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News & Notes

Spring 2015

Key Terms to Know for Employment and Benefits

by Jerry Rich

There are a number of terms for the church employer to understand when administering compensation and benefits. In this issue, we highlight the dual status of clergy for tax purposes, the classification of staff members as exempt or nonexempt for salaried or hourly pay, and the difference in type of retirement contributions as coming from employer or employee.

1. Clergy Are Both Employees and Self-Employed

The tax and reporting status of clergy may be confusing to many, since pastors are treated as employees for income tax purposes but as self-employed for Social Security purposes. This “dual status” of clergy (W2 employee for income tax purpose, self-employed for Social Security and therefore subject to paying self-employment rate for SS) is long-standing and communicated in IRS codes. While the term “dual status” term is not an IRS term, it is used by many clergy tax accountants as a short-hand way of describing the different characteristics.

There are very few circumstances in which a minister should be considered a 1099 self-employed person rather than a W-2 employee. (An example of a truly self-employed minister would be a traveling evangelist who is paid by multiple churches. Each church in that case should issue a 1099 when their payment is in excess of \$600.)

A church should be issuing a W-2 and not a 1099 to staff pastors. However, the minister is not subject to

tax withholding. He is to file quarterly estimated tax payments or he can request voluntary withholding of an amount he decides is needed to cover his tax liability (including both income tax and SECA tax). Also because of this status, the minister is not entitled to use Line 29 on the 1040 to reduce income by the amount of health insurance as would a truly self-employed individual.

A church should not deduct Social Security Tax from a minister's pay. Any withholding must be on a voluntary basis.

2. Follow Federal Guidelines for Classifying Exempt & Non-Exempt Staff

The Fair Labor Standards Act (FLSA) puts standards in place that may require an employer to pay overtime. The determining factor is not job title but job duties. Among the examples of employees exempt from overtime calculation are bona fide executive and certain administrative, professional, and computer employees.

It's not uncommon for a small employer to state, “we pay all of our employees as salaried or a set rate for the year; it's just easier that way.” But regardless of size of employer or the degree of difficulty in administering, the employer has a responsibility to comply with wage-and-hour guidelines. And the employer must have a system for

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Current Updates on ACA

Now on FCMM Website

Since the beginning of 2014, FCMM has tracked various changes and updates regarding compliance with the Affordable Care Act at the “News & Perspectives” page of our website. The February 23, 2015, update noted three important developments announced by the IRS:

- Temporary relief (delay) in excise tax and filing Form 8928 for noncompliance.
- Exception for one-employee churches.
- Deadline of July 1, 2015, for correctly handling healthcare reimbursement.

In addition, the Feb. 23 update contains a link for a downloadable resource that serves as the best single guide for a church, *Five Roads to Healthcare Reimbursements*, published by the Evangelical Council for Financial Accountability.

It is essential that every small employer review this guidance to ensure compliance by July 1 and avoid excise tax penalties.



“I promise healthcare will be solved before you retire.”

Visit FCMM at EFCAOne

This year, FCMM Benefits & Retirement will host a hospitality room at the EFCAOne Conference, June 16-18, 2015, at North Coast Church, Vista, CA. Stop and see us for refreshments, questions about benefits, and half-hour mini-workshops on practical issues.

This year, FCMM will partner with Christian Investors Financial and the EFCA Foundation in serving as the Hospitality Room.

Mini-workshops will include

- Retirement Planning Basics
- Financial Planning from the Pastor's Spouse Perspective
- Practicing Generosity
- Church Legal and Financial Update
- New FCMM Payroll Service
- My Experience with Retiring (Bud Smith and John Herman)

In addition, two **lunch breakouts** will be hosted. On Tuesday, FCMM invites **pastors' spouses** to fellowship together, hosted by Valessa Caspers, HR Benefits and Customer Service Manager for FCMM and spouse of a church planting pastor.

On Wednesday, CIF invites **churches considering capital expansion** to share together over lunch with Steve Johnson, Vice President – Campaigns and Consulting.



FAQ's



How do I update my contact information?

To notify FCMM of changes in your address, phone, or email, please email fcmm@fcmmbenefits.org with your information or submit a change via the "My Profile" tab when logged in to your account access.

How do I start looking at my account online?

Not only can you review your account(s) online, you can change investment allocations within mutual fund families (i.e. within American Funds, Vanguard Funds, or Timothy Plan Funds). You can login to your account by clicking the "Account Access" link at top of the FCMM website home page. For information about first-time log-in, please contact FCMM.

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nonexempt employees to record and report their hours to a leadership individual responsible for compensation.

For more information and examples, see the article by Valessa Caspers posted this month at the FCMM website. While FCMM cannot offer legal advice, we can be a resource for you in reviewing your compliance and working through questions. The new FCMM Payroll Service is also designed to help churches administer their payroll according to best practices.

3. Types of Retirement Contributions

There are two main categories of contributions that can be sent to FCMM Retirement Plan by an employer: employer and employee.

Employer contributions are a benefit of employment provided to an employee. They are not withheld from the employee's salary. The amount of the employer contribution is determined by the method the employer states in the Employer Adoption Agreement (Form 20). Employer contributions can be a base contribution amount, a matching contribution, or both. At year end, the amount of the employer contribution is not reported on a W-2, but the "Retirement Plan" box in Box 13 should be checked. Employer contributions can be remitted on a per pay period, monthly, quarterly, or annual basis as determined by the employer.

Employee contributions, also called salary deferral contributions, are determined by the employee and are withheld from an employee's salary each pay period on either a pre-tax (reducing reported income) or Roth (after-tax) basis. A participant completes a Salary Deferral Agreement (Form 03) to authorize the amount or percentage of salary to be withheld. At year end, the amount withheld is reported in Box 12 of the employee's W-2, using either code E for pre-tax contributions or code DD for Roth contributions. The "Retirement Plan" box in Box 13 should also be checked. Employee contributions must be remitted to FCMM as soon as reasonable for the proper administration of the plan. An example of a reasonable time is 15 business days following the month in which contributions are withheld from an employee's salary.

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Long Term Disability Insurance, Payroll Service: benefits@fcmmbenefits.org

FCMM serves as the church benefits organization of the Evangelical Free Church of America.

