10 Biggest Tax Mistakes Made By Congregations

1. **Congregation does not report clergy compensation.** Every congregation is responsible to report clergy taxable compensation to the IRS. A Form W-2 should be used in nearly every instance.

2. **Congregation pays or reimburses for out-of-pocket medical expenses without establishing a proper plan.** The selection and adoption of an appropriate plan by the congregation is the starting point for medical expense reimbursements. Different rules govern flexible spending accounts (FSAs), health reimbursement arrangements (HRAs), and Health Savings Accounts (HSAs).

3. **Congregation makes payments to clergy investment accounts and the payments are treated as tax-free.** If a congregation remits contributions under a Section 403(b) or 401(k) plans for clergy, these amounts are generally tax-deferred for clergy. However, payments by a congregation to clergy personal investment accounts are fully taxable and should be reported on Form W-2.

4. **Congregation reimburses clergy personal commuting miles.** A congregation may reimburse clergy for congregation-related miles (at a maximum rate of 54 cents per mile for 2016). But a congregation should not reimburse personal commuting miles.

5. **FICA tax is deducted from clergy salary and matched by the congregation.** All qualified clergy are subject to self-employment social security tax (using Form SE). A congregation should never withhold FICA-type social security tax from clergy pay and match the amount withheld. FICA-type social security only applies to lay employees.

6. **Congregation reimburses clergy expenses without adequate documentation.** Clergy expenses should not be reimbursed by a congregation unless they are adequately documented. The why, who, what, when, and where of expenses should be documented.

7. **Congregation does not formally designate a housing allowance, but treats clergy as having a proper housing allowance.** Unless a congregation has formally and prospectively designated a housing allowance for clergy, a housing allowance should not be excluded from clergy Form W-2s.

8. **Congregation distributes benevolence amounts based solely on donor's designation.** Contributions to a general benevolence fund without a donor's designation of the benevolent recipient generally constitute tax-deductible contributions. However, gifts that are restricted for a particular benevolent recipient are typically not tax deductible.

9. **Congregation acknowledges property gifts and values them for the donor.** The donor is always responsible to value any gifts of property (except for certain gifts of autos, boats, or airplanes). A congregation should simply acknowledge a gift of property, identifying the date of the gift and describing the gift without providing valuation data.

10. **Congregation receives a gift of services and receipts the gift with a stated dollar amount.** Gifts of services are not tax deductible to the individual who performed the services. While a congregation can express appreciation for gifts of services, receipts should never be issued for them.

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