #1: NOTIFY MEMBERS OF GIVING DEADLINE

Whether you publish it in a church bulletin, announce it from the pulpit, and/or publish it on the church website, you should remind your members to be aware of two things:

1. Any member wanting to make a large contribution, desiring to get tax deductible credit for this tax year, must give it to the church on or before midnight of December 31st or mail it to the church so that it is postmarked on or before December 31st. Remind members that in order for their tithes and offerings to be tax deductible, they must have possession of the church's giving statement.
2. Additionally, members must have in their hands a written receipt including all individual contributions of \$250 or more if they want them to be tax deductible. This brings us to item #2 on the checklist.

### ITEM #2: KNOW THE \$250 RULE

Section 170(f) of the Internal Revenue Code requires that a written acknowledgment be given to the donor for any contribution in the amount of \$250.00 or more. For more information, please click [here](#).

### ITEM #3: PRACTICING PRINTING YEAR-END STATEMENTS

Many software programs have complicated year-end statement printing processes. Try doing a sample in December just in case you have trouble and need tech support. It is better to call the support department in December rather than in January with everyone else. You will most likely avoid long hold times.



### ITEM #4: UPDATE W-4'S

Have all employees review their W-4 forms. This is the form each employee must fill out before beginning employment at the church. Its purpose is to determine how much federal withholdings will be taken out of each paycheck. Employers must obtain this document at the point of hire and use it to withhold income for federal tax purposes. In addition, some of your church's employees may have experienced changes in their lives that would require updating the amount of federal income withholdings.

### ITEM #5: GATHER BANK STATEMENTS

All of the church's bank accounts need to be reconciled and gathered into one notebook. Many banks no longer send the actual cancelled checks with the bank statements. By the end of December, it is a good idea to download and either print or save electronic copies of the cancelled checks for safe keeping. This will be useful in case you need to refer to a particular check or entry that was made.

### ITEM #6: PROPERLY REPORT LOVE OFFERINGS

Love offerings and gifts given to the pastor by the church or sanctioned by it, must be counted and reported on the pastor's Form W-2 as taxable income. If there were any gifts given to volunteers, the same rules apply. Be sure that the recipient is alerted that they must report any gifts on his/her tax return. If the church's gift to a volunteer reaches or exceeds \$600.00 or more, the church must issue a 1099-MISC to the volunteer. One group that is far too often overlooked when it comes to this stipulation, is guest speakers. Guest speakers are subject to this rule in the same way as volunteers. Be sure to follow the instructions on the next checklist item for any individual who is issued a 1099-MISC.

**Exception:** Any non-cash gift of property having a value so small "as to make accounting for it unreasonable or administratively impracticable" is a nontaxable "de minimis fringe benefit." An example may be a gift basket or tickets to a ball game.

Proper documentation of a pastor's income is an important part of staying compliant with state and federal laws. However, most churches lack the resources to do this fast and accurately. StartCHURCH's "W-2 and 1099 Tax Kit" with [Management Suite™](#) saves time and money in helping create accurate W-2's and 1099's on the fly. For more information on the "W-2 and 1099 Tax Kit" with [Management Suite™](#), or to order this product, please click [here](#). You may also be interested in [StartCHURCH's personal tax return service for ministers](#). For more information please call 877-494-4655 to speak to a representative!



## ITEM #7: MAKE A LIST OF ALL CONTRACTORS

Make a list of the independent contractors/service providers. If the church had any of the following people render services to the church, you must do two things: 1) each person must fill out a Form W-9 and give it to the church and, 2) your church must give them a 1099-MISC form stating how much they earned from the church if the amount of income they received is \$600.00 or more for services or rent or \$10.00 or more if they were paid royalties. Below is a list of contractors for you to consider:

1. Guest speakers
2. Lawn service providers
3. Pest control providers
4. Landlord for rent collected
5. Attorneys /doctors (even if the attorney/doctor is incorporated)
6. Accountants
7. Guest singer/musicians
8. Hired cleaners
9. Contractors
10. Plumbers
11. Carpet installers
12. Piano repairmen
13. Computer service providers
14. Growth consultants
15. Hired stewardship campaign advisors



### ITEM #8: PREPARE W-2 INFORMATION

Each year churches pay their ministers, musicians, nursery workers, and other ministers for their services. Make sure you have the exact names, addresses and social security numbers of each employee and get ready to finalize the year-end totals for their W-2's.

The Affordable Care Act has changed some of the requirements for the way that W-2s are filled out. Employers must now report the cost of health care coverage under an employer sponsored group health plan. According to the IRS, "Reporting the cost of health care coverage on the Form W-2 does not mean that the coverage is taxable. The value of the employer's excludable contribution to health coverage continues to be excludable from an employee's income, and it is not taxable." The information submitted will simply be used, according to the IRS, to provide useful information for employees so that they may compare consumer information. The value of health care coverage, which usually includes both employer and employee contributions should be reported in box 12 of the W-2 with code DD for identification purposes. For more information on this requirement please click [here](#) to review the IRS publication.

Again, StartCHURCH's "W-2 and 1099 Tax Kit" within the [Management Suite™](#) saves time and money in helping create accurate W-2's and 1099's with a few clicks of the mouse. For more information on the W-2 and 1099 Tax Kit, or to order this product, please click [here](#).

### ITEM #9: PREPARE FOURTH QUARTER 941 FORMS

By the end of December, your church will have all the information it needs to prepare its 4th quarter Form 941 report. This is a federal tax return to be completed by employers quarterly. That report is due by January 15th.

### ITEM #10: PREPARE FOR YOUR ANNUAL BOARD MEETING

Each church must have an annual board meeting in order to comply with the minimum state and federal requirements. The annual meeting should cover a variety of topics. Below is a list of some of the more important topics to help you with the agenda.

1. Election/appointment of directors/officers (See checklist item 12)
2. Official removal of directors/officers (See checklist item 11)
3. Ratification of prior acts: It is important to ratify prior acts that may not have been properly ratified in the past. This could include items such as opening a bank account, adopting bylaws and





policies, or approval of salaries. As a general rule of thumb, anything that deals with governance or finances, and is not covered in previous minutes, needs to be ratified retroactively. You should also retroactively approve items that were approved by an unbalanced board of directors.

4. Approval of compensation for pastor and staff (This should be done at least once every year.)
5. Designation of housing allowances
6. Review, update, and adopt essential policies such as:
  - Automobile Use Policy
  - Cell Phone Policy
  - Continuing Education Policy
  - Accountable Reimbursement Policy
  - Medical Expense Reimbursement Policy
  - Benevolence Policy
  - Backup Withholding Policy
  - Conflict of Interest Policy (See checklist item 13)
  - Anti-Terrorism Policy
  - Creative License Agreement

It is important to understand that certain policies such as the conflict of interest policy must be re-adopted every year, while others simply need to be reviewed and only readopted if changes are made. For more valuable policies check out our Vision software with [Document Suite™](#).

7. Financial status report
8. Open floor

Are your minutes a mess? Let us help you! In just a few short weeks, [StartCHURCH®](#) can help you get your minutes in shape and help you get back on the road toward legal compliance. Whether it is amending bylaws to better protect your church or creating the required annual minutes, just call **877-494-4655**, and we can get started helping you right away!

## ITEM #11: PROPERLY REMOVE OLD BOARD MEMBERS

During this past year or previous years, you may have had board members that either resigned or just quit showing up to board meetings. If you have not done so already, now is a good time to document their exits from the board by recording it in the minutes of the annual meeting.



(Related Article: [“What to do When You Need to Remove a Board Member”](#))

Creating necessary board meeting minutes has never been easier with our Ministry Corporate Records applet with [Secretary Suite™](#). Also, a great tool for managing minutes in general is our [Ministry Corporate Records Kit](#). Click [here](#) for more information.

### ITEM #12: PROPERLY ADD NEW BOARD MEMBERS

Many churches list their board members in the state’s annual reports so they show up online. However, very few of them properly add the new members to the board by recording those acts in the minutes of a board meeting. Adding the new members to the board through a board vote and recording the vote in meeting minutes is equally as important as adding them to the state’s annual report.

### ITEM #13: SIGN CONFLICT OF INTEREST

Make sure each board member signs a conflict of interest statement. The potential for a conflict of interest arises when a person on the board of directors who is responsible for promoting the interests of the church has a reason to also promote a personal interest. Therefore, to comply with best non-profit practices, each board member should sign a conflict of interest statement each year. At our [Ultimate Church Structure Conferences](#), which are held across the United States throughout the year, you will learn about conflict of interest as well as many more compliance matters! We also provide a full copy of a conflict of interest statement in our conference manual. Find a conference in a city near you by checking out our [conference schedule](#). Click [here](#) to see a list of our upcoming conferences.

### ITEM #14: PREPARE FORM 8282

If the church received any donated non-cash items valued at \$5,000.00 or more and it disposed of them within three years, then it is required to file Form 8282 with the IRS. An example situation where this form would need to be filed is if a golf cart is donated to the church, in an area where the golf cart is not useful to the church other than to sell it for pecuniary gain. If the church receives the donation, then sells, raffles off, or otherwise disposes of the golf cart within 3 years from donation, this form is necessary. Failure to properly file this form could have a negative tax impact on the donor.

You can find this form, and many other useful forms, by visiting the [StartCHURCH® Resource Center](#).

### ITEM # 15: FILE FORM 1098-C FOR DONATION OF CAR, BOAT OR AIRPLANE

Order IRS form 1098-C. This is a special triplicate tax form that must be ordered and received by



mail. This form is required if someone makes a donation of a car, boat or airplane to the church. You can order the form by calling 1-800-829-3676 and asking for 5 copies of form 1098-C.

### ITEM #16: GET COMPLIANT WITH SECTION 4958

Become familiar with IRS section 4958. Board members may be held personally responsible for approving excess benefit transactions unless they can demonstrate their approval was “not willful and due to reasonable cause.” Below is an example.

The IRS has defined an intermediate sanction as a penalty being assessed against the pastor, board members or other related parties for infractions against Section 4958 known as “excess benefit transactions.” The penalties for excess benefit transactions are at 10%, 25% or 200%. See the example below:

Pastor Tom goes on a salary of \$20,000.00 a year, and the board of directors does not put it in writing by creating a salary compensation agreement or by issuing to him a W-2 at the end of the year. Section 4958(a)(1) requires that an excise tax penalty be levied against the pastor personally in the amount of \$5,000.00 and that each board member that partook in the transaction also be liable to pay a penalty of 10% jointly and severally. This means that each board member would have to pay a fine of \$2,000.00. However, if the IRS performs an inquiry or an audit of the church’s finances and the IRS discovers an excess benefit transaction, the fine will be 200% of the excess benefit transaction. Remember, it does not matter if the salary was fair or not, IRS code requires that the salary be put in writing and a W-2 be issued (Reg. 53-4958).

Most ministries are intimidated when it comes to trying to craft a legal salary agreement for the minister. However, with StartCHURCH’s [Compensation Suite™](#) – there’s no need to fear. Through this easy-to-use, self-paced process, the [Compensation Suite™](#) will give you all the tools and know-how to create a legal and protective salary agreement for your ministers, ensuring compliance with Section 4958. To find out more about [Compensation Suite™](#), please call our office, toll free, at 877-494-4655.

### ITEM #17: IMPROVE YOUR CHART OF ACCOUNTS

In any accounting system that you choose, establishing the chart of accounts is essential to the success of the system. Each church has different needs for its chart of accounts, based on the number of checking accounts it has. Every financial decision and new project that the church starts, including stewardship campaigns, affects the chart of accounts and determines the number of new accounts you will need to create within it.



### ITEM #18: REVIEW ALL REIMBURSEMENTS

Early December is the best time of year to review all reimbursements issued by the church to staff, volunteers, officers, and board members. In essence, each reimbursement must meet the following requirements.

1. A request for reimbursement is submitted explaining the reason for the reimbursement and how it involves the business of furthering the purpose of the church.
2. The reimbursement has to be substantiated with receipts.

If any reimbursement that was issued does not meet the three above requirements, then it should be reviewed further. Attempts should be made to recover receipts and have written requests submitted.

The church must have adopted an accountable reimbursement policy. This policy comes standard as part of our [StartRIGHT® Program](#).

### ITEM #19: CREATE AND UPDATE EMPLOYEE FILE

**Create and/or maintain a file for each employee:** To best protect the interests of the church each employee should have a personal file with the following items:

- Employment application
- Signed Form I-9
- Signed Form W-4
- Employment agreement
- Records and notes of personal achievements, reprimands, awards etc.

Be sure to check and make sure that the employee agreement has not expired. If it has, then write up a new one, and have the employee and employer sign it.

### ITEM #20: CALCULATE UNRELATED BUSINESS INCOME TAX

Determine if the church owes unrelated business income tax. Under IRC section 512, if the church earns any income from unrelated business activities, then it must file Form 990-T to report such income. In short, the church must report any gross income of \$1,000.00 or more earned from unrelated business activities. Such activities are:

- Sales from a bookstore that is open during non-worship service hours



- Rental income from a building that is debt-financed
- Income from any activity that is not specifically associated with the tax-exempt purposes of the church

### **ITEM #21: LOCATE YOUR 501(C)(3) APPROVAL LETTER**

Many churches that have received official 501(c)(3) status lose track of their determination letter. This letter is evidence of your tax-exempt status and should be maintained at all times. If your church is unable to locate your 501(c)(3) determination letter then you may complete and submit Form 4506-A to the IRS requesting they send you a copy.

### **ITEM #22: REVIEW YOUR CHURCH INSURANCE POLICY**

In preparation for the annual board meeting, now is the time to review your insurance policies. Your insurance needs are in a process of continual change. Rates often increase when you stay with one company for a long period of time, even if no claims have been filed, so be sure to shop around for the best rates and coverage. Whether it is liability insurance, vehicle insurance, locksmith insurance, or hazard insurance, December is the best time to see your insurance agent and discuss your church's needs for the coming year.

### **ITEM #23: REVIEW YOUR BANK ACCOUNTS**

How much is your church paying for banking? With the number of interest-bearing accounts that are available, now is a good time to shop for banks that do not charge debit card fees and that pay a better interest rate on your savings.

### **ITEM #24: PERFORM A WEB PORTAL AUDIT**

Every church's website gets static cling! It starts out clean, but it picks things up over time. Some of those things - like the pastor's business listed on the church site, etc - are a violation of the Internal Revenue Code and need to be removed. The end of the year is a great time for a web portal audit. Below is a list of what should not be on church website.

1. Links to a business owned by the pastor, employee, board member or officer
2. Links to personal religious services independently offered by the pastor
3. Endorsements of political candidates
4. Unrelated business activities



### ITEM #25: REVIEW YOUR HEALTH INSURANCE PAYMENTS

The Health Care Act gives a refundable tax credit of 25% of the cost of health care insurance that the church pays for its employees. In order for the church to qualify for the tax credit, it has to meet three requirements, as listed below.

1. The church has to have less than 25 employees.
2. The average annual salary of the employees has to be less than \$50,000.00.
3. The premiums that the church pays have to be under a qualifying arrangement. This is a group insurance plan in which the church pays at least 50% of the insurance premium.

To get the credit the church will have to prepare at least two tax forms, as listed below.

1. The church will have to prepare form 8941 to calculate how much of a tax credit it will receive. Find Form 8941 [here](#).
2. The church will have to prepare Form 990-T and enter the grand total of the credit on line 44f of Form 990T. Find Form 990-T [here](#).

### ITEM #26: CONSIDER A SECTION 74 GIFT

The Internal Revenue Code provides that the church or ministry can give a gift to an employee, including the pastor, so long as it meets the requirements of a qualified employee achievement award set forth in section 74 and 274(j)(B). The church is allowed to give a gift that is tangible to the employee so long as the following criteria is met.

1. The program is put in writing and awards are given under conditions and circumstances that do not create a significant likelihood of it being disguised compensation.
2. The award is tangible property. It cannot be travel, vacations, meals, lodging, tickets to theater or sporting events, and stocks, bonds, or other securities. Good gift ideas can be a tablet, laptop, computer, office chair, or desk etc.
3. The award is for length of service (after every completed 5th year of service) and is given as part of a meaningful presentation or ceremony. The award generally cannot surpass \$400 in value.

You can learn more about this by reviewing [Section 74](#) of the tax code.



### ITEM #27: REBUILD LOST TITHE RECORDS

It happens every year; churches of all sizes and backgrounds lose their tithe and offering records. The most common way this happens is through a church computer hard drive crash. How many times do we hear that **consistently backing up records is the best practice**, but how many actually do it?

Let me give you five quick steps to take to help alleviate a potentially frustrating situation between the church and its givers.

- 1. Notify:** Make the church membership aware of the loss through whatever means you normally use. That can be in letter or through an announcement. It may not be the best idea to publish it on your website. That may be too public a forum and easily misinterpreted.
- 2. Educate:** Ask every taxpayer that gave any contribution greater than \$250.00 to hold off on sending his/her tax return until the receipts have been reconstructed. Section 170 requires for the taxpayer to have in his/her possession the actual qualifying receipts from the church before he/she can file a tax return and claim the deduction.
- 3. Empower:** Anyone whose individual contributions to the church were all under \$250.00 can use his/her cancelled checks to calculate his/her deduction, and then at a time of his/her choosing, follow step five below.
- 4. Locate:** Many churches save their tithe and offering envelopes and/or count sheets. If you are able to locate them, you can use those to reenter into the church record keeping software all of the information that was lost.
- 5. Recreate:** The law provides that a church can use “reasonable means” to recreate its giving and receiving records. The taxpayer can present the cancelled checks to the church and based on that, the church can issue a written statement that lists all contributions including those in excess of \$250.00.

### ITEM #28: PREPARE HOUSING/PARSONAGE ALLOWANCE

The regulation of section 107 requires that a housing/parsonage allowance be set up in advance of any salary being paid to the minister. The housing allowance is one of the most beneficial tax benefits offered to ministers and should be taken advantage of as often as possible. That being said, you’ll want to be sure that it is being set up correctly. Consider having [StartCHURCH®](#) set up your housing allowance for you! Click [here](#) to learn more.



## CONCLUSION

As we head out of one year and into another, it is crucial to make sure that your organization remains compliant. This in-turn will allow you to focus on the calling and vision that God has given you and your church. Here at StartCHURCH<sup>®</sup>, it is our mission to guide you through compliance matters and allow you to do just that; focus on your ministry. In addition to completing 2016 by protecting what God has blessed you with, we pray you find blessings and joy in the new year.



