

# YEAREND TASKS FOR CHURCHES

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## YEAREND TO-DO LIST

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**REVIEW AND UPDATE POLICIES**

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**PREPARE AND DISTRIBUTE CONTRIBUTION RECEIPTS**

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**REVIEW BUDGETS**

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**REVIEW WORKER CLASSIFICATION**

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**PREPARE AND FILE FORMS 1099**

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**PREPARE AND FILE FORMS W-2**

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**UPDATE ANNUAL PAYROLL FORMS**

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**Bonus: Changes Coming - One Big Beautiful Bill Act**

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# REVIEW AND UPDATE POLICIES

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## REVIEW & UPDATE POLICIES



- IRS Recommended Policies –
  - Conflict of Interest Policy
  - Document Retention and Destruction Policy
  - Whistleblower Policy
- Policies for Best Practices -
  - Gift Acceptance Policy
  - Credit Card Policy
  - Benevolence Policy
  - Facilities Use Policy
  - Accountable Reimbursement Plan

A policy is only as good as it's implementation and follow-through!  
Is the policy being followed? Does it work? Does it need to be updated?

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# PREPARE AND DISTRIBUTE CHARITABLE CONTRIBUTION RECEIPTS

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## PREPARE & DISTRIBUTE CHARITABLE CONTRIBUTION RECEIPTS

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- IRS Publication 1771 Charitable Contributions
- Required for each donor who gives a single contribution of \$250 or more
- Contributions are considered received the date they are delivered. Mailed checks use postmark date and not the date on the check.
- *Fun Fact: Receipting requirement is on the donor to have for deduction purposes and not on the organization to provide. Donor must have acknowledgement before filing their personal tax return.*

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## CHARITABLE CONTRIBUTION RECEIPTS CONTINUED

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- Qualifying receipt must include:
  - Name of organization
  - Date receipt was prepared
  - Amount of cash received
  - IRS required wording when applicable -  
“No goods or services were provided in exchange for the contributions except intangible religious benefit.”

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## CHARITABLE CONTRIBUTION RECEIPTS CONTINUED

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### Special Receipting Requirements

- Noncash Contributions
  - Church should acknowledge the receipt of the noncash item.
  - IRS “No Goods or Services” statement, as applicable.
  - Don’t provide a value of the noncash contribution to the donor.
- Quid Pro Quo Contributions
  - Receipt required for contributions of more than \$75 where something is received in exchange
  - Provide a good faith estimate of the fair market value of goods received
  - IRS Penalties of \$10 per contribution when value not provided
- Donations of Cars
  - Form 1098-C required if donor claiming a contribution of more than \$500
  - Must be provided to donor no later than 30 days after contribution received

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# REVIEW BUDGETS

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## REVIEW BUDGETS

- Look back:
  - Are you on track to meet your 2025 budget?
  - Do you need to push yearend giving to make your budget?
- Look forward:
  - Have you prepared budgets for 2026?
  - Do they need to be revisited before yearend?
    - Future economic outlook for your area
    - Any issues affecting your specific congregation
- Plan: Is there a contingency plan if budgets are not met?
  - Cash reserves
  - Streamline/consolidate expenses
  - Identify “extras” that can be eliminated
  - Consider Unrelated Business Income Tax implications when creative income sources are considered.



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# REVIEW WORKER CLASSIFICATION

-CONTRACTORS VS EMPLOYEES  
-EXEMPT EMPLOYEES VS  
NONEXEMPT EMPLOYEES

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## REVIEW WORKER CLASSIFICATION *Contractor Vs Employee*



- Worker classification determines:

- ✓ Tax withholding - Does tax need to be withheld or not?
- ✓ Reporting requirements – Form 1099-NEC or Form W-2?
- ✓ Participation in benefits

The IRS provides 3 categories of control to consider when determining if a worker is an employee or independent contractor (IRS Tax Topic 762).

- **Behavioral Control** – when and how work is performed
- **Financial Control** - who has financial risk, purchases supplies
- **Relationship of the Parties** – Written contracts? Benefits? Duration of work? Is work performed a key aspect of the business?

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## REVIEW WORKER CLASSIFICATION

### *Contractor Vs Employee*



- 2 areas of common misclassification in churches:
  - Worship Team/Musicians
  - Childcare Workers
- If you determine that you have misclassified workers that need to be moved from contractors to employees, don't switch over at 1/1/26 without considering **Form 8952 Voluntary Reclassification Settlement Program**.
  - Must be filed 120 days before the change of worker classification (from contractors to employees).
  - Must have correctly filed Forms 1099-NEC for past three years for the workers.
  - Employer pays a fraction of payroll taxes that would've been assessed if treated correctly.
  - IRS can't come and audit the last three years regarding that issue.

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## REVIEW WORKER CLASSIFICATION

### *Exempt vs Nonexempt Employees*



- Exempt vs Nonexempt (Department of Labor)
  - How the worker is compensated does not determine their status.
    - Salaried Employees ≠ Exempt AND Hourly Employees ≠ Nonexempt
  - Nonexempt employees are subject to minimum wage and overtime pay.
  - Ministerial Exception – Must be performing minister duties.  
*License/ordination not required for Department Of Labor Ministerial Exception.*

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## REVIEW WORKER CLASSIFICATION

### *Exempt vs Nonexempt Employees*

- Exempt employee minimum salary is \$684 per week (since January 2020).
- Three main categories for exempt workers:
  - **Executive** – primary duties are management of the organization or part of the organization and must manage 2 or more full-time employees
  - **Administrative** – primary duties are office work related to management or general business operations and must exercise discretion and independent judgment
  - **Professional** – primary duties are work that requires advanced knowledge in field
- ❖ **Review and/or rewrite job descriptions** - documenting status by job (Exempt or Nonexempt as well as Minister or NonMinister).

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The image shows a sample of Form 1099-NEC (Nonemployee Compensation) for the calendar year 2016. The form is titled "Form 1099-NEC (Rev. January 2016)" and "Nonemployee Compensation". It includes fields for the payer's name, address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. It also has fields for the recipient's name, address, city or town, state or province, country, and ZIP or foreign postal code. The form includes sections for "1 Nonemployee compensation", "2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale", "3", "4 Federal income tax withheld", "5 State tax withheld", "6 State/Payer's state no.", "7 State income", and "8". It also includes a section for "Copy B For Recipient" with instructions. The form is dated "Form 1099-NEC (Rev. 1-2016)" and "www.irs.gov/Form1099NEC".

## PREPARE AND FILE FORMS 1099

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## PREPARE TO FILE FORMS 1099



Forms 1099 coming straight out of your accounting software are only as good as the information entered into the software.

1. Are all transactions entered and bank accounts reconciled?
2. Are your 1099 vendor files complete?
  - Correct legal name – EINS should have business names and SSNs should have individual names
  - SSN/EIN entered
  - Marked as 1099 vendors
  - Address complete
  - Email address available if providing forms electronically
3. Are your 1099 accounts correctly mapped in your software?
  - What about accounts with both goods and services?
  - What about fixed asset accounts for construction in progress during the year?

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## FILE FORMS 1099



- Efile of all payroll forms (W-2s and 1099s) is required starting with 2024 forms filed in 2025 if 10 or more forms are filed (all forms combined).
  - IRS has created the Information Return Intake System (IRIS) to accommodate direct efilings
  - Other online filing systems (tax1099.com)
- For all 1099 series forms:
  - Report amounts on cash basis.
  - Do not report amounts paid using a credit card or similar payment processing services (Exclude Paypal, Stripe, Venmo, but not Zelle)

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## FILE FORMS 1099

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- Form 1099-NEC (formerly Box 7 of Form 1099-Misc)
  - Reports nonemployee compensation paid of \$600 or more during the calendar year.
  - Issued to individuals, partnerships, and LLCs taxed as partnerships (exception for law firms which get a 1099-NEC for legal fees paid over \$600.)
  - Due to recipient by 1/31/26 and IRS by 02/02/26
  - Includes payments to support pastors and missionaries when paid directly to the individual.

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## FILE FORMS 1099

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- Form 1099-Misc
  - Reports other payments made such as rent, prizes and awards, and other income of \$600 or more during the calendar year.
  - Reports royalties of \$10 or more during the calendar year
  - Issued to individuals, partnerships, and LLCs taxed as partnerships.
  - Due to recipient by 1/31/26 and IRS by 03/02/26
  - Includes payment of rent through your benevolence program directly to the landlord.
- Form 1098-C – Filed when organization receives a donation of a car.
  - Due to recipient within 30 days of donation or sale of car and due to IRS 03/02/26.

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## 3. PREPARE AND FILE FORMS W-2

- Report Yearend Employee and Volunteer Gifts
- Review Taxable Fringe Benefits and Other Compensation Items
- File W-2s Electronically



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## REPORT YEAREND EMPLOYEE & VOLUNTEER GIFTS

- What is a gift? (Commissioner v. Duberstein 363 U.S. 278 -1960)
  - A gift is the result of “detached and disinterested generosity”
  - Payments from “the constraining force of any moral or legal duty” are not gifts.
- Employees
  - Gifts to employees are always taxable (cash or noncash)
  - Benevolence to employees is always taxable (direct payment or indirect payment)
  - Both should be reported on Forms 941 and Forms W-2
- Volunteers
  - Gifts to volunteers make them paid workers (either employees or contractors)
  - Small gift loophole - Wages must reach \$100 before FICA withholding is required by 501(c)(3) orgs.
    - If no tax is withheld, no W-2 is required to be filed.



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## REVIEW TAXABLE FRINGE BENEFITS AND OTHER COMPENSATION ITEMS



- What is being paid to or for your employees outside of the payroll system?
- All payments to employees are considered taxable **unless there is a specific exception in the Internal Revenue Code.**

### Taxable Fringe Benefits

- Love Offerings/Gifts
- Personal Expenses
- Personal Tax Reimbursement
- Flat Allowances – Auto, clothing, moving
- Unsubstantiated advances or reimbursements

### Potentially Taxable Fringe Benefits

- Provision of Church Vehicle
- Dependent Care Benefits (\$5,000 limit for 2025)
- Tuition Assistance (\$5,250 limit for 2025)
- Life or Disability Insurance

- Other Compensation and Taxable Fringe Benefits should be added to Forms 941 and W-2.
- Form W-2s are due to employees by 1/31/26 and the Social Security Administration by 02/02/26.
- **If using a payroll provider, additional taxable items must be determined and provided before final payroll run or yearend.**

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## UPDATE PAYROLL FORMS AND ELECTIONS

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## UPDATE FORMS W-4 - EMPLOYEE'S WITHHOLDING CERTIFICATE

- New Form W-4 introduced in 2020. Any W-4s provided **MUST** use the new form.
- Employees are not required to update annually.
- Employees claiming “Exempt” must provide a new W-4 by February 15<sup>th</sup> of the new year or withholding changes to Single with no other entries (the highest withholding rate)
- Minister employees are not required to complete Form W-4 or have tax withheld from their paychecks.
  - Request to withhold tax must be made in writing.
- Ministers are encouraged to estimate tax due annually and provide any request for withholdings to HR/Payroll.

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## UPDATE MINISTER HOUSING ALLOWANCE DESIGNATIONS

- Minister Housing Allowance designation **MUST BE** approved:
  - By the Board or Personnel/Finance Committee
  - In writing
  - In advance of payment to employee
- Annual designation is not required, but you should give your ministers the opportunity to change their designation. Follow your forms.
- Consider mid-year housing allowance changes may need to be reverted.

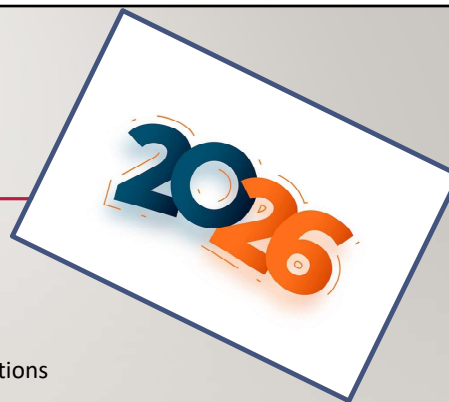


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## UPDATE ANNUAL PAYROLL ELECTIONS

- Some payroll deductions require annual election:
  - Health Flexible Spending Account (FSA) contributions
    - \$3,400 maximum salary deferral
    - Plus \$680 carryover from 2025
  - Dependent Care Flexible Spending Account (FSA) contributions
    - \$7,500 maximum salary deferral / \$3,750 MFS
  - Health Savings Account (HSA) contributions
    - \$4,400 individual / \$8,750 family
    - Only employees with high deductible health plan are eligible.
    - Employees enrolled in Medicare are not eligible to participate in HSAs.



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## UPDATE ANNUAL PAYROLL ELECTIONS

- Update 403(B) deferrals
  - 2026 Employee Contribution Limit \$24,500
  - 50 years and older - Catch-up \$8,000
  - 60-63 years old – Catch-up \$11,250
- Update health insurance deductions (as applicable)
- Update any other payroll deductions
  - If previous elections expire, new forms are needed.



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**\*BONUS\***  
**CHANGES COMING:**  
**ONE BIG BEAUTIFUL BILL ACT**

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**ONE BIG BEAUTIFUL BILL ACT**

- **New Form 1099 Thresholds:**
  - Beginning with 2026 Forms 1099 filed in 2027, the threshold for reporting payments made on forms has increased to \$2,000 from \$600 and will be indexed annually for inflation.
- **New Worker Deductions on Form 1040 for 2025-2028**
  - Qualified Tips of up to \$25,000 get a above the line deduction. IRS has specified which occupations are eligible.
  - Overtime Premiums of up to \$12,500 Single/\$25,000 MFJ get an above the line deduction.

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# ONE BIG BEAUTIFUL BILL ACT

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- New W-2s
  - For 2025 – no new forms or IRS guidance but employees will need this info for their personal tax returns.
  - For 2026 and forward:
    - Box 12 Codes
      - TP: Qualified Tips
      - TT: Qualified Overtime Premiums
    - Box 14b – Treasury tipped occupation code

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## New 2026 Form W-4s (drafts)

### Changes include:

- Some formatting items
- Below Step 4 there is a box to claim tax exemption.
- Expanded Worksheet to Support line 4d Deductions.

DRAFT - DO NOT FILE

**TREASURY/IRS AND OMB USE ONLY DRAFT**

**W-4**  
Employee's Withholding Certificate

Form **W-4** is for your employer to use without the correct federal income tax from your pay.  
Give Form W-4 to your employer.  
Your withholding is subject to review by the IRS.

OMB No. 1545-0045  
**26**

Department of the Treasury  
Internal Revenue Service

**Step 1:**  
**Enter Personal Information**

First name and middle initial \_\_\_\_\_ Last name \_\_\_\_\_  
Address \_\_\_\_\_  
City or town, state, and ZIP code \_\_\_\_\_

☐ **Single** or **Married filing separately**  
☐ **Married filing jointly** - **Qualifying surviving spouse**  
☐ **Head of household** (Check only if you are unmarried and you meet that the costs of keeping a home for yourself and a qualifying individual member will be substantiated. See page 2 for more information.)

**Caution:** To claim certain credits or deductions on your tax return, you (and/or your spouse if married filing jointly) are required to have a social security number and to be a resident alien.

**Tip:** Consider using the estimator at [www.irs.gov/W4app](http://www.irs.gov/W4app) to determine the most accurate withholding for the rest of the year if you are completing the form after the beginning of the year, expect to work only part of the year, or have changes during the year in your marital status, number of jobs for you (and/or your spouse if married filing jointly), dependents, other income (not from jobs), deductions, or credits. Have your most recent pay stub(s) from this year available when using the estimator. At the beginning of next year, use the estimator again to recheck your withholding.

**Complete Steps 2-4 ONLY if they apply to you; otherwise, skip to Step 5.** See page 2 for more information on each step, who can claim exemption from withholding, and where to use the estimator at [www.irs.gov/W4app](http://www.irs.gov/W4app).

**Step 2:**  
**Multiple Jobs or Spouse Works**

Complete this step if you (1) held more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do only one of the following:

(a) Use the estimator at [www.irs.gov/W4app](http://www.irs.gov/W4app) to get the most accurate withholding for this step (and Steps 3-4), if you or your spouse have self-employment income. Use this option or:

(b) Use the Multiple Jobs Worksheet on page 2 and enter the result in Step 4(b) below; or

(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is generally more accurate than Step 2(b) if pay at the lower paying job is more than half of the pay at the higher paying job. Otherwise, Step 2(b) is more accurate.

**Complete Steps 3-4(b) on Form W-4 for only ONE of these jobs.** Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3-4(b) on the Form W-4 for the highest paying job.)

If your total income will be \$200,000 or less (\$400,000 or less if married filing jointly):

(a) Multiply the number of qualifying children under age 17 by 500. 500 x \_\_\_\_\_ = 500

(b) Multiply the number of other dependents by \$300. 300 x \_\_\_\_\_ = 300

Add the amounts from Steps 3(a) and 3(b), plus the amount for other credits. Enter the total here. 500 + 300 + \_\_\_\_\_ = 800

**Step 3:**  
**Claim Dependent and Other Credits**

(a) **Other income (not from jobs).** If you want tax withholding for other income you expect this year that won't have withholding, enter the amount of other income. This may include interest, dividends, and retirement income. 400 x \_\_\_\_\_ = 400

(b) **Deductions.** Use the Deductions Worksheet on page 4 to determine the amount of deductions you may claim, which will reduce your withholding. If you skip this line, your withholding will be based on the standard deduction. Enter the result here. 400 x \_\_\_\_\_ = 400

**Step 4:**  
**Other Adjustments**

(c) **Extra withholding.** Enter any additional tax you want withheld each pay period. 400 x \_\_\_\_\_ = 400

**Exemption from withholding for 2026.** See [www.irs.gov/W4app](http://www.irs.gov/W4app) for the conditions for exemption for 2026. See Exemption from withholding on page 2. Understand I will need to submit a new Form W-4 for 2027. ☐

**Step 5:**  
**Sign Here**

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

Employer's signature (This form is valid unless you sign it.) \_\_\_\_\_ Date \_\_\_\_\_

**Employers Only**

Employer's name and address \_\_\_\_\_ First date of employment \_\_\_\_\_ Employee identification number (EIN) \_\_\_\_\_

For Privacy Act and Paperwork Reduction Act Notice, see page 4. Cat. No. 1520502 Form W-4 (2026) Created 9/20/25

DRAFT - DO NOT FILE

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## RESOURCES

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- Elaine Sommerville's Church Compensation: From Strategic Plan to Compliance - <https://store.churchlawandtax.com/church-compensation-second-edition-from-strategic-plan-to-compliance>
- Church Law and Tax – join for full member benefits and access to many resources for you and your church – [www.churchlawandtax.com](http://www.churchlawandtax.com)
- ECFA Church & Nonprofit Tax & Financial Guide – Free download at <https://www.ecfa.org/TaxBooks/Default.aspx>

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