

Orthodox Union

Synagogue Tax and Financial Matters

Presented By:

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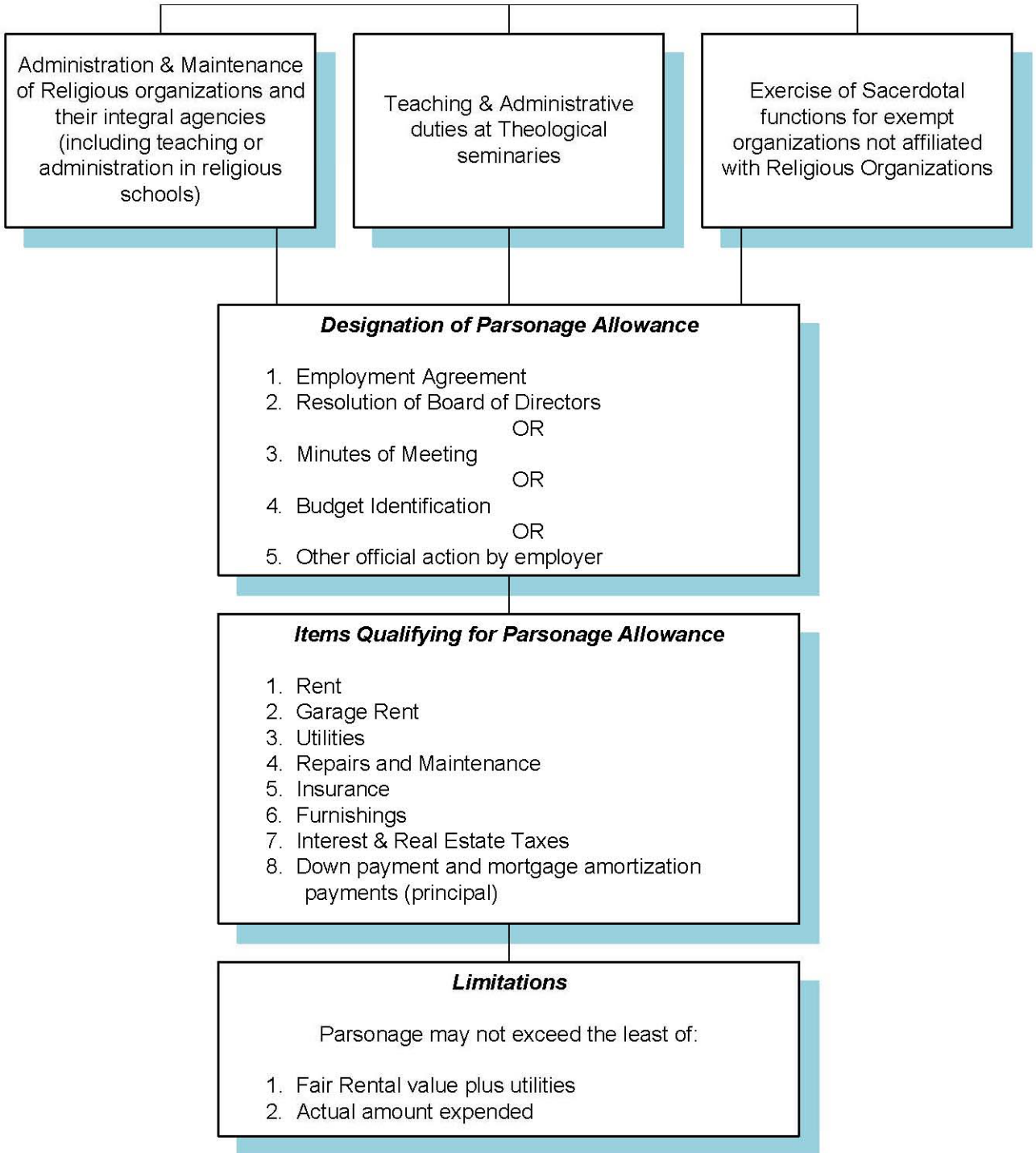
Wednesday , February 1, 2012



Parsonage Allowance

- In order for a parsonage allowance to be non-taxable, several requirements must be met. The "church" must officially identify the amount of the parsonage as a definite part of the minister's compensation, designated to be used by him to provide a home. It should be evidenced in the minutes of the governing board. The parsonage for each year
 - The parsonage allowance cannot exceed the fair rental value of the home plus the cost of utilities.
 - A minister is not automatically entitled to exclude the fair rental value plus the cost of utilities. He must actually spend that amount.
 - If the total amounts spent for mortgage amortization payments, interest, taxes, improvements, repairs, insurance and other allowable costs of providing a home are less than or equal to the fair rental value, then the minister can exclude only the amounts actually spent for these items plus the cost of utilities.

ELIGIBILITY FOR PARSONAGE



Taxation of Salaries

Gross Salary
(including Parsonage)
Up to Social Security
Maximum

Subject to Self
Employment
Tax
(Form SE)

LESS: PARSONAGE ALLOWANCE

Net Salary
(not including Parsonage)

Subject to
Income Tax

APPENDIX A
SUGGESTED PARSONAGE ALLOWANCE APPLICATION FORM

Name of Employer: _____

Name of Applicant: _____

Ordination or Certification Received from*: _____

Home Address: _____

My estimated housing expenses (plus utilities) for the [calendar year 20____] or [the school year _____, 20____ – _____, 20____] are as follows: \$ _____**

The above is an estimate of my anticipated housing expenses. Should my housing expenses change significantly during the course of the year, I will promptly notify my employer and submit a new parsonage allowance request form.

Signature of Applicant: _____

Printed Name of Applicant: _____

Date: _____

Approved by: _____
[Name and title of authorized officer]

Date: _____

*copy on file with the Employer

**Amount may not exceed fair rental value (for the calendar year) of the home, including furnishings and appurtenances, such as a garage, plus the cost of utilities.

APPENDIX B

SUGGESTED OFFICIAL DESIGNATION OF PARSONAGE ALLOWANCE

(A copy of this designation should be presented to the clergy upon completion.)

At a meeting of the Board of Directors of _____ (the "Organization"), duly convened with proper notice, the Chairman of the Board advised that under Section 107 of the Internal Revenue Code, a qualified member of the clergy is not subject to federal income tax on the rental allowance paid to him as part of his compensation, to the extent used by him to rent or provide a home. Since clergy _____ is duly ordained and engaged by the Organization to perform religious services as defined by the Internal Revenue Code and accompanying regulations, he is eligible to receive a designated housing allowance. After reviewing clergy _____'s application for such housing allowance, which lists his estimated housing expenses, the following motion was moved, seconded, and unanimously adopted:

Resolved, that \$ _____ is hereby designated as clergy _____'s annual parsonage allowance. Be it further resolved, that as long as clergy _____ continues as an employee of the Organization in good standing, that the above amount of designated housing allowance shall apply to all future years unless and until modified. Clergy _____, in his parsonage allowance application, has pledged to inform the Board of Directors of any significant changes in his monthly housing costs.

In witness whereof, I, the undersigned, Secretary of the Organization, hereby certify that the above resolution was duly adopted at a meeting of the Board of Directors duly convened on _____ (date).

Signature of Secretary

APPENDIX C

SUGGESTED LETTER TO CLERGY DESIGNATING PARSONAGE ALLOWANCE

Dear clergy _____,

Pursuant to your application for a housing allowance under Internal Revenue Code Sec. 107, the Board of Directors recently met and approved an annual housing allowance in the amount of \$ _____. Attached is the Board's official designation of your housing allowance.

This housing allowance is not reportable as taxable income on your federal tax return. However, you are required by the Internal Revenue Code to report it as self-employment income, and to pay self-employment tax accordingly. (Indeed, as a member of the clergy, you are required to pay self-employment tax — reportable on schedule SE of your tax return — on your entire salary, both your housing allowance and the rest of your salary. If you do not pay self-employment tax, you run the risk of substantial penalties if audited. Furthermore, you (or your family members) will not be able to receive the Social Security benefits to which you would otherwise have been entitled, since those benefits are based on what you paid in self-employment taxes.)

Should your housing costs change significantly during the course of your employment, please obtain a new parsonage allowance application from the office and submit it promptly.

Sincerely,

(Enclose a copy of Appendix B, the official designation of parsonage allowance)

APPENDIX D
HOUSING EXPENSES WORKSHEET
Calendar Year 20_____

Rent: _____

Mortgage Payments (principal and interest): _____

Down Payments and other costs of buying house: _____

Real Estate Taxes: _____

Homeowner's or renter's insurance: _____

Actual Cost of home improvements (new roof, room addition, pool, garage): _____

Maintenance and expenses: _____

Repair costs, including appliance repairs: _____

Utilities

- Electricity: _____
- Gas: _____
- Water: _____
- Sewer charges: _____
- Garbage and snow removal: _____
- Non-business phone line (base charge only): _____

Furniture Costs: _____

Appliances (including vacuum cleaner, garage door opener, lawn mower): _____

Household goods (dishes, cookware, linen, tools and supplies, cleaning supplies, light bulbs and fixtures): _____

Home decorations (carpets, curtains, paint, wallpaper, pictures, mirrors, etc.): _____

Lawn care: _____

Notes:

- The aggregate parsonage allowance may not exceed the fair market value of the home including furnishings (and garage) plus utilities. Excess amounts should be reported as income on your tax return.
- Only one home may be counted.
- All parsonage payments from all employers must be aggregated.
- Evidence of expenses should be kept in your files.
- Keep a copy of the formal approval of the parsonage amount. The approval must be made in advance of the receipt of the parsonage payment.
- Real estate taxes and interest on the mortgage may also be deducted on your Schedule A of Form 1040.
- Do not count maid service, labor, groceries, personal toiletries, clothing, toys, etc.

Qualified Tuition Reduction Plan

- Internal Revenue Code 117(d)(1)
- For educational institutions through college level
- Does not include graduate level
 - Exception for teaching and research assistants
- Allowable for tuition at the educational institution that employee is employed or at another educational institution

Qualified Tuition Reduction Plan

- Not a salary reduction
- Discrimination rules – Nondiscriminatory if “benefits available on substantially the same terms to each member of a group of employees which is defined under a reasonable classification... which does not discriminate in favor of highly compensated employees”
 - For 2012 – HCE \$115,000
- May cap total dollar benefit to each eligible employee or a cap per child

Qualified Tuition Reduction Plan

- Based on all of the facts and circumstances, the classification is reasonable and established under objective business criteria that identify the category of employees who benefit under the plan
 - Specified job categories, nature of compensation (i.e. salaried or hourly), geographic location, and other similar bona fide business criteria
 - Additional examples of reasonable classifications include classification based on such factors as seniority, full-time vs. part-time employment, or job description, provided that the classification is nondiscriminatory
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Voluntary Classification Settlement Program

- The Voluntary Classification Settlement Program (VCSP) is a voluntary program described in [Announcement 2011-64 \(PDF\)](#) that provides an opportunity for taxpayers to reclassify their workers as employees for employment tax purposes for future tax periods with partial relief from federal employment taxes. To participate in this new voluntary program, the taxpayer must meet certain eligibility requirements, apply to participate in VCSP by filing Form 8952, Application for Voluntary Classification Settlement Program, and enter into a closing agreement with the IRS

Voluntary Classification Settlement Program

■ **Eligibility**

- The VCSP is available for taxpayers who want to voluntarily change the prospective classification of their workers. The program applies to taxpayers who are currently treating their workers (or a class or group of workers) as independent contractors or other nonemployees and want to prospectively treat the workers as employees
- A taxpayer must have consistently treated the workers as nonemployees, and must have filed all required Forms 1099 for the workers to be reclassified under the VCSP for the previous three years to participate in VCSP. Additionally, the taxpayer cannot currently be under audit by the IRS and the taxpayer cannot be currently under audit concerning the classification of the workers by the Department of Labor or by a state government agency
- If the IRS or the Department of Labor has previously audited a taxpayer concerning the classification of the workers, the taxpayer will be eligible only if the taxpayer has complied with the results of that audit

Voluntary Classification Settlement Program

■ VCSP Agreements

- A taxpayer participating in the VCSP will agree to prospectively treat the class or classes of workers as employees for future tax periods. In exchange, the taxpayer:
 - Will pay 10 percent of the employment tax liability that may have been due on compensation paid to the workers for the most recent tax year, determined under the reduced rates of section 3509(a) of the Internal Revenue Code. 10.28% effective rate applies in 2012 (applied to 2011 compensation) 3.24% applies to compensation above Social Security wage base
 - Will not be liable for any interest and penalties on the amount; and
 - Will not be subject to an employment tax audit with respect to the worker classification of the workers being reclassified under the VCSP for prior years
- In addition, as part of the VCSP program, **taxpayer will agree** to extend the period of limitations on assessment of employment taxes for three years for the first, second and third calendar years beginning after the date on which the taxpayer has agreed under the VCSP closing agreement to begin treating the workers as employees

Voluntary Classification Settlement Program

■ Applying for VCSP

- To participate in the VCSP, a taxpayer must apply using Form 8952, Application for Voluntary Classification Settlement Program. The application should be filed at least 60 days from the date the taxpayer wants to begin treating its workers as employees. Taxpayers who want to begin treating a class or classes of workers as employees for the fourth quarter of 2011 should file Form 8952 as soon as possible. The IRS will make every effort to process Form 8952 with sufficient time to allow for the voluntary reclassification on the requested date
- Along with the application, the taxpayer should provide the name of a contact or an authorized representative with a valid Power of Attorney (Form 2848). The IRS will contact the taxpayer or authorized representative to complete the process after reviewing the application and verifying the taxpayer's eligibility
- Eligible taxpayers accepted into the VCSP will enter into a closing agreement with the IRS to finalize the terms of the VCSP, and will simultaneously make full and complete payment of any amount due under the closing agreement

Voluntary Classification Settlement Program

■ **Resources**

- VCSP Frequently Asked Questions –
 - <http://www.irs.gov/businesses/small/article/0,,id=246014,00.html>

What's New For 2012

■ **Insubstantial Benefits Limitations for Contributions Associated with Charitable Fund-Raising Campaigns**

- Low Cost Article – Unrelated business income does not include a “low cost article” of \$9.90 or less
- Other Insubstantial Benefits – Contributions will be fully deductible if (1) the fair market value of all benefits received by a particular donor is the lesser of 2% of the payment or \$99.00 for 2012; or (2) the payment is \$49.50 or more for 2012, and the only benefits received are token items bearing the organization’s name or logo, the cost of which in total for the year is no more than \$9.90 for 2012

What's New For 2012

■ **Pension Plan Limitations**

- Elective deferrals for 401(k), 403(b) and 457(b) plans is increased from \$16,500 to \$17,000
- Catch-up contribution limit for those aged 50 or more remains unchanged at \$5,500
- Limitation for defined contribution plans is increased from \$49,000 to \$50,000

■ **Transportation Fringe Benefits**

- Transit passes and commuter highway vehicles will be \$125 (down from \$230 in 2011) due to sun setting of law change that put them on par with parking expense)