

Important federal requirements for churches

Church leaders should be familiar with the following recent changes in federal reporting requirements:

- Churches must submit a Form 8282 (Donee Information Return) to the IRS if they dispose of certain donated non-cash property within three years of the date of contribution (up from two years under prior law). This requirement applies to donated noncash property valued by the donor at more than \$5,000 for which the church signed a qualified appraisal summary (Form 8283).
- Unrelated business income tax returns (Form 990-T) are now subject to public inspection.
- Here are the changes in Form W-2 for 2007: (1) The employee's Social Security number box is moved from box d to box a. (2) The "control number box" that is optionally used by some employers to identify individual Forms W-2 was moved from box a to box d. These changes were made to protect employees' Social Security numbers from disclosure when employers furnish Forms W-2 to their employees using window envelopes.
- In 2007, the IRS released a new Form 990. This is an information return that must be filed annually by most tax-exempt organizations. The vast majority of religious organizations are exempt from the Form 990 reporting requirement, so they are not affected by the new form.
- The tax code requires every employee to furnish his or her employer with a signed Form W-4 listing withholding exemptions. For many years, employers were required to submit to the IRS a copy of each Form W-4 on which an employee claimed more than 10 withholding exemptions or a complete exemption from withholding if employee's wages were \$200 or more per week. In 2007, the IRS released final regulations relieving employers of the need to submit Forms W-4 to the IRS unless they are instructed in writing to do so. No longer are employers required to submit copies of Forms W-4 claiming 10 or more exemptions or a complete exemption from withholding.
- In 2007, the IRS released final regulations addressing non-qualified deferred compensation arrangements. The new regulations define such arrangements broadly to include rabbi trusts and severance agreements that call for the payment of compensation in one or more future years. Church leaders should have any rabbi trust or severance agreement reviewed by legal counsel to ensure compliance with the new rules.

Introduction

The most important federal reporting obligation for most churches is withholding and reporting employee income taxes and Social Security (FICA) taxes. Some or all of these payroll reporting requirements apply to almost every church. Yet many churches do not comply with them because they do not understand them. This can lead to substantial penalties.

- ▲ **Warning.** Federal law specifies that any corporate officer, director or employee who is responsible for withholding taxes and paying them over to the government may be liable for a penalty in the amount of 100% of such taxes if they are either not withheld or not paid over to the government. This penalty is of special relevance to church leaders.

The steps listed in this guide can help churches comply with federal payroll tax reporting rules. Reporting requirements for self-employed workers are also discussed. Unfortunately, many churches do not fully understand these rules. This is due to a number of factors, including the following:

- Many church treasurers are unpaid volunteers who do not know the unique rules that apply to churches.
- The high turnover rate of church treasurers affects church compliance with payroll tax reporting rules.
- Some church treasurers falsely assume that churches are exempt from any reporting requirements. Courts have rejected the argument that application of payroll tax reporting rules to churches violates the constitutional guarantee of religious freedom.

A number of unique rules apply to churches and "ministers for tax purposes." Churches may consider or call some employees ministers, but those employees may not be ministers for tax purposes according to the criteria of the IRS. Churches need to identify employees on their payrolls who are ministers for tax purposes so they can understand and follow special payroll and reporting rules that apply to those taxpayers. The term "minister" in the rest of this guide means ministers for tax purposes. See Part 2 of this guide for more information about determining who is a minister for tax purposes.

1. Ministers have a "dual tax status." They are always self-employed for Social Security purposes with respect to their church compensation, but most ministers are employees for federal income tax reporting purposes, with respect to their church compensation. This means that they pay self-employment (SECA) tax rather than the employee's share of Social Security and Medicare (FICA) taxes, even if they

report their federal income taxes as a church employee. Churches should not treat ministers as employees for Social Security purposes and withhold the employee's share of Social Security and Medicare (FICA) taxes. See Part 2 of the *Ministers Tax Guide* for more information.

2. A minister's compensation is exempt from income tax withholding whether a minister reports his income taxes as an employee or as self-employed. This does not mean the minister is exempt from federal income taxes. Ministers should use the estimated tax procedure to pay their federal income taxes, unless they have entered into a voluntary withholding agreement with their employing church. See Part 2 of this guide for more information.

Unlike small businesses, a very limited number of churches are eligible to exempt themselves from the employer's share of Social Security and Medicare (FICA) taxes if they are opposed to paying these taxes on the basis of religious considerations and if they file a timely exemption application. For most churches, this exemption application (Form 8274) had to be filed before Oct. 31, 1984. This exemption does not excuse the church from income tax withholding, filing Form 941 or issuing a Form W-2 to non-minister church employees. The non-minister employees of a church that filed such an exemption application are treated as self-employed for Social Security purposes, and must pay the self-employment (SECA) tax if they are paid \$108.28 or more a year.

Maximizing tax benefits for ministers

Churches can maximize tax benefits for ministers without additional expense to the church. Many churches do not understand that the way they pay a minister may increase the minister's taxes. Unfortunately, many ministers may not understand these issues or may hesitate to discuss them with their church.

The most important tax benefit available to ministers who own or rent their homes is the minister's housing allowance exclusion. Unfortunately, some churches fail to designate a portion of a minister's compensation as a housing allowance, and thereby deprive ministers of an important tax benefit. See Part 2 of this guide for more information about the housing allowance.

Another way churches can maximize benefits for ministers is by adopting an accountable reimbursement plan to reimburse ministers for ministry-related expenses. The church should establish an accountable expense reimbursement arrangement in an appropriate resolution. In adopting a resolution, pay special attention to the following rules:

1. Condition the reimbursement of any expense on adequate substantiation. This will include written evidence for all expenses, and receipts for expenses of \$75 or more. The evidence must substantiate the amount, date, place, and business nature of each expense. A church must require the same degree of substantiation as would be required for a

deduction on the minister's income tax return.

2. Expenses must be substantiated, and excess reimbursements must be returned to the church within a "reasonable period of time." Expenses substantiated within 60 days will be deemed substantiated within a reasonable period of time. Excess reimbursements returned to the employer within 120 days is usually deemed a reasonable period of time.

Reimbursements of ministry-related expenses under accountable reimbursement plans are not reported as taxable income on the minister's Form W-2. In effect, the minister is reporting to the church rather than to the IRS.


Churches occasionally reimburse ministers for expenses that are not ministry-related. Reimbursements for personal, living or family expenses are not deductible, and the entire amount of a church's reimbursement must be included on the minister's Form W-2.

See Part 2 of this guide for more information about accountable reimbursement plans.

Complying with federal payroll tax reporting obligations

Step 1. Obtain an employer identification number (EIN) from the IRS if the church does not have one.

An employer identification number (EIN) is a nine-digit number assigned for federal tax reporting purposes that looks like this: 00-0246810. Churches need EINs for a number of forms. You can apply for an EIN by submitting a completed Form SS-4 to the IRS, or by phone or fax using the Tele-TIN or Fax-TIN phone numbers available on the IRS Web site, www.irs.gov.

 **Key Point.** An EIN is not a "tax exemption number," and does not relate to the church's nonprofit status. It merely identifies the church as an employer subject to tax withholding and reporting and ensures that the church receives proper credit for payments of withheld taxes.


Step 2. Determine whether each church worker is an employee or self-employed


As discussed in more detail in Part 2 of this guide, ministers employed by churches usually have a dual tax status. They are usually employees for federal income tax purposes and are always self-employed for Social Security tax purposes. For non-ministers, it may be difficult to determine whether a particular worker is an employee or is self-employed (an independent contractor). If in doubt, churches always should treat a worker as an employee, since substantial penalties can be assessed against a church for treating a worker as self-employed if the IRS later reclassifies the worker as an employee. See Publication 15-A, *Employer's Supplemental Tax Guide*, for more information on how to determine whether an individual providing services is an

independent contractor or an employee. These factors suggest that a worker is an employee instead of self-employed:

- The worker is required to follow an employer's instructions about when, where and how to work.
- The worker receives on-the-job training from an experienced employee.
- The worker is expected to perform the services personally and not use a substitute.
- The employer, rather than the worker, hires and pays any assistants.
- The worker has a continuing working relationship with the employer.
- The employer establishes set hours of work.
- The worker is expected to work full time (more than 20 hours per week.)
- The work is done on the employer's premises.
- The worker must submit regular oral or written reports to the employer.
- The worker's business expenses are reimbursed by the employer.
- The employer furnishes the worker's tools, supplies, and equipment.
- The worker does not work for other employers.
- The worker does not advertise his or her services to the general public.

Not all of these factors must be present in order for a worker to be an employee. But if most of them apply, the worker is an employee. Again, if in doubt, treat the worker as an employee.

 **Key Point.** Some employee benefits are non-taxable only when received by employees. A common example is employer-paid medical insurance.

 **Key Point.** Only employees of churches (workers who receive a Form W-2 from a church) may participate in a church sponsored 403(b) retirement plan.. However, other 403(b) plans may be available from GuideStone.

Step 3. Obtain the Social Security number for each worker

After determining whether a worker is an employee or self-employed, the church must obtain the worker's Social Security number. A worker who does not have a Social Security number can obtain one by filing Form SS-5. If a self-employed worker performs services for the church (and earns at least \$600 for the year), but fails to provide the church with his or her Social Security number, then the church is required by law to withhold a percentage of the amount of compensation as "backup withholding." For 2007, the backup withholding rate is 28%. Backup withholding is reported on Form 945 each year. A self-employed

person can stop backup withholding simply by providing the church with his correct Social Security number.

The church needs the correct Social Security number to complete the worker's Form 1099-MISC (discussed later). Churches can be penalized if the Social Security number they report on a Form 1099-MISC is incorrect, unless the failure is due to "reasonable cause and not to willful neglect." For the IRS to waive the penalty, the church must demonstrate it acted in a responsible manner and the failure was due to events beyond its control. Churches should present self-employed workers, such as guest speakers and contract laborers, with a Form W-9, and then withhold 28% of total compensation as backup withholding if the Form W-9 is not returned. The church should retain each Form W-9 for documentation.

Step 4. Have each employee complete a Form W-4

Each church employee who is not a minister for tax purposes must complete a Form W-4 so the church will know how much to withhold from the employee's wages. Ministers are not subject to federal income tax withholding, but they can voluntarily agree to have taxes withheld by completing a Form W-4.

Employees claim withholding allowances on Form W-4. A church needs to know how many withholding allowances each non-minister employee claims in order to withhold the correct amount of federal income tax. A withholding allowance lowers the amount of tax that will be withheld from an employee's wages. Allowances generally are available for the employee, the employee's spouse, each of the employee's dependents, and in some cases for itemized deductions. Employers are not responsible for verifying the withholding allowances that employees claim. Employers are no longer required to submit to the IRS any Form W-4 on which an employee claims more than 10 withholding allowances, or if an employee claims exemption from withholding and would normally receive wages in excess of \$200 per week.

Ask all new non-minister employees to complete and sign Form W-4 when they start work. If an employee does not complete this form, then the church must treat the employee as a single person without any withholding allowances or exemptions.

Employers must put into effect any Form W-4 that replaces an existing Form W-4 no later than the start of the first payroll period ending on or after the 30th day after the day on which the church received the replacement Form W-4. Form W-4 can be put into effect sooner, if desired.

Step 5. Compute each employee's taxable wages

The amount of taxes that a church should withhold from an employee's wages depends on the amount of the employee's wages and the information on the employee's Form W-4. A church must determine the wages of each employee that are

subject to withholding. Wages subject to federal withholding include employee pay for services performed. The pay may be in cash or in other forms. Measure pay that is not in money (such as property) by its fair market value. Wages often include a number of items in addition to salary. See IRS Publication 15 and Publication 15A for additional information. Some common examples are listed below and in Step 10.

- Bonuses.
- Christmas and special occasion offerings (includes love offerings).
- Retirement gifts.
- The portion of the employee's Social Security tax paid by a church as an offset.
- The personal use of a church-provided car.
- Purchases of church property for less than fair market value.
- Ministry-related expense reimbursements under a non-accountable plan.
- Imputed interest on below-market interest church loans.
- Most reimbursements of a spouse's travel expenses.
- Forgiven or canceled debts.

Step 6. Determine the amount of income tax to withhold from each employee's wages

The amount of federal income tax the church should withhold from a church employee's wages may be computed in a number of ways. The most common methods are the wage bracket method and the percentage method.

- Wage bracket method. Under the wage bracket method, the employer locates an employee's taxable wages for the applicable payroll period (weekly, biweekly or monthly) on the wage bracket withholding tables in IRS Publication 15 (Circular E), and determines the tax to be withheld by using the column headed by the number of withholding allowances claimed by the employee.
- Percentage method. Under the percentage method, the employer multiplies the value of one withholding allowance (derived from a table in Publication 15) by the number of allowances an employee claims on Form W-4, subtracts the total from the employee's wages, and determines the amount to be withheld from the appropriate table.

Both of these methods are explained in detail in IRS Publication 15 (Circular E). It is essential that a church obtain a copy of Publication 15 each year to assure that the correct amount of taxes is being withheld.

- **Recommendation.** Be sure to obtain a new Publication 15 (Circular E) each January. It contains updated tables for computing the amount of income taxes to withhold from employees' wages and other helpful information.

§ **Tip.** The "withholding calculator" found on the IRS Web site (www.irs.gov) can help employees determine the proper amount of federal income tax withholding. Another useful resource, Publication 919 (*How Do I Adjust My Tax Withholding?*), is available on the IRS Web site.

Step 7. Withhold Social Security and Medicare (FICA) taxes from non-minister employees' wages

Churches and their non-minister employees are subject to Social Security and Medicare (FICA) taxes. The combined Social Security and Medicare (FICA) tax rate is 15.3% of each employee's wages. The employer and employee pay this rate equally, with each paying a tax of 7.65% of the employee's wages. Churches must withhold the employee's share of Social Security and Medicare (FICA) taxes from the wages of non-minister employees and must pay the employer's share of these taxes.

This 7.65% rate has two components: (1) a Medicare hospital insurance tax of 1.45%, and (2) an "old-age, survivor and disability" (Social Security) tax of 6.2%. The Medicare tax rate (1.45% for both the employer and employee) applies to all wages including deferred compensation arrangements for non-minister employees. There is no maximum amount of wages subject to the Medicare tax. The Social Security tax rate (6.2% for both the employer and employee) applies to an employee's wages up to but not exceeding a maximum amount (\$97,500 in 2007 and \$102,000 in 2008).

Wages subject to Social Security and Medicare (FICA) taxes include a number of items in addition to a church salary. For example, they include: (1) voluntary contributions (by a salary reduction agreement) to a 403(b) retirement plan for employees who are not ministers for tax purposes; (2) the imputed cost of group term life insurance in excess of \$50,000 paid by the employer for an employee; and (3) the imputed cost of group term life insurance if the employer pays for more than \$2,000 of coverage for a spouse and dependents.

The combined Social Security and Medicare (FICA) tax rates for 2007 and 2008 are:

Year	Employee	Employer	Combined Tax
2007	7.65%	7.65%	15.3%
2008	7.65%	7.65%	15.3%

The church must withhold the employee's share of Social Security and Medicare (FICA) taxes from each wage payment. Multiply each wage payment by the applicable percentage. Special tables in IRS Publication 15 help in making this computation. Employee wages of less than \$100 per year from a tax-exempt organization are exempt from these taxes.

Key Point. Federal law allowed churches that had non-minister employees as of July 1984 to exempt themselves from the employer's share of Social Security and Medicare (FICA) taxes by filing a Form 8274 with the IRS by Oct. 30, 1984. The exemption was available only to those churches that were opposed for religious reasons to the payment of Social Security taxes. The effect of an exemption is to treat all non-minister church employees as self-employed for Social Security purposes. These employees must pay the self-employment (SECA) tax if they are paid \$108.28 or more for the year. Churches hiring their first non-minister employee after 1984 have until the day before the due date for their first quarterly Form 941 to file the exemption application. Churches can revoke their exemption by filing a Form 941 accompanied by full payment of Social Security and Medicare (FICA) taxes for that quarter.

Key Point. If a church deposited more than \$200,000 of payroll taxes in 2007, or if the church was required to use the electronic deposit procedure known as the Electronic Federal Tax Payment System (EFTPS) in 2007, it must deposit payroll taxes electronically in 2008 in order to avoid penalties. Deposits made by EFTPS are on time if the church initiates the transaction at least one business day before the date the deposit is due. Very few churches have to use this procedure because their deposits are too small, but many churches use it anyway because it is easy and convenient. To enroll or get more information about EFTPS, call 1-800-555-4477 or 1-800-945-8400.

Step 8. The church must deposit the taxes it withholds

Churches accumulate three kinds of federal payroll taxes:

1. Income taxes withheld from employees' wages.
2. The employees' share of Social Security and Medicare (FICA) taxes (withheld from employees' wages).
3. The employer's share of Social Security and Medicare (FICA) taxes.

Many employers must deposit withheld payroll taxes on a monthly or semiweekly basis. An employer's deposit status is determined by the total taxes reported in a four-quarter "lookback" period.

Monthly depositor rule. Churches that reported payroll taxes of \$50,000 or less in the lookback period will deposit their withheld taxes on a monthly basis (except as noted below). Payroll taxes withheld during each calendar month, along with the employer's share of FICA taxes, must be deposited by the 15th day of the following month.

Employers with less than a \$2,500 tax liability during a calendar quarter may skip the deposit requirements and send their taxes to the IRS with their Form 941, provided they pay in full with a timely filed return. See IRS Publication 15 (Circular E) for more details.

Semiweekly depositor rule. Churches that reported payroll taxes of more than \$50,000 in the lookback period must deposit their withheld taxes on a semiweekly basis. This means that for paydays falling on Wednesday, Thursday, or Friday, the payroll taxes must be deposited on or by the following Wednesday. For all other paydays, the payroll taxes must be deposited on the Friday following the payday.

Key Point. Employers accumulating \$100,000 or more in payroll taxes during a monthly or semiweekly deposit period must make their deposit by the next banking day.

If your church is not required to deposit payroll taxes electronically, use Form 8109 (Federal Tax Deposit Coupon) to deposit all employment taxes at an authorized financial institution. Clearly mark the correct type of tax and tax period on each Federal Tax Deposit Coupon because the IRS uses this information to credit your account. Make the check or money order payable to the depository where the deposit is made. Deposit taxes with a check drawn on another financial institution only if the depository is willing to accept that form of payment. Authorized depositories must accept checks drawn on and made payable to the depository itself. Deposits are considered "timely" if they are delivered on or before the institution's daily cutoff deadline. A penalty is charged when taxes are not deposited when due. A penalty may be assessed when deposits are overstated. Both penalties can be waived if the church shows its actions were due to reasonable cause rather than willful neglect.

Step 9. All employers subject to income tax withholding, Social Security and Medicare (FICA) taxes, or both, must file Form 941 quarterly

Form 941 reports the number of employees and amount of Social Security and Medicare (FICA) taxes and withheld income taxes that are payable. Form 941 is due on the last day of the month following the end of each calendar quarter.

Quarter	Quarter Ending	Form 941 Due
1 st (January–March)	March 31	April 30
2 nd (April–June)	June 30	July 31
3 rd (July–September)	September 30	October 31
4 th (October–December)	December 31	January 31

Form 941 may be filed electronically. For more information, see the IRS Web site at www.irs.gov or call 1-800-829-1040.

☞ **Key Point.** IRS research has disclosed that approximately 1 million small employers of the 6 million total Form 941 filers (17%) will be eligible to file Form 944, at the proposed \$1,000 tax liability threshold.

☞ **Key Point.** The IRS national office takes the position that churches with only one employee (the minister) do not need to file a Form 941. This opinion is based in part on an income tax regulation specifying that every employer shall file a Form 941 for each calendar quarter in which it is “required to deduct and withhold” income taxes. A church with a minister as its only employee is not required to withhold income taxes because a minister’s wages are exempt from income tax withholding. Therefore there is no need for a church with a minister as its only employee to file Form 941 if the minister has not elected voluntary withholding. Issuing the minister a Form W-2 without filing a quarterly Form 941 will present an apparent discrepancy that may trigger an IRS inquiry, but submitting a Form 941 reporting a minister’s wages with no withholdings for Social Security or Medicare taxes will also raise questions. In either case, the apparent discrepancy can be easily explained.

Step 10. Prepare a Form W-2 for all employees, including ministers, on the church staff

A church reports each employee’s wages and amounts withheld for income taxes on Form W-2. For non-minister employees, the church also reports amounts withheld for Social Security and Medicare (FICA) taxes. If a minister enters into a voluntary withholding agreement with the church, the church will report the amount withheld as income taxes. The church cannot report a minister’s wages as being subject to Social Security and Medicare (FICA) taxes. For ministers who report wages and income taxes as an “employee,” the church does not include the portion of salary designated as minister’s housing allowance in Box 1 “wages” on the Form W-2. A church should provide triplicate copies of Form W-2 directly to employees before February 1 of the following year, and submit Copy A of Forms W-2 to the Social Security Administration before March 1 (along with a Form W-3 transmittal form). The due date for electronic filing is March 31.

☞ **Key Point.** If your employees give their consent, you may be able to furnish Copies B, C, and 2 of Forms W-2 to your employees electronically. See IRS Publication 15-A for additional information. If you file your 2007 Forms W-2 with the Social Security Administration (SSA) electronically, the due date is extended to March 31, 2008. For information on how to file electronically, call the SSA at 1-800-772-6270. You may file a limited

number of Forms W-2 and W-3 online using the SSA Web site at www.ssa.gov/employer. The site also allows you to print copies of the forms to file with state or local governments, to distribute to your employees, and to keep for your records.

☞ **Key Point.** Be sure to add cents to all amounts. Make all dollar entries without a dollar sign and comma, but with a decimal point and cents. For example, \$1,000 should read “1000.00.” Government scanning equipment assumes that the last two figures of any amount are cents. If \$40,000 of income were reported as “40000,” the scanning equipment would interpret this as 400.00 (\$400).

You may need some assistance with some of the boxes on the Form W-2. You will find the IRS 2007 Form W-2 Wage and Tax Statement instructions to be helpful, but also consider the following:

Box a. Nothing goes here. If you wish, use this box to assign your own codes to individual W-2 forms.

Box b. Insert the church’s federal employer identification number (EIN). This is a nine-digit number that is assigned by the IRS. If the church does not have one, obtain one by submitting a completed Form SS-4 to the IRS. You also can order an EIN by phone or fax using the Tele-TIN or Fax-TIN phone numbers available on the IRS Web site, www.irs.gov.

Some churches have more than one EIN. For example, a church may operate a private school with its own EIN. Be sure to use the correct EIN on each employee’s Form W-2.

Box c. Enter the church’s name, address, and ZIP Code.

Box d. Enter the employee’s Social Security number.

Boxes e and f. Enter the employee’s name, address, and ZIP Code.

Box 1. Report all wages paid to workers who are treated as employees for federal income tax reporting purposes. This includes:

- Bonuses.
- The cost of sending a minister to the Holy Land (if paid by the church).
- Most Christmas and special occasion offerings (including love offerings).
- Retirement gifts.
- The portion of a minister’s Social Security tax paid by a church as an offset.
- The personal use of a church-provided car.
- Purchases of church property for less than fair market value.
- Reimbursements the church made for the minister’s moving expenses paid directly to the minister (but not if the minister substantiated the reimbursed expenses under an accountable arrangement).

- Imputed cost of group term life insurance coverage exceeding \$50,000, and the imputed cost of coverage for the employee's spouse and dependents over \$2,000 which is paid by the employer.
- Church reimbursements of a spouse's travel expenses incurred while accompanying a minister on a business trip represent income unless the spouse's presence serves a legitimate business purpose and the spouse's expenses are reimbursed under an accountable arrangement.
- "Discretionary funds" that are created by the church for the pastor to spend as he sees fit if the pastor has the authority to disburse funds directly to himself.
- A "below-market interest loan" made by a church to a minister greater than \$10,000 creates taxable income to the minister.
- Cancellation or forgiveness of a minister's debt to the church.
- Severance pay.
- Payment of a minister's personal expenses by the church.
- Business expense reimbursements paid under a "non-accountable plan." A non-accountable business expense reimbursement arrangement is one that does not require substantiation of business expenses, or does not require excess reimbursements to be returned to the church, or that reimburses expenses out of salary reductions. These reimbursements are subject to income tax and Social Security and Medicare withholding if paid to non-minister employees.
- Reimbursed employee travel expenses under an accountable plan using a "per diem" rate that is above the IRS-approved per diem rates. To report this in Box 1, include the amount by which the worker's per diem rate reimbursements for the year exceed the IRS-approved per diem rates. Refer to IRS Publications 463 and 1542 for more information. Also note that such reimbursements are subject to income tax, Social Security and Medicare withholding if paid to non-minister employees and are reportable in Boxes 3 and 5 on the Form W-2.
- Reimbursed employee travel expenses under an accountable plan using a standard mileage rate in excess of the IRS-approved rate. The standard mileage rate for business miles was 48.5 cents per mile for business miles driven during 2007. The standard business mileage rate for 2008 is 50.5 cents per mile for all miles used for business purposes.

To report this, include in Box 1 the amount by which the worker's standard mileage rate reimbursements for the year exceeded the IRS-approved rate. Also note that such reimbursements are subject to income tax and Social Security and Medicare withholding if paid to non-minister employees.

For ministers who report their income taxes as employees, do not report the fair rental value of a parsonage, and do not report any portion of a minister's compensation that was

designated in advance as a housing allowance by the church. Contributions to a 403(b) retirement plan through a salary reduction agreement are not reported. If there is a deferred compensation arrangement with GuideStone, GuideStone will issue the appropriate Form W-2 for amounts distributed.

- ! **Caution.** Taxable fringe benefits not reported as income in Box 1 may constitute an automatic excess benefit transaction exposing the recipient, and members of the church board, to "intermediate sanctions" in the form of substantial excise taxes.

Box 2. List all federal income taxes withheld from the employee's wages. The amounts reported in this box for all employees should correspond to the total amount of withheld income taxes reported quarterly on Form 941.

Box 3. Report a non-minister employee's wages subject to the "Social Security" component (the 6.2% rate) of FICA taxes. Box 3 should not list more than the maximum wage base for the Social Security component of FICA taxes (\$97,500 for 2007 and \$102,000 for 2008). This box usually will be the same as Box 1, but not always. For example, contributions to a 403(b) plan by a salary reduction agreement may be excludable from income and not reportable in Box 1. However, for non-minister employees, the contributions are subject to FICA taxes and accordingly they represent Social Security and Medicare wages. Remember, all ministers for tax purposes (including those who report their income taxes as employees) are considered to be self-employed for Social Security purposes. They pay self-employment (SECA) tax, not the employee's share of Social Security and Medicare (FICA) taxes. Boxes 3 through 6 should be left blank for ministers for tax purposes.

Box 4. Report the "Social Security" component (6.2%) of FICA taxes that were withheld from the non-minister employee's wages. This tax is imposed on all wages up to a maximum of \$97,500 in 2007 and \$102,000 for 2008. Do not report the church's portion (the "employer's share") of Social Security and Medicare (FICA) taxes.

Box 5. Report a non-minister employee's current and deferred (if any) wages subject to the Medicare component (1.45%) of FICA taxes. In other words, report the employee's total wages, regardless of the amount. There is no ceiling. For most workers (earning less than \$97,500 in 2007 or \$102,000 in 2008 — the maximum amount of wages subject to the Social Security tax), Boxes 3 and 5 should show the same amount. If the church paid more than \$97,500 to a non-minister employee in 2007, Box 3 should show \$97,500 and Box 5 should show the full amount of wages paid. For this purpose, wages include current and deferred compensation such as deferrals to a 125 plan, 403(b) plan and an unfunded deferred compensation plan, if any.

Box 6. Report the Medicare component (1.45%) of FICA taxes that the church withheld from the non-minister employee's wages. This tax is imposed on all wages, current and deferred (if any), regardless of amount.

Box 10. Show the total dependent care benefits under a dependent care assistance program (section 129) paid or incurred by you for your employee. Include the fair market value of employer-provided day care facilities and amounts paid or incurred in a section 125 cafeteria plan. Report all amounts paid or incurred including those in excess of the \$5,000 exclusion. Include any amounts over \$5,000 in boxes 1, 3, and 5. For more information, see IRS Publications 15-A and 15-B.

Box 11. This box is used to report distributions to an employee from a non-qualified deferred compensation plan, known as a 457 plan. Churches are not eligible to offer these plans and should not complete this box.

Box 12. Insert the appropriate code and dollar amount in this box. Insert the code letter followed by a space and then insert the dollar amount on the same line within the box. Do not enter more than four codes in this box on Copy A. If more are needed, use another Form W-2. Use capital letters for the codes, and remember not to use dollar signs or commas. Report the IRS code to the left of the vertical line in Boxes 12a – d and money to the right of the vertical line. For example, to report a \$3,000 contribution to a section 403(b) plan report "E 3000.00" in this box. The codes are as follows:

A, B — Not applicable to church employees.

C — The church provided the church employee with more than \$50,000 of group term life insurance. Report the imputed cost of coverage in excess of \$50,000. It should also be included in Box 1 (and in Boxes 3 and 5 for non-minister employees). Also include the imputed cost of coverage for a spouse and dependents provided by the church with a face amount greater than \$2,000.

D — Generally not applicable to churches.

E — The church made contributions to a 403(b) plan pursuant to a "salary reduction agreement" on behalf of the church employee. Report the amount of the contributions. While this amount ordinarily is not reported in Box 1, it is included in Boxes 3 and 5 for non-minister employees since they are subject to Social Security and Medicare (FICA) taxes.

F, G, H — Generally not applicable to churches.

J — The church reports sick pay. Show the amount of any sick pay that is not includible in the employee's income because he or she contributed to the sick pay plan.

K — Generally not applicable to churches.

L — The church reimbursed the minister or church employee for ministry-related business expenses using the standard mileage rate or the per diem rates, and the amount

reimbursed exceeded the amounts allowed under these methods. Enter code "L" in Box 12, followed by the amount of the reimbursements that equal the allowable standard mileage or per diem rates. Any excess should be included in Box 1. For non-minister employees, report the excess in Boxes 3 and 5 as well. Do not include any per diem or mileage allowance reimbursements for employee business expenses in Box 12 if the total reimbursements are less than or equal to the amount deemed substantiated under the IRS-approved standard mileage rate or per diem rates.

M, N — Generally not applicable to churches.

P — The church paid qualified moving expenses reimbursements directly to a church employee. Report the amount of these reimbursements under a non-accountable arrangement. Do not report reimbursements of qualified moving expenses that were paid directly to a third party on behalf of the church employee (for example, to a moving company) or reimbursements made under an accountable plan.

R — Generally not applicable to churches. If a church contributes to an Archer MSA, see IRS Publication 969 for more information.

S — Report employee salary reduction contributions to a SIMPLE retirement account. However, if the SIMPLE account is part of a 401(k) plan, use code D. This does not apply to a 403(b) plan available through GuideStone.

T — Report amounts paid (or expenses incurred) by the church for qualified adoption expenses furnished to an employee under an adoption assistance program.

V — Not applicable to church employees.

W — Report employer contributions to a health savings account (HSA).

Y — Report deferrals under a section 409A nonqualified deferred compensation plan (such as most "rabbi trusts"). Any earnings during the year on deferrals must also be reported here. Note: the IRS provided relief for this reporting for 2007.

Z — Report income under section 409A on a nonqualified deferred compensation plan that was included in box 1 because the plan failed to meet the requirements of section 409A.

AA—Report designated Roth contributions to a section 401(k) plan. Do not use this code to report elective deferrals under code D.

BB—Report designated Roth contributions under a section 403(b) salary reduction agreement. Do not use this code to report elective deferrals under code E.

Box 13. Check the appropriate box.

- Statutory employee. Churches rarely if ever have statutory employees. These include certain drivers, insurance agents, and salespersons.

- Retirement plan. Check this box if the employee was an active participant (for any part of the year) in any of the following: (1) a qualified pension, profit-sharing, or stock bonus plan described in section 401(a) (including a 401(k) plan); (2) an annuity contract or custodial account described in section 403(b); (3) a simplified employee pension (SEP) plan; or (4) a SIMPLE retirement account.
- Third party sick pay. Churches generally will not check this box.

Box 14. The lease value of a vehicle provided to your employee and reported in Box 1 must be reported here or in a separate statement to your employee. Otherwise, this box is optional. Use it to provide information to the church employee. Some churches report a church-designated housing allowance in this box (for ministers who report their income taxes as employees). The IRS uses Box 14 for this purpose in a comprehensive minister tax example in the current edition of its Publication 517, but this is not a requirement.

The IRS has provided some suggestions to reduce the discrepancies between amounts reported on Forms W-2, W-3, and Form 941. First, be sure the amounts on Form W-3 are the total amounts from Forms W-2. Second, reconcile Form W-3 with your four quarterly Form 941 reports by comparing amounts reported for: (1) Income tax withholding (Box 2); (2) Social Security and Medicare wages (Boxes 3 and 5); and (3) Social Security and Medicare taxes (Boxes 4 and 6). Form W-3 should include Form 941 adjustments only for the current year. The amounts shown on the four quarterly Forms 941 for Social Security and Medicare taxes, including current year adjustments, should be approximately twice the amounts shown on Form W-3. Amounts reported on Forms W-2, W-3 and 941 may not match for valid reasons. If they do not match, you should determine that the reasons are valid. Keep your reconciliation in case there are inquiries from the IRS or the SSA.

Step 11. Prepare a Form 1099-MISC for every self-employed person receiving non-employee compensation of \$600 or more

If a minister reports his federal income taxes as a self-employed person, then the church must issue the minister a Form 1099-MISC before Feb. 1 of the following year, and submit a copy to the IRS before March 1 (along with a Form 1096 transmittal form). This same requirement applies to any non-employee to whom the church pays non-employee compensation of \$600 or more during the year. Travel expense reimbursements paid to a self-employed person under an accountable reimbursement plan do not count toward the \$600 figure. For example, if an evangelist or guest speaker visited a church in 2007 and received \$600 or more in compensation from the church (net of any travel expense reimbursement under an accountable reimbursement plan), the church must

issue the person a Form 1099-MISC before Feb. 1, 2008.

The same rule applies to other non-employees, including some part-time custodians, and to certain self-employed people who perform miscellaneous services for the church such as plumbers, carpenters and lawn maintenance workers. Exceptions apply. For example, a church generally does not need to issue a Form 1099-MISC to a corporation or to a person who will be receiving a Form W-2 for services rendered to the church.

A church needs the name, address and Social Security number of an individual before it can issue a Form 1099-MISC. Churches should obtain this information at the time of the person's visit, since it often can be difficult to obtain the necessary information later. Use IRS Form W-9 to obtain this information. If a self-employed person paid \$600 or more during a year by a church refuses to provide his or her Social Security number, the church may be required to withhold 28% of the person's total compensation as backup withholding. See Steps 2 and 3, above.

Reporting group term life insurance

Include in the income of church employees the imputed cost of group-term life insurance paid for by the church for coverage in excess of \$50,000. Also, if the church provides group term life insurance on the life of a spouse or dependent that exceeds \$2,000, include the imputed cost of that coverage. The imputed cost can be determined with the following table.

Cost per \$1,000 of protection for 1-month period

Age Brackets	Cost
Under 25	5 cents
25-29	6 cents
30-34	8 cents
35-39	9 cents
40-44	10 cents
45-49	15 cents
50-54	23 cents
55-59	43 cents
60-64	66 cents
65-69	\$1.27
70 and above	\$2.06

Example. Church A pays the premiums on a \$70,000 group term insurance policy on the life of Pastor B with B's wife as beneficiary. Pastor B is 29 years old. Church A also pays the premium for \$5,000 in group term life insurance for Pastor B's wife who is 30 years old. The church would have to report \$21.90 as the imputed cost of the insurance provided to Pastor B and his wife. This amount is computed as follows: (1) For Pastor B, the table shows the "cost" per month for each \$1,000 of group term life insurance in excess of \$50,000. To compute the cost for Pastor B, take 6 cents x 12 months = 72 cents x 20 (corresponding to \$20,000 of group term insurance in excess of \$50,000) = \$14.40. (2) In addition, the cost of the entire \$5,000 of insurance provided to Pastor B's wife would have to be computed. Take 8 cents x 12 months = 96 cents x 5 = \$4.80. Combine this amount with the cost of Pastor B's excess insurance to obtain the taxable amount of \$19.20.

Need help completing a Form W-2, W-3, 1099 or 1096?

The IRS operates a centralized call site to answer questions about reporting information on these forms. If you have any questions about completing these forms, call the IRS toll free at 1-866-455-7438, Monday through Friday, 8:30 a.m. to 4:30 p.m. EST.

Other federal requirements for churches

Form I-9

All employers are responsible for verifying the identity and eligibility of employees to work in the United States if those employees were hired after Nov. 6, 1986. As employers, churches must complete an Employment Eligibility Verification form for each new employee. This form is better known as Form I-9.

Form I-9 is not an IRS form and is not filed with any government agency. However, it is important for churches to be familiar with this form because they can be assessed fines for failing to comply with the requirements summarized below.

In 2007, the U.S. Citizenship and Immigration Services (USCIS) of the Department of Homeland Security released an updated Form I-9. Be sure to use the current form rather than the previous form. The new Form I-9 contains a number of changes, including the following: (1) five documents were removed from List A (documents establishing identity and employment eligibility), and one document was added; (2) all employment authorization documents with photographs have been consolidated as

one item on List A; (3) the Form I-9 instructions now indicate that the employee is not required to provide his or her Social Security number in Section 1 of the Form I-9, unless he or she is employed by an employer who participates in E-Verify; (4) employers may now sign and retain Forms I-9 electronically.

Churches should:

- Ensure that each new employee completes Section 1 of the Form I-9 at the time of the hire. Review the employee's documents and fully complete Section 2 of the Form I-9 within 3 business days of the hire. Collect a Form I-9 for all employees, including ministers, hired after Nov. 6, 1986, even if the church has no doubt that someone is a U.S. citizen. An employee signs part of the form and the employer signs part of the form. The form's instructions list documents employees may show to verify their identity and eligibility to work in the United States.
- Review the USCIS Web site for instructions that will assist you in completing the Form I-9. You can also download Form I-9 from the USCIS Web site.
- Collect forms from new employees only, not from all applicants. When extending job offers, churches should clarify that employment is conditioned on completion of a Form I-9. Employers should remind new employees to bring their documents the first day of work. Forms should be completed no later than the end of the employee's third day at work.
- Accept documents that appear to be genuine and relate to the employee. If churches act reasonably when deciding that a document is genuine, they will not be held responsible for a mistake. Churches may keep photocopies of original identification and verification documents with each employee form. This is not required by law but may be helpful in case there is ever a question about whether a document was genuine.
- Keep each Form I-9 for at least three years. If a church employs a person for more than three years, the church must retain the form until one year after the person leaves employment. Forms should be kept confidential.
- Upon request, show completed forms to authorized officials of the Bureau of Immigration and Customs Enforcement, Department of Labor or the Justice Department's Office of Special Counsel for Unfair Immigration-Related Employment Practices. Officials will give three days notice before inspection.

Annual certification of racial nondiscrimination

Churches that operate, supervise or control a private school must file a certificate of racial nondiscrimination (Form 5578) each year with the IRS. The certificate is due by the 15th day of the fifth month following the end of the organization's fiscal year. This is May 15th of the following year for organizations that operate on a calendar year basis. This means that the Form 5578

for 2007 is due May 15, 2008. A “private school” is defined as an educational organization that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly conducted. The term includes primary, secondary, preparatory or high schools, and colleges and universities, whether operated as a separate legal entity or an activity of a church.

Key Point. The term “school” also includes preschools, and this makes the reporting requirement relevant for many churches. As many as 25% of all churches operate a preschool program. Private religious schools that are not affiliated with or controlled by a church also must file the form.

Form 5578 is easy to complete. A church official simply identifies the church and the school, and certifies that the school has “satisfied the applicable requirements of sections 4.01 through 4.05 of Revenue Procedure 75-50.” This reference is to the following requirements:

- The school has a statement of its racially nondiscriminatory policy toward students in all its brochures and catalogs dealing with student admissions, programs, and scholarships.
- The school makes its racially nondiscriminatory policy known to all segments of the general community served by the school through the publication of a notice of its racially nondiscriminatory policy at least annually in a newspaper of general circulation or through utilization of the broadcast media. However, this notice is not required if one or more exceptions apply. These include:
 1. During the preceding three years, the enrollment consists of students at least 75% of whom are members of the sponsoring church or religious denomination and the school publicizes its nondiscriminatory policy in religious periodicals distributed in the community;
 2. The school draws its students from local communities and follows a racially nondiscriminatory policy toward students and demonstrates that it follows a racially nondiscriminatory policy by showing that it currently enrolls students of racial minority groups in meaningful numbers. The school can demonstrate that all scholarships or other comparable benefits are offered on a racially nondiscriminatory basis.

Filing the certificate of racial nondiscrimination is one of the most commonly ignored federal reporting requirements. Find Form 5578 on the IRS Web site, www.irs.gov, or call the IRS forms number, 1-800-829-3676.

Charitable contribution substantiation rules

Several important rules apply to the substantiation of charitable contributions, including the following:

Cash contributions. The Pension Protection Act of 2006 amended the tax code to require all cash contributions, regardless of amount, to be substantiated by either a bank record (such as a canceled check) or a written communication from the charity showing the name of the charity, the date of the contribution, and the amount of the contribution. The recordkeeping requirements may not be satisfied by maintaining other written records. In the past, donors could substantiate cash contributions of less than \$250 with “other reliable written records showing the name of the charity, the date of the contribution, and the amount of the contribution” if no canceled check or receipt was available. This is no longer allowed. As noted below, additional substantiation requirements apply to contributions (of cash or property) of \$250 or more, and these must be satisfied as well.

Substantiation of contributions of \$250 or more. Donors will not be allowed a tax deduction for any individual cash (or property) contribution of \$250 or more unless they receive a written acknowledgment from the church that satisfies the following requirements:

- The receipt must be in writing.
- The receipt must identify the donor by name (a Social Security number is not required).
- For contributions of property (not including cash) valued by the donor at \$250 or more, the receipt must describe the property. No value should be stated.
- The receipt must state whether or not the church provided any goods or services to the donor in exchange for the contribution, and if so, the receipt must include a good faith estimate of the value of those goods or services.
- If the church provides no goods or services to a donor in exchange for a contribution, or if the only goods or services the church provides are “intangible religious benefits,” then the receipt must contain a statement to that effect.
- The written acknowledgment must be received by the donor on or before the earlier of the following two dates: (1) the date the donor files a tax return claiming a deduction for the contribution, or (2) the due date (including extensions) for filing the return.

Quid pro quo contributions of more than \$75. If a donor makes a “quid pro quo” contribution of more than \$75 (that is, a payment that is partly a contribution and partly a payment for goods or services received in exchange), the church must provide a written statement to the donor that satisfies two conditions:

- The statement must inform the donor that the amount of the contribution that is tax-deductible is limited to the

excess of the amount of any money (or the value of any property other than money) contributed by the donor over the value of any goods or services provided by the church or other charity in return.

- The statement must provide the donor with a good faith estimate of the value of the goods or services furnished to the donor.

A written statement need not be issued if only “token” goods or services are provided to the donor (generally, with a value not exceeding the lesser of \$89 or 2% of the amount of the contribution). The rules do not apply to contributions in return for which the donor receives solely an intangible religious benefit that generally is not sold in a commercial context outside the donative context.

Gifts of property. Several additional rules apply to the substantiation of contributions of noncash property valued by the donor at \$500 or more. Donors who claim a deduction over \$500 but not over \$5,000 for a noncash charitable contribution must retain certain records and complete the front side (Section A, Part I, and Part II if applicable) of IRS Form 8283 and enclose the completed form with the Form 1040 on which the charitable contribution is claimed.

For contributions of most types of noncash property valued by the donor at more than \$5,000, the donor must obtain a qualified appraisal of the donated property from a qualified appraiser and complete a qualified appraisal summary (Section B of Form 8283) and have the summary signed by the appraiser and a church representative. The completed Form 8283 is then enclosed with the Form 1040 on which the charitable contribution deduction is claimed.

Special rules apply to donations of cars, boats, and planes valued by the donor at more than \$500. The church must provide the donor with a written acknowledgment, and send a Form 1098-C to the IRS containing required information about the donation. The Form 1098-C can be used as the written acknowledgment that must be issued to a donor. See the instructions to Form 1098-C for more information.

Appendix A

List of frequently used IRS forms and schedules

Form W-4	Employee's Withholding Allowance Certificate
Form 709	U.S. Gift (and Generation-Skipping Transfer) Tax Return
Form 1040	U.S. Individual Income Tax Return
Schedule A&B	Itemized Deductions & Interest and Ordinary Dividends
Schedule C	Profit or Loss From Business (Sole Proprietorship)
Schedule C-EZ	Net Profit From Business (Sole Proprietorship)
Schedule D	Capital Gains and Losses
Schedule E	Supplemental Income and Loss
Schedule EIC	Earned Income Credit
Schedule R	Credit for the Elderly or the Disabled
Schedule SE	Self-Employment Tax
Form 1040-ES	Estimated Tax for Individuals
Form 1040-X	Amended U.S. Individual Income Tax Return
Form 2106	Employee Business Expenses
Form 2106-EZ	Unreimbursed Employee Business Expenses
Form 2210	Underpayment of Estimated Tax by Individuals, Estates, and Trusts
Form 2441	Child and Dependent Care Expenses
Form 2688	Application for Additional Extension of Time to File U.S. Individual Income Tax Return
Form 3903	Moving Expenses
Form 4562	Depreciation and Amortization
Form 4684	Casualties and Thefts
Form 4797	Sales of Business Property
Form 4868	Application for Automatic Extension of Time to File U.S. Individual Income Tax Return
Form 5329	Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
Form 5695	Residential Energy Credits
Form 6251	Alternative Minimum Tax — Individuals
Form 8283	Noncash Charitable Contributions
Form 8606	Nondeductible IRAs
Form 8812	Additional Child Tax Credit
Form 8829	Expenses for Business Use of Your Home
Form 8834	Qualified Electric Vehicle Credit
Form 8839	Qualified Adoption Expenses
Form 8863	Education Credits (Hope and Lifetime Learning Credits)
Form 8880	Credit for Qualified Retirement Savings Contributions

Appendix B

From IRS instructions for Form 1040, tax year 2007

Line 32

IRA Deduction



If you made any nondeductible contributions to a traditional individual retirement arrangement (IRA) for 2007, you must report them on Form 8606.

If you made contributions to a traditional IRA for 2007, you may be able to take an IRA deduction. But you, or your spouse if filing a joint return, must have had earned income to do so. For IRA purposes, earned income includes alimony and separate maintenance payments reported on line 11. If you were a member of the U.S. Armed Forces, earned income includes any nontaxable combat pay you received. If you were self-employed, earned income is generally your net earnings from self-employment if your personal services were a material income-producing factor. For more details, see Pub. 590. A statement should be sent to you by May 31, 2008, that shows all contributions to your traditional IRA for 2007.

Use the worksheet on pages 28 and 29 to figure the amount, if any, of your IRA deduction. But read the following list before you fill in the worksheet.

1. If you were age 70½ or older at the end of 2007, you cannot deduct any contributions made to your traditional IRA for 2007 or treat them as nondeductible contributions.

2. You cannot deduct contributions to a Roth IRA. But you may be able to take the retirement savings contributions credit (saver's credit). See the instructions for line 53 on page 41.



If you are filing a joint return and you or your spouse made contributions to both a traditional IRA and a Roth IRA for 2007, do not use the worksheet on pages 28 and 29. Instead, see Pub. 590 to figure the amount, if any, of your IRA deduction.

3. You cannot deduct elective deferrals to a 401(k) plan, section 457 plan, SIMPLE plan, or the federal Thrift Savings Plan. These amounts are not included as income in box 1 of your Form W-2. But you may be able to take the retirement savings contributions credit. See the instructions for line 53 on page 41.

4. If you made contributions to your IRA in 2007 that you deducted for 2006, do not include them in the worksheet.

5. If you received income from a non-qualified deferred compensation plan or

nongovernmental section 457 plan that is included in box 1 of your Form W-2, or in box 7 of Form 1099-MISC, do not include that income on line 8 of the worksheet. The income should be shown in (a) box 11 of your Form W-2, (b) box 12 of your Form W-2 with code Z, or (c) box 15b of Form 1099-MISC. If it is not, contact your employer or the payer for the amount of the income.

6. You must file a joint return to deduct contributions to your spouse's IRA. Enter the total IRA deduction for you and your spouse on line 32.

7. Do not include qualified rollover contributions in figuring your deduction. Instead, see the instructions for lines 15a and 15b that begin on page 21.

8. Do not include trustees' fees that were billed separately and paid by you for your IRA. These fees can be deducted only as an itemized deduction on Schedule A.

9. Do not include any repayments of qualified reservist distributions. You cannot deduct them. For information on how to report these repayments, see *Qualified reservist repayments* in Pub. 590.

10. If the total of your IRA deduction on line 32 plus any nondeductible contribution to your traditional IRAs shown on Form 8606 is less than your total traditional IRA contributions for 2007, see Pub. 590 for special rules.

11. You may be able to deduct up to an additional \$3,000 if all the following conditions are met.

a. You must have been a participant in a 401(k) plan under which the employer matched at least 50% of your contributions to the plan with stock of the company.

b. You must have been a participant in the 401(k) plan 6 months before the employer filed for bankruptcy.

c. The employer (or a controlling corporation) must have been a debtor in a bankruptcy case in an earlier year.

d. The employer (or any other person) must have been subject to indictment or conviction based on business transactions related to the bankruptcy.

If this applies to you, do not use the worksheet on pages 28 and 29. Instead, use the worksheet in Pub. 590.



By April 1 of the year after the year in which you turn age 70½, you must start taking minimum required distributions from your traditional IRA. If you do not, you may have to pay a 50% additional tax on the amount that should have been distributed. For details, including how to figure the minimum required distribution, see Pub. 590.


Were You Covered by a Retirement Plan?

If you were covered by a retirement plan (qualified pension, profit-sharing (including 401(k)), annuity, SEP, SIMPLE, etc.) at work or through self-employment, your IRA deduction may be reduced or eliminated. But you can still make contributions to an IRA even if you cannot deduct them.

Appendix C

From IRS instructions for Form 1040, tax year 2007


IRA Deduction Worksheet—Line 32

Keep for Your Records 




If you were age 70½ or older at the end of 2007, you cannot deduct any contributions made to your traditional IRA or treat them as nondeductible contributions. **Do not** complete this worksheet for anyone age 70½ or older at the end of 2007. If you are married filing jointly and only one spouse was under age 70½ at the end of 2007, complete this worksheet only for that spouse.

Before you begin: ✓ Be sure you have read the list on page 27. You may not be eligible to use this worksheet.
 ✓ Figure any write-in adjustments to be entered on the dotted line next to line 36 (see the instructions for line 36 on page 31).

	Your IRA	Spouse's IRA
1a. Were you covered by a retirement plan (see above)?	1a. <input type="checkbox"/> Yes <input type="checkbox"/> No	
1b. If married filing jointly, was your spouse covered by a retirement plan?		1b. <input type="checkbox"/> Yes <input type="checkbox"/> No
<p>Next. If you checked "No" on line 1a (and "No" on line 1b if married filing jointly), skip lines 2 through 6, enter the applicable amount below on line 7a (and line 7b if applicable), and go to line 8.</p> <ul style="list-style-type: none"> • \$4,000, if under age 50 at the end of 2007. • \$5,000, if age 50 or older but under age 70½ at the end of 2007. <p>Otherwise, go to line 2.</p>		
2. Enter the amount shown below that applies to you.		
<ul style="list-style-type: none"> • Single, head of household, or married filing separately and you lived apart from your spouse for all of 2007, enter \$62,000 • Qualifying widow(er), enter \$103,000 • Married filing jointly, enter \$103,000 in both columns. But if you checked "No" on either line 1a or 1b, enter \$166,000 for the person who was not covered by a plan • Married filing separately and you lived with your spouse at any time in 2007, enter \$10,000 	2a. _____	2b. _____
3. Enter the amount from Form 1040, line 22	3. _____	
4. Enter the total of the amounts from Form 1040, lines 23 through 31a, plus any write-in adjustments you entered on the dotted line next to line 36	4. _____	
5. Subtract line 4 from line 3. If married filing jointly, enter the result in both columns	5a. _____	5b. _____
6. Is the amount on line 5 less than the amount on line 2?		
<input type="checkbox"/> No.  None of your IRA contributions are deductible. For details on nondeductible IRA contributions, see Form 8606.		
<input type="checkbox"/> Yes. Subtract line 5 from line 2 in each column. Follow the instruction below that applies to you.		
<ul style="list-style-type: none"> • If single, head of household, or married filing separately, and the result is \$10,000 or more, enter the applicable amount below on line 7 for that column and go to line 8. <ul style="list-style-type: none"> i. \$4,000, if under age 50 at the end of 2007. ii. \$5,000, if age 50 or older but under age 70½ at the end of 2007. <p>Otherwise, go to line 7.</p> • If married filing jointly or qualifying widow(er), and the result is \$20,000 or more (\$10,000 or more in the column for the IRA of a person who was not covered by a retirement plan), enter the applicable amount below on line 7 for that column and go to line 8. <ul style="list-style-type: none"> i. \$4,000, if under age 50 at the end of 2007. ii. \$5,000 if age 50 or older but under age 70½ at the end of 2007. <p>Otherwise, go to line 7.</p> 	6a. _____	6b. _____

Continued on next page

IRA Deduction Worksheet—Line 32 (continued)

	Your IRA	Spouse's IRA
<p>7. Multiply lines 6a and 6b by the percentage below that applies to you. If the result is not a multiple of \$10, increase it to the next multiple of \$10 (for example, increase \$490.30 to \$500). If the result is \$200 or more, enter the result. But if it is less than \$200, enter \$200.</p> <ul style="list-style-type: none"> • Single, head of household, or married filing separately, multiply by 40% (.40)(or by 50% (.50) in the column for the IRA of a person who is age 50 or older at the end of 2007) • Married filing jointly or qualifying widow(er), multiply by 20% (.20) (or by 25% (.25) in the column for the IRA of a person who is age 50 or older at the end of 2007). But if you checked "No" on either line 1a or 1b, then in the column for the IRA of the person who was not covered by a retirement plan, multiply by 40% (.40) (or by 50% (.50) if age 50 or older at the end of 2007) 	7a. _____	7b. _____
<p>8. Enter the total of your (and your spouse's if filing jointly):</p> <ul style="list-style-type: none"> • Wages, salaries, tips, etc. Generally, this is the amount reported in box 1 of Form W-2. See page 27 for exceptions • Alimony and separate maintenance payments reported on Form 1040, line 11 • Nontaxable combat pay. This amount should be reported in box 12 of Form W-2 with code Q 	8. _____	
<p>9. Enter the earned income you (and your spouse if filing jointly) received as a self-employed individual or a partner. Generally, this is your (and your spouse's if filing jointly) net earnings from self-employment if your personal services were a material income-producing factor, minus any deductions on Form 1040, lines 27 and 28. If zero or less, enter -0-. For more details, see Pub. 590</p>	9. _____	
<p>10. Add lines 8 and 9</p>	10. _____	
<p> <i>If married filing jointly and line 10 is less than \$8,000 (\$9,000 if one spouse is age 50 or older at the end of 2007; \$10,000 if both spouses are age 50 or older at the end of 2007), stop here and see Pub. 590 to figure your IRA deduction.</i></p>		
<p>11. Enter traditional IRA contributions made, or that will be made by April 15, 2008, for 2007 to your IRA on line 11a and to your spouse's IRA on line 11b</p>	11a. _____	11b. _____
<p>12. On line 12a, enter the smallest of line 7a, 10, or 11a. On line 12b, enter the smallest of line 7b, 10, or 11b. This is the most you can deduct. Add the amounts on lines 12a and 12b and enter the total on Form 1040, line 32. Or, if you want, you can deduct a smaller amount and treat the rest as a nondeductible contribution (see Form 8606)</p>	12a. _____	12b. _____

Helpful numbers

Internal Revenue Service

Forms and publications: 1-800-TAX-FORM (1-800-829-3676)

Other questions: 1-800-829-1040

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