

Parish Review and Advisory Services Update

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Contact Information

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Parish Reviews Focus on:

Compliance with Pastoral Handbook

Cash Receipt Controls (offertory, tuition, and other)

Cash Disbursement Controls (expense review and approval procedures, account signers, check supply)

Accounting Controls (reconciliations, recording transactions, financial statement completeness and accuracy)

Controls over Fundraising Activities

Payroll & Taxes

Personnel Files

Finance Committee Meeting Minutes

Improving Parish Internal Controls

Parish Best Practices

In these quarterly newsletters to the Pastors of the Archdiocese of Denver, the Office of Parish Review and Advisory Services (PRAS) offers advice on how to reduce overall financial and administrative risk to your parish. This newsletter covers topics related to internal controls over bonuses and select IRS reporting requirements. For a more complete listing of tax forms and respective due dates, please see the "REPORTS AND DUE DATES BY CALENDAR" Parish Management Bulletin issued by the Office of Parish Finance.

Christmas and Other Year-End Bonuses

If your parish has paid or plans to pay employees bonuses, then there are a few very important details that you need to be aware of or this process may put the parish and its employees at risk of financial loss.

- There are two applicable sections of the Pastoral Handbook. Section 10.1.20.3 states "All gifts or bonuses (Cash and non-cash) to employees in any amount, must be reported through the Parish payroll system and are subject to withholding taxes, unless specifically excluded by IRS regulations." Further, according to Section 10.1.20.4, "any and all gifts or bonuses to employees must be approved, in writing, by the pastor in advance of the payment and a record of the gifts must be maintained in the parish records."

- Did you know? The IRS may be able to determine that the parish paid bonuses via inquiry of any of the employees that received bonuses, in response to a complaint received, via inquiry or audit of the parish, or by other unforeseen means.

- Did you know? Without reporting bonuses on the employee's W-2 and subjecting them to taxes, then the Parish may incur fines and penalties. In addition, the employees themselves may be at risk of an IRS inquiry, which, if the bonus income was not reported correctly, may result in fines and penalties to the employee, the employee filing amended returns, etc.

- Did you know? There have been published cases where the IRS has penalized employers for giving bonuses as small as \$50 and not reporting them on the W-2 Form.

W-2 & W-2G Forms Need to be Issued

Each Parish must issue W-2 Forms¹ to their employees (only employees are issued W-2s) and to the IRS. The W-2 form must include all wages, bonus payments (described above), mass stipends (including stipends from All Souls Day and similar activities wherein stipends for services are received), and any other taxable income paid to the employee. Certain items are excluded from taxable income such as expense reimbursements, housing for the Pastor, etc. For more information, please refer to IRS Publication 15 (Circular E).

If the parish pays out a bingo or raffle prize of \$600 or more, then the IRS requires that the parish issue a W-2G¹ form. If the winner fails to furnish a correct taxpayer identification number and the prize is greater than or equal to \$600, then 28% must be withheld from the winnings as backup withholding. If the parish fails to withhold correctly, it is liable for the tax. For additional information surrounding W-2Gs, refer to IRS Publication 3079, Gaming Publication for Tax-Exempt Organizations.

1099-Misc. Forms Need to be Issued

In order to comply with IRS regulations, parishes must issue 1099 Forms¹ to each vendor (including visiting non-religious order priests) and the IRS for vendors who are paid \$600 or more (for services or a combination of parts and services) and if the vendor is not either a: 1) corporation; 2) not-for-profit entity; or 3) a governmental agency. The Parish must request and collect Form W-9 (Request for Taxpayer Identification Number and Certification) from qualified vendors. A risk to the Parish and the specific recipients exist in that the IRS could impose fines (\$50 per each 1099 Form) for failing to issue the form. If an entity is aware that they should issue 1099 Forms and fails to do so, there is no established maximum on the penalties imposed by the IRS. We recommend that 1099 Forms be issued when total annual vendor payments are \$600 or more.

¹ W-2s, W-2Gs, and 1099s must be distributed to individuals by January 31st, and are due to the IRS on February 28th for paper or March 31st for electronic submittal.