

ARCHDIOCESE OF SEATTLE

SECTION D

PAYROLL

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SECTION D: PAYROLL

All parishes must use the payroll system used by the Archdiocese for processing payroll. This section provides some basic information about the fundamentals of payroll.

The proper recording and maintenance of payroll records is not only essential in determining the results of parish operations, but also for tax purposes. The Internal Revenue Service (IRS) and some local tax authorities require the maintenance of records that reflect the remuneration paid to each employee performing services for the parish. There are also specific reporting requirements.

This section is intended to supplement the forms and instructions provided by the taxing authorities and to show how the required information is obtained from the accounting system.

PAYROLL TAX

There are two kinds of Federal Government payroll withholdings:

1. Federal Income Tax (FIT)
2. Social Security / Medicare (FICA)

Federal Income Tax

The employee is responsible for the payment of annual income tax owed to the Federal Government. Throughout the year, amounts estimating each employee's annual Federal Income Tax liability are withheld from his/her paycheck. The employer's responsibility is to collect (through withholding procedure) the employee's Federal Income Tax and remit it to the IRS in a timely manner.

Social Security / Medicare (FICA)

The Federal Insurance Contributions Act (FICA) relates to that part of the federal old age, survivors, disability and health insurance system that imposes a tax on employers and on the employees themselves.

Both the employee and employer share payment of both portions of this tax. One half of the employee's total FICA tax is paid by the employee (deducted from the employee's check through the withholding procedure) and the other half is paid by the employer when remittance is made to the government. The Medicare portion of the tax is applied to the entire payroll amount, while the Social Security portion is limited. The maximum salary changes annually, the amount is included in Circular E, which can be found at <https://www.irs.gov/pub/irs-pdf/p15.pdf>. The Chart of Accounts includes accounts for each portion of the tax.

Tax Remittance

Taxes are remitted to the government based on the schedule in "Circular E" issued by the IRS. Tax remittance is normally handled by the Archdiocese.

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LAY COMPENSATION

Compensation paid to individuals for services falls into two categories. These distinctions are important since the federal reporting requirements for the two categories differ significantly (Appendix D-1). The two categories and the differentiation between them follow:

	LAY EMPLOYEES	
	Employee Compensation	Non-employee Compensation
Definition	The IRS defines an employee as “anyone who performs services subject to the will and control of the employer both as to what shall be done and how it shall be done” and receives some type of remuneration for such services	All individuals and unincorporated organizations receiving payment for services from the parish and who are not considered employees receive non-employee compensation. (Non-employees may also be referred to as “independent contractors”)
Withholding	Federal Income Tax, Social Security, and Medicare are deducted from wages.	Normally no taxes are deducted with completed Form W-9) (See exception note on Page 4)
Reporting	Wages and withholding are reported quarterly on Form 941.	The non-employee is solely responsible for remitting taxes owed to the IRS.
Forms Received	The employee receives a Form W-2.	The non-employee receives a Form 1099, if total payments equal or exceed \$600.

Note: The IRS has established guidelines for determining worker status. Information may be found at <https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee>. All Independent Contractors or stipended volunteers or project pay must be vetted through the Human Resources office of the Archdiocese prior to engagement.

CLERGY, MEMBERS OF RELIGIOUS ORDERS, AND DEACON COMPENSATION

Archdiocesan Priest Compensation

Priest compensation is a unique item in parish accounting. There is no equivalent item in “for profit” entities. In the Archdiocese of Seattle, priests are issued a W-2 form but payroll accounting is not the same as for any other payroll. The status of Archdiocesan priests impacts both Social Security and Federal Income Taxes.

Priests are considered self-employed for Social Security purposes by law. Archdiocesan policy requires priests to participate in the Social Security/Medicare system. This means that all diocesan priests in the Archdiocese must pay Self Employment Tax since no

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amount for Social Security may be withheld by the parish. If an individual priest decides to withhold to pay the self-employment tax, that is acceptable (even recommended) but the amount must be withheld as income tax not Social Security.

Priests are not required to have Federal Income Tax withheld however, individual priests can request withholding and, as outlined above, the amount may be adequate to pay self-employment tax.

Priests living outside rectories receive a housing allowance. This amount is determined by the Archdiocese and published, along with other payroll information, in the "Budget Letter" issued in January. In addition, parishes must designate the amount of housing allowance prior to the beginning of the fiscal year. Designation by the parish may be contained in an employment contract, in minutes of the meeting or in a resolution made by the Finance Council, or in any other appropriate instrument evidencing such official action.

The housing allowance amount is taxable for self-employment tax but is not taxable for Federal Income Tax. This amount may or may not be included on the priest's W-2 form. The Archdiocese suggests that a letter be sent to priests documenting the amount paid as housing allowance. Following is the text of the letter sent to priests paid by Archdiocesan offices.

This letter is your record of the total amount of housing allowance payments paid to/for you during 20XX. Housing allowance payments are not subject to Federal Income Tax. However, unless you have formally elected to be excluded from coverage under the social security system, you must include these housing allowance payments in the computation of self-employment tax.

20XX Total Housing Allowance: \$XX,XXX.XX

Refer to Appendix D-1 for information on setting housing allowance and special considerations for housekeeping/cooks//shoppers/food and compensation.

Priests also receive a mileage allowance. This amount is either the actual mileage (substantiated by a mileage log) or a flat monthly amount. If a priest elects to document his mileage the amount paid is expense reimbursement and, therefore, not taxable. If the priest elects to receive the flat monthly amount, this is taxable and must be included in payroll reporting.

A very useful guide for understanding and preparing clergy income taxes is *Income Taxes for Priests Only*, by Martin LeNell. A copy of this publication is mailed to all Archdiocesan priests by the Priest Pension Plan. For more information, contact:

NPFC
333 N. Michigan Ave. Ste. 1205
Chicago, IL 60601-4002

Phone: (888) 271-6372
Fax: (312) 442-9709
E-mail: NFPFC@NFPFC.org

Another helpful resource is *Church Law & Clergy Tax Guide* by Richard R. Hammar, J.D., LL.M., CPA which is available in multiple outlets online.

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Extern Priests Documentation and Compensation

An extern priest is one not incardinated by the Archdiocese of Seattle. In general, the same payroll requirements (IRS and Self Employment Tax) rules apply to diocesan extern priests as to Archdiocesan priests. When an extern priest from a foreign nation is assigned to a parish he should have an R-1 Visa and a Social Security Number (or have applied for the number). If you have a question regarding a specific situation, contact the Office of the Vicar for Clergy or Parish Financial Services for assistance.

Religious Order Priests

A religious order priest is paid on the same salary schedule as a diocesan priest. Since the order is technically the priest's employer, payroll checks are made payable to either the religious order or the religious order/individual name. Religious order priests do not receive a W-2 and, in accordance with agreements between the orders and the IRS, the religious order does not receive a 1099. Income tax is never withheld from a religious order priest. These rules only apply to religious orders with a legal structure in the U.S.; if a priest from any other order is assigned to a parish, specific instruction will be available from the Office of the Vicar for Clergy or Parish Financial Services.

Brothers and Religious Women

Brothers and Religious Women are member of religious orders and are not subject to withholding or Social Security. They should not receive either a W-2 or 1099. Payroll for these individuals can be run through the accounts payable system rather than the payroll system. Paychecks to members of religious orders should be made payable to both the religious order and the individual.

Priest Pension Payments

Priest pension payments are made based on the individual priest's status. Incardinated priests participate in the Archdiocesan Priest Pension Plan and payments are made to that fund. Religious order priests participate in their order's pension plan and payments are normally made to the order. Extern priests are either covered by a pension plan in their home diocese or an ARF savings account; the Office of the Vicar for Clergy will provide the information to the source of salary.

Deacon Compensation

The Internal Revenue Service considers a deacon an ordained clergyman. Archdiocesan policy states that deacons are not paid for their ministerial duties (preaching, sacramental duties, etc.). If a deacon is hired for an "Administrative or Ministerial" position in addition to or instead of the normal deacon position, the same IRS rules apply to deacons salary as to priests (e.g. a portion of the deacon salary can be considered housing allowance thereby exempt from Federal Income Tax with the same documentation responsibilities to the individual and the deacon does not participate in the Social Security withholding but rather pays Self-Employment Tax).

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The salary for the position is based on the lay salary scale for the position. The official Deacon Compensation Policy is included below. It is very important that both the deacon and the parish understand the tax implications and the practical steps that need to be taken. It is particularly important that the Parish Finance Council set the housing allowance amount annually and document the decision. Since the decision is binding on the parish, the housing allowance amount must be consistent for each deacon working in the parish. This would be an exceptional situation but it would be possible.

PERMANENT DEACON COMPENSATION GUIDELINES

As ordained clergy, permanent deacons who are paid to work in ministerial or administrative managerial positions for parishes or schools are subject to the same tax regulations as priests. This includes the availability of a housing allowance, and the dual taxpayer status (self employed for social security tax purposes; employees for income tax purposes). Individual tax consequences may vary, and deacons are encouraged to consult their tax advisors.

Permanent deacons are eligible for a housing allowance

- An amount up to the annually published housing allowance for priests may be designated by a parish finance council as housing allowance for deacons employed by the parish.
- If the finance council designates a housing allowance, this designation must be recorded in the finance council minutes on an annual basis.
- Deacons receiving a housing allowance are considered to be self employed for social security tax purposes.
 - In this instance, the parish should add the normal employer's share of Social Security/Medicare taxes to the deacon's compensation.
 - The deacon may withhold his self employment taxes by making a W-4 declaration.
- All deacons paid to work in ministerial or administrative managerial positions for a particular source of salary must be treated the same with regard to housing allowance designation.
- Once a designation for treating a portion of a deacon's compensation as housing allowance has been made, it may not be changed for the duration of the deacon's employment in that position.
- Pension contributions are to be calculated on the total of salary and housing allowance.

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PAYROLL REPORTING & REQUIREMENTS

The following is a listing and description of the most used payroll tax and employee-related forms:

Form W-2: Wage and Tax Statement – generated by the payroll software.

This form summarizes, by calendar year, the total wages paid and Federal Income Tax and FICA withheld for each employee. This form must be issued to the employee by January 31 of the following calendar year. This form is submitted to the IRS annually with Form W-3 (transmittal form).

Form W-4: Employee's Withholding Allowance Certificate

Each employee is required to complete this form, which indicates marital status and the total number of "withholding exemptions" upon which the employee's individual withholding amounts are calculated. The employer files and maintains this form with other employee payroll information. This form should be updated regularly.

Form W-9: Tax Identification Number for Independent Contractors

This form is used to obtain the social security number or Employer Identification Number of the non-employee (independent contractor) being compensated by the parish. If a non-employee does not provide this number, **28% of the compensation must be withheld.**

Form 941: Employer's Quarterly Federal Tax Return – filed by the payroll service provider.

This form is a summary of wages paid and taxes due from employee, Federal Income Tax and FICA withholding. It is to be filed by the month-end following each calendar quarter. Due dates are April 30, July 31, October 31, and January 31.

Form 1099: Statement of Non-employee Compensation

This form is required to be issued to all individuals or *unincorporated* organizations that perform services for the parish and who received \$600 or more during the calendar year. This form is also due by January 31 of the following year. This form also submitted to the IRS with Form 1096 (transmittal form).

Form I-9: Employment Eligibility Verification

This form is issued by the Immigration and Naturalization Service. It documents the employee's eligibility to work in this country. **This form must be maintained in a separate file and cannot be included in the personnel files.**

DSHS Child Support Enforcement

This form is submitted to DSHS for every new hire. It is used in child support enforcement.

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Workers' Compensation

The Archdiocese of Seattle is self-insured for Workers Comp. Each parish receives a reporting form quarterly. All employees should be included on this form. If an independent contractor does not provide proof of worker's compensation insurance, they must also be included on the form. For further information, please contact the Worker's Compensation Coordinator at the Benefits Services Office (800) 950-4904.

Employee Insurance Benefits

The Archdiocese offers several insurance options. Every employee working 30 or more hours per week and teachers contracted to teach at least three classes per day, five days per week, or the equivalent must receive benefits. The forms and instructions are available from the Benefits Service Office.

Safe Environment Program

All church personnel* must go through the Safe Environment Program and complete the following requirements:

- A criminal background check every three years
- Completion of a one time, in person, abuse prevention class, *Protecting God's Children*, and subsequent online training every three years.
- Every employee must read the following three policies and sign off, having read them; *Policy for the Prevention of Sexual Abuse, Sexual Misconduct and Sexual Harassment*; *Code of Professional Conduct for Church Personnel*; and *Reporting Suspected Abuse or Neglect of Minors and Vulnerable Adults*.

All three components listed above are recorded in the Virus database.

If you are a new employee or new volunteer, you can fulfill these requirements by visiting: www.virtusonline.org and clicking on NEW REGISTRANT.

* Church personnel include clerics, religious men and women, and lay employees and volunteers in the Archdiocese of Seattle as defined in the Policy for Prevention of and Response to Sexual Abuse, Sexual Misconduct and Sexual Harassment.

INTERNAL REVENUE SERVICE (IRS)

The IRS publishes several informational pamphlets and booklets that can be quite useful. IRS Publication – Circular E explains withholding requirements and FICA limits. In addition, the IRS operates a taxpayer assistance telephone line through which you may order forms or instruction pamphlets (faxed or mailed), and obtain information and clarification on tax issues. The phone number is **(800) 829-3676**, and is located in the government listing section (“blue pages”) of the phone book. The IRS website, which may be used to download instructions and forms, is <http://www.irs.gov>.

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PAYROLL ACCOUNTING PROCEDURES

Payroll should be recorded using a general journal entry. The gross salaries should always be recorded as an expense to the parish. Any taxes or employee elected deductions withheld should be recorded using payroll liability accounts, or on the rare occasion, as listed below, a revenue account. Payroll deductions vary based on parish policy and employee elections.

Acc. #	Description	Debit	Credit	Memo
5101	Clergy Salaries	1,886.75		Gross Salary - Pastor
5120	Lay Salaries (may itemize)	33,799.09	375.00	Gross Salary – Lay less HSA seed & GTL
2151	FICA Taxes Withheld		2,564.16	Employee FICA Withholding
2155	Federal Income Taxes Withheld		2,036.87	Employee FIT Withholding
2161	Tax Deferred Annuity (TDA)		745.21	Employee TDA Contributions
2162	Employee Medical Withheld		1,289.43	Employee Elect Medical Withheld
2163	Voluntary Elect Life Withheld		108.80	Employee Elect Voluntary Life Withheld
2167	HSA Employee Contribution		297.50	Employee HSA Withheld
2168	FSA Employee Contribution		143.75	Employee FSA Withheld
2169	Info Armor		20.94	Info Armor Withheld
4101	Sunday Collections		100.00	Employee Contribution Withheld
2225	St. Vincent de Paul Custodial		50.00	Employee SVDP Contribution Withheld
5141	HSA Employer Contribution	375.00		HSA Employer Contribution
5142	FSA Employer Contribution	20.83		FSA Employer Contribution
5201	FICA Payroll Tax Expense	2,564.16		Employer Matching FICA Expense
2151	FICA Taxes Withheld	2,564.16		Payment of Employee FICA Withholding
2155	Federal Income Taxes Withheld	2,036.87		Payment of Employee FIT Withholding
2161	Tax Deferred Annuity (TDA)	745.21		Payment of Employee TDA Contributions
2167	HSA Employee Contribution	297.50		Payment of Employee HSA Withheld <i>(note: Net of HSA seed)</i>
2168	FSA Employee Contribution	143.75		Payment of Employee FSA Withheld
1115	Parish Checking		36,701.66	Net pay + FIT/FICA + TDA + HSA/FSA <i>(note: amount swept from bank)</i>
5921	Payroll Service Fee	1,030.77		Payroll Service Fee
1115	Parish Checking		1,030.77	PSO fee swept from bank
		45,464.09	45,464.09	

While some of the withholding accounts (i.e. FIT, FICA, TDA and HSA/FSA) cancel each other in the above journal entry, it is good practice to record them so that you are able to track the liability and payment in your books.

Note: In this example, withholding and expense accounts for FICA and Medicare are combined. The Chart of Accounts provides separate accounts for these amounts. Parishes can either split or not as they choose, but the amounts must be separately reported on the employee's Form W-2.

Note: If the parish operates on the accrual basis, the employer's portion of FICA / Medicare would have been "accrued". The proper amount would have been charged to FICA / Medicare Expense and credited to the appropriate liability account. The liability account would be debited when payment is made.

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Another important part of the payroll process is recording the payment of the Employee Benefit Plan to CASHWP. The following entry illustrates how the bill would be recorded:

Acc. #	Description	Debit	Credit	Memo
5222	Medical Insurance – Lay	5,288.60		Employer Paid Medical Benefits
2162	Employee Medical Withheld	1,289.43		Employee Elected Dependent Coverage Premium
2163	Voluntary Elect Life Withheld	108.80		Employee Elected Voluntary Life Premiums
2169	Info Armor	20.94		Payment of Info Armor Withholding
1115	Parish Checking		6,707.77	Total Payment for Billing
		6,707.77	6,707.77	

You can see in looking at the original payroll entry, that the accounts 2162, 2163, and 2169 have been cleared and all have a zero balance. It is very important that the proper amounts are being withheld from an individual's pay to cover their elected deductions. After the process is complete, the balances of all payroll liability accounts should be zero. Payments to CASHWP must be reconciled with the actual payroll records periodically to ensure that liabilities and payments match, especially if there are changes to the employee roster after the bill was issued.

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ALLOCATING SALARY EXPENSES

If an employee splits time between two departments or entities, the preferred way to allocate this cost is with a general journal entry using Account 5270 Salary Allocations rather than attempting to split the payroll entry.

For employees working within the same entity, the journal entry would be:

Acc. #	Description	Debit	Credit	Memo
5270.80	Salary Allocations	572.80		Employee wages paid by parish that is allocated to the school
5270.10	Salary Allocations		572.80	

For multi-location employees, the journal entry for the home location would be:

Acc. #	Description	Debit	Credit	Memo
1201	Receivables	572.80		Project pay to be reimbursed by parish XYZ
5270	Salary Allocations		572.80	
Note: This entry will be made when the home location bills the project location.				

Acc. #	Description	Debit	Credit	Memo
1115	Parish Checking	572.80		Reimbursement from parish XYZ for project pay
1201	Receivables		572.80	
Note: This entry will be made when the home location receives reimbursement from the project location.				

FINAL NOTE

The preceding is a brief summary of payroll issues. It is not to be taken as all-inclusive. In questionable cases, consult your tax advisor or the appropriate taxing authority. **The Archdiocese of Seattle does not provide income tax consulting services or advice.** For questions about payroll, please call the Payroll Services Office at (800) 348-9092 or (206) 274-7662.

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APPENDIX D-1

Setting the Housing Allowance and Reminder about Housekeeping and Housing Compensation

Setting the Housing Allowance:

Parish Finance Councils need to annually designate the value of parish owned housing for their priest(s). To do this, the PAA, on behalf of the Finance Council:

- A. may wish to ask a real estate agent or a rental agent to give them an estimate as to The fair rental value of equivalent space elsewhere in the neighboring community. Obviously, you only want to have them do this comparing the space the priest actually uses for 'living space'. So any space used for rectory offices (not a home office), or meeting space that is never used by the priest for his personal activities, or other spaces not used by the priest, can be excluded from the value. OR
- B. another, and probably easier, method is to use one several indexes to set the value:
<http://livingwage.mit.edu/states/53> and/or

<https://www.irs.gov/businesses/small-businesses-self-employed/local-standards-housing-and-utilities>

Additionally, for priests that have housekeepers paid by the parish or use housekeeping services paid by the parish, the value of those housekeeping services need to be added to the fair rental value to get the total housing allowance. Other "personal" housing related bills the parish is paying on behalf of the priest(s) should also be included - utilities, cable, etc.

After obtaining that value, the Finance Council can vote to approve this amount as the housing allowance. (This must happen before the beginning of the calendar year.)

Then a letter should be given to the priest with that value included, to wit:

"We have conducted an analysis of the value of parish-provided housing to you based on the fair market value of comparable square footage in the area. The value of this housing is not subject to FIT. However, the value of a housing allowance does need to be included in the computation of self-employment tax. The total value for 202x is _____" The chair of the Finance council should sign this letter.

Housekeeping/Cooks/Shoppers/Food and compensation:

Housekeeping paid for by the parish should be treated as part of the housing compensation and included in that calculation.

Additionally, costs for cooks/shoppers paid for by the parish should be reimbursed to the parish from the priest's food allowance, and if the cost of cooks/shoppers/food exceeds the monthly food allowance, the priest would need to reimburse the parish from his paycheck. (Of course costs of cooks/shoppers are not considered part of the housing compensation.)

Please contact the Parish Financial Services office if you need further information.