



## Year-End Payroll

Immediately following our beloved Christmas season is a busy month of work for those who handle the Church's book and records. One of the most important tasks is **payroll reporting: payroll tax returns and W-2s**. Additionally, these are returns that need to be prepared without error, as they affect the employees' taxes and are set to be matched up in the IRS' system.

### Payroll Tax Returns – Forms 941 (Federal & State)

- Due January 31<sup>st</sup> for payroll paid in months October – December.
- Be sure to properly calculate payroll taxes (Social Security, Medicare, & Withholding taxes) from lay-employees' Christmas bonus checks. No taxes are required to be withheld for the pastors' payroll checks.
- **For lay-employees**, add a payroll item in PowerChurch named "Staff Christmas Bonus." The item should be set up as taxable, allowing the system to properly include the bonus as taxable income and to automatically calculate FICA taxes.
- **For pastors**, add a payroll item in PowerChurch named "Pastor Christmas Bonus." The item should be set up as Clergy for tax purposes, allowing the system to properly include the bonus as taxable income, but to not calculate FICA taxes.

### Forms W-3 & W-2

- W-2s should be filed for all employees, including the pastor. A W-3, also required, is a total of all W-2s.
- There may be income items that were not taken through the payroll module that need to be manually added to the 4<sup>th</sup> quarter 941 and W-2. If you need assistance with these items, feel free to give us a call.
- Reminders regarding **pastor** W-2s:
  - Social Security or Medicare wages should be zero.
  - No Social Security or Medicare taxes should be listed.
  - Federal & State withholding will only be listed if they chose to withhold via Form W-4.
  - Housing allowance should not be included with Box 1 Wages. Housing allowance can be reported for informational purposes in Box 14.
  - Pre-tax health insurance payments should only be deducted from Wages if they are part of a qualified plan held by the church.
- Confirm that the sum of all four quarters' 941s match the totals on the W-2s. Recalculating these amounts will either confirm your numbers or reveal errors that must be corrected prior to filing.

---

**Have questions? Feel overwhelmed or need assistance?**

---

**WE CAN HELP!** Our trainers, knowledgeable in accounting practices as well as PowerChurch Plus, can provide the help you need. Call us at 217-877-6766. Visit our website at [www.cpachurch.com](http://www.cpachurch.com).

This newsletter contains information about churches and tax matters. This information is general in nature and does not consider your organization's specific circumstances. This information should not be treated as an alternative to taxation advice from an appropriately qualified professional. If you have specific questions, please consult Stewardship Resources, LLC (a division of Summit Tax & Accounting, LLC) at (217) 877-6766 for advice tailored to your need.