

FORM 941 FILING REQUIREMENTS

Internal Revenue Service Form 941 is the Employer's Quarterly Federal Tax Return. The first report for the year must be filed by April 30 (for the pay period ending March 31). Subsequent filing dates are July 31, October 31 and January 31. Form 941 reports the number of employees, the amount of Social Security and Medicare wages and taxes, as well as the income taxes, which are withheld in each quarterly period. You have already been filing the Form 941 if you currently have an employee(s).

It is the position of the Internal Revenue Service that a church which has only a minister (and no other staff) need not file a Form 941 (see letter from the IRS to GCFA in this tax packet). However, if the minister should file a Form W-4, electing to have voluntary income tax withholding, Form 941 is required. Any amounts withheld are reported as income tax on Line 3.

General Instructions for Filing Form 941

(Note: complete instructions on filing Form 941 are available at the IRS website, www.irs.gov.)

Make checks payable to "United States Treasury".

File only one form per quarter, even if your church has multiple locations or divisions

Make dollar entries without the dollar sign and comma — 1000.00; show negative amounts in parentheses (1000.00).

Line 1 is for the number of employees.

Line 2 is for the total amount of quarterly wages, tips and other compensation paid to all employees that are subject to federal income tax. The total compensation should **not** include salary reduction pension contributions, any housing or utility allowance, or accountable reimbursement policy payments. Health insurance premiums paid by the church are also excluded. Taxable fringe benefits and travel or other allowances are includable as income.

For Lines 5a-5c, there is no information reported for clergy, as the church must not do any Social Security or Medicare withholding on behalf of clergy. Because of specific code provisions, clergy are always considered self-employed for Social Security taxes. If there is no other staff withholding, these boxes should be left blank.

The box in Line 4 should not be checked (because the wages are subject to Social Security and Medicare taxes through SECA).

Reconcile your year-to-date wage and tax information with the Form 941 that you just filed. This should be done every quarter.

Show employee earnings only up to the Social Security taxable wage base.

Questions have arisen about whether the IRS will be concerned that Social Security and Medicare taxes withheld on Lines 5a-5c (which **must not** include any withholding

for clergy) are inconsistent with the compensation paid (which **does** include clergy salary). IRS officials have stated that IRS computers should not identify these disparities. However, should such an inquiry arise, you should inform the IRS that clergy are considered self employed for Social Security taxes for services performed in the exercise of ministry under Internal Revenue Code § 3121(b)(8)(A).

TIPS FOR RECONCILIATION

Here are some tips to make the year-end process run of 941s and W-2s as error-free and smooth as possible:

Review all wage and tax categories. Then, prior to processing your W-2s and 941s, verify that all general ledger liability accounts balance.

WHAT TO LOOK FOR

Remember any mid-year changes made in salary reduction pension contributions, housing allowances, accountable reimbursement plans or employer/employee tax withholding accounts. Be prepared to make correcting journal entries for out of balance situations caused by mid-year or year-end adjustments.

Complete your fourth-quarter 941 first, then prior to distributing the W-2s, balance the 941 totals against the W-2s.

WHAT TO BALANCE — SOCIAL SECURITY AND MEDICAL TIPS AND WAGES (FOR LAY EMPLOYEES) AND FEDERAL INCOME TAX WITHHELD

If there are any inconsistencies, you can correct them promptly.

Do a preliminary run of the W-2s on plain paper and verify the totals against your annual reconciliation worksheet.

The General Council on Finance and Administration is not engaged in providing legal or accounting services. The service of a competent professional should be sought for legal and tax advice.