



What churches need to know about FORM 1099

Form 1099-MISC is the Internal Revenue Service (IRS) form that churches use to report certain types of payments. Some churches believe that their use is optional, while others simply refuse to issue them because it may get someone in trouble with the IRS. This article will summarize the rules so that churches may comply with federal tax laws related to Form 1099-MISC.

History

The IRS claims that it collects only about 84 percent of the taxes owed by individual taxpayers. Mostly this underreporting is attributable to the “underground economy,” the system where individuals collect money by operating a small business but omit this income from their tax return.

To assist in collection of taxes on small business, the IRS requested that Congress pass a law requiring businesses to report payments to individuals who are not employees and who provide services to the business. As a result, Form 1099 was born. The church may be liable for different forms of Form 1099, but this article focuses on Form 1099-MISC.

What is Form 1099?

Form 1099 is used to report payments made to individuals for services rendered in the course of the church business. This form is then used by the IRS to compare the income reported by that individual with that reported by church. The form contains the name, address and Social Security number of the individual.

What payments qualify?

All payments to individuals for personal services count. For example, if the church pays an accountant for the annual audit, then the church is required to report that payment on Form 1099. The key is whether or not the recipient performs personal services for the church. Churches should be issuing Form 1099 to guest ministers and other individuals who perform services for the church but are not employees.

Payments to employees do not count. If the church pays an employee an expense allowance, then that allowance should be reported as taxable income on the employee’s Form W-2. If the church hires an employee to direct the choir in addition to their secretarial duties, the additional compensation from

directing the choir still belongs on the employee’s Form W-2. There is one exception to this rule: payments made to the estate of a deceased employee after the year of death is reported on Form 1099. As a side note, payments made to the estate of a deceased employee during the year of death are subject to the normal payroll taxes and are reported on Form W-2.

Payments to corporations do not count unless the corporation is a law firm. All payments to lawyers count even if the lawyer is practicing through a corporation. However, payments to businesses that are not incorporated are subject to Form 1099 reporting. As a result, the church should request that the business provide Form W-9 so the church can determine whether

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the payments are reported on Form 1099. Reporting is required for payments to proprietorships and partnerships.

Payments for merchandise do not count. For example, if the church buys a vacuum from an individual, that payment is not subject to Form 1099 reporting rules.

Payments pursuant to a church’s benevolence program do not count. For example, if a church pays the rent for a church recipient, then that payment is not reportable.

If the total of qualifying payments to an individual exceeds \$600 for the year, then Form 1099 is required.

When is Form 1099 due?

Form 1099 must be given to the worker by January 31 following the year of payments to the worker. The church must file Form 1096 together with the Form 1099 with the IRS before February 28.

If the church files Form 1096 after February 28 but before March 31, it must pay a fine of \$15 per Form 1099. The fine increases to \$30 and after March 31. After July 31, the fine is \$50 per Form 1099.

Must the church withhold income taxes from Form 1099 payments?

If the church fails to secure the Social Security number of the worker, then the church must withhold 28 percent of the payment and send it to the IRS. The best way to secure the worker’s Social Security number is to receive a Form W-9 signed by the worker. If the church did not withhold the mandatory 28 percent, it still must pay the IRS on Form 945.

ship drifts precariously toward submerged icebergs.

A healthy organization will have appropriate measures of leading and managing, even though they create a dynamic tension on a semi-frequent basis. That is why emotional health of the primary leader and manager is vital, in order to avoid dysfunctional tension, power and control conflicts. This yin-yang relationship is a dynamic combination as long as both elements appreciate each other's strengths and are dedicated to keeping God's spirit dominant in ministry. When leadership is weak, a ministry will fail to move forward and adapt to the changing environment. When management is weak, there will be insufficient systems employed, resulting in chaos. ■

Dr. Alan Nelson, Ed.D. has more than 20 years of ministry experience as an author, speaker, consultant and pastor at Scottsdale Family Church.

Recommended Reading:

- "Leading Your Ministry" by Dr. Alan Nelson
- "Mind of a Manager, Soul of a Leader" by Craig Hickman

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