



*Archdiocese of Baltimore-
Federal, State, & Other Filing
Requirements
January 13, 2005*

Agenda



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 - b. Proper Completion of Federal Forms
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Federal Payroll Tax Forms



❖ **Form W-4 - Employee Withholding Allowance Certificate**

An informational form completed by employees indicating filing status and the number of withholding allowances.

NOTE: If an employee fails to file a new Form W-4, an older version may still be used. However, if in one year an employee claims to be exempt from having taxes withheld from payroll and fails to file a new Form W-4 in the succeeding year, the parish must withhold taxes from his payroll as if the employee was filing as a single person with zero allowances.

❖ **Form W-2 - Wage and Tax Statement**

An annual form provided to employees, the federal government, and the state government showing earnings and withholdings in a calendar year.

Federal Payroll Tax Forms (Cont.)



❖ **Form W-3 - Transmittal of Wage and Tax Statement**

A form summarizing Form W-2s issued in a calendar year.

❖ **Form 941 - Employer's Quarterly Federal Tax Return**

Quarterly report of wages paid, income tax withheld, Social Security and Medicare taxes. These returns can be filed in paper form, electronically, or via telephone. Copies of submissions must be maintained no matter how the form is filed.

NOTE: Form 941 has been updated as of January 1, 2005. Quarterly returns for 2005 earnings should be completed using the new version of Form 941. However, filings for the 4th quarter of 2004 should be made using the old Form 941.

Proper Completion of Federal Forms



- ❖ Federal taxable income is reported on Line 2 ,total wages and tips plus other compensation, of the Form 941. This includes wages paid to clergy if they are receiving a W-2. See Handout #1.
- ❖ Federal taxable income is defined as gross wages plus bonuses paid to employees less certain allowable deductions.
- ❖ Allowable deductions used in determining federal taxable income as defined by the tax code include employee deductions for health and dental benefits, deductions for employee cafeteria plans (flexible spending accounts), and contributions to qualified retirement plans such as 403(b) plans.

Proper Completion of Federal Forms - Reconciling



- ❖ Before issuing W-2 forms, and before mailing the fourth quarter 941 form, reconcile the totals per the W-2s with the totals per the 941.
- ❖ Add the amounts on line 2 of the four quarterly 941. The amount should equal the total of the amounts reported in Box 1 of all the W-2s. Likewise, adding the figures on line 3 of the four 941s should correspond to the total of the amount in Box 2 of all the W-2s. The total of the amounts on line 6 of the four 941s should correspond to the total of the amount in Box 3 on the W-2s.
- ❖ Remember, priests are self-employed for Social Security tax purposes. Their wages are not reported on lines 6a or 7 of Form 941. These lines correspond to Boxes 3 and 5 of Form W-2, which, for priests, are left blank. Naturally, this means that the wages on line 6a of Form 941 will not agree with the wages on line 2 of Form 941. This is standard procedure for church payroll tax reporting.
- ❖ See Handout #2.

Proper Completion of Federal Forms – Common Errors



Lay Employees

- ❖ **Bonuses and gifts are taxable as wages for both federal purposes and Social Security/Medicare purposes.**
- ❖ **The value of free or reduced tuitions to a parish or school employee whose child is attending a Catholic school is considered a fringe benefit and must be reported as income to the employee. W-2s for such employees should include the value of free or reduced tuition as Other Income in Box 14 of Form W-2.**
- ❖ **Federal taxable wages are not the same as Social Security wages. Social Security wages are equal to an employee's gross wages less certain deductible amounts. These amounts include deductions for health and dental premiums, and employee cafeteria plans (flexible spending accounts). Contribution to qualified retirement plans, like 403(b) plans, are not deductible in computing Social Security Wages.**
- ❖ **Federal taxable wages are equal to an employee's gross wage less all above mentioned deductions, including contributions to qualified retirement plans.**

Proper Completion of Federal Forms – Common Errors



Priests

- ❖ Parish priests are considered dual status tax payers. They may be considered employees of the parish, but they are considered self employed for Social Security tax purposes.
- ❖ Priests are exempt from payroll tax withholding.
- ❖ Priests who receive a W-2 to report their earnings have the option to have taxes withheld from their salaries.
- ❖ The federal taxable earnings reported on a priest's annual Form W-2 should correspond to the amounts reported on Form 941.
- ❖ The IRS will test a parish's Form 941 submissions in comparison to the parish's W-2s. Although reconciliation is a time consuming process, the parish should test its 941s and W-2s prior to submitting its 4th Quarter Form 941.

Federal Payroll Forms for Priests - Which One?



- ❖ A parish, school, or diocesan agency must report the compensation paid to priests.
- ❖ Two forms exist to report compensation: The W-2 for employees and the 1099-MISC for independent contractors.
- ❖ Some priest are officers of the Church corporation; therefore, the IRS will classify them as employees and expect to see Form W-2 to report their wages. The pastor is a paid officer of the parish corporation, and consequently an employee of the corporation.
- ❖ Priests who are not officers and extra clergy have the option of receiving a Form W-2 or a Form 1099.
- ❖ The decision of which form to use - W-2 versus 1099 - to report the compensation of a priest, is not an arbitrary one. The form chosen affects both the manner in which a priest files his personal tax return, and the amount of tax he pays. It affects the quarterly and annual reporting by the parish to the IRS. Finally, the form chosen also affects the chances that an individual priest will be audited by the IRS. See Handout #3.

Federal Payroll Forms for Priests – Which One?



- ❖ In general, the IRS prefers the use of Form W-2 over Form 1099-MISC.
- ❖ The likelihood of an IRS audit increases with the use of Form 1099-MISC.
- ❖ The use of Form W-2 does not change a priest's status for Social Security purposes. Priests are self-employed for Social Security purposes regardless of their classification for Federal Income Tax purposes. A parish should never deduct 7.65% FICA tax and match that deduction for priests.

Depositing Taxes



- ❖ You must deposit income tax withheld and both the employer and employee Social Security and Medicare taxes by mailing or delivering a check, money order or cash to an authorized financial institution.
- ❖ There are two deposit schedules - monthly and semi-weekly. Prior to the beginning of each calendar year you must determine which schedule you are required to use.
- ❖ If you reported \$50,000 or less of taxes for the lookback period (defined on next slide) you are a monthly depositor. If you reported more than \$50,000 you are a semi-weekly depositor.
- ❖ Under the monthly deposit schedule, deposit Form 941 taxes on payments made during the month by the 15th day of the following month.
- ❖ Under the semi-weekly deposit schedule, deposit Form 941 taxes on payments made on Wednesday, Thursday and/or Friday by the following Wednesday. Payments made on the remaining days of the week are to be deposited on Friday. Semi-weekly depositors must also complete Form 941 – Schedule B, Employer’s Record of Federal Tax Liability. Schedule B is used to report the tax liabilities on a daily basis throughout the year.

Depositing Taxes - Lookback Period



The Lookback Period is defined as the 4 quarters beginning July 1 and ending June 30.

Example

For calendar year 2004, the lookback period would be July 1, 2002 to June 30, 2003 (FY 2003). Therefore you would accumulate the total taxes reported on Form 941 for the September 30, 2002, December 31, 2002, March 31, 2003 and June 30, 2003 quarters. If this amount is greater than \$50,000, you must deposit semi-weekly.

Depositing Taxes - Making the Deposit



There are two ways to make deposits:

- ❖ **For 2004 you must electronically transfer your deposits if the total deposits in 2002 were more than \$200,000.**
- ❖ **If you are not required to make electronic deposits use Form 8109, the Federal Tax Deposit Coupon, to make the deposits at an authorized financial institution. The IRS will automatically send you new coupon books when you need them based on the number you have filed.**

The Use of a Payroll Service



Many parishes and schools elect to use a payroll service for its payroll and clerical needs. These services include:

- ❖ Payroll processing and record keeping
- ❖ Filing required returns and forms with the IRS, State of Maryland, DLLR, etc.
- ❖ Making required deposits of federal, state, Social Security/Medicare withholdings
- ❖ Providing quarterly and annual summaries of services performed

Although payroll services provide useful services to parishes and schools, the parishes and schools are responsible for the following:

- ❖ Ensuring the accuracy of payroll payments, government filings, and deposits of payroll and payroll taxes
- ❖ Maintaining copies of payroll documentation including all government filings and deposit confirmation material
- ❖ Reconciling payroll payments, withholdings, and tax deposits with the general ledger and externally filed reports

Record Retention Guidelines



Keep all records of employment taxes and other forms for at least four years. These should be available for IRS review. Your records should include:

- ❖ Your employer identification number (EIN)
- ❖ Amounts and dates of all wage payments
- ❖ Names, addresses, social security numbers, and occupations of employees and recipients
- ❖ Any employee copies of Forms W-2 that were returned to you as undeliverable
- ❖ Dates of employment for each employee
- ❖ Periods for which employees were paid while absent due to sickness or injury and the amount and weekly rates of payments you or third party payers made to them
- ❖ Copies of employees' income tax withholding certificates
- ❖ Dates and amounts of tax deposits that the parish made
- ❖ Copies of returns filed, including 941 TeleFile Tax Records and confirmation numbers

Penalties - IRS



- ❖ Penalties may apply if you do not make required deposits on time, make deposits for less than the required amount, or if you do not use EFTPS when required. Penalties can range from 2% - 15% of the amount due.
- ❖ For each whole or part month a return is not filed when required, there is a penalty of 5% of the unpaid tax due with that return.
- ❖ In addition to being penalized, interest accrues on the amount of taxed owed.

Penalties - IRS



❖ **Payments of penalties and overdue taxes apply to the most recent tax amount due. Example: If a parish owed \$700 in taxes from the first quarter of 2004, and \$400 from the second quarter of 2004, and makes a payment of \$500 in the third quarter of 2004, the \$500 payment is applied to the \$400 owed for the second quarter, and \$100 towards the amount due for the first quarter. Interest will still accrue on the \$600 balance due from the first quarter.**

❖ **On occasion the IRS may assess a penalty or fine on a responsible individual. Once the IRS asserts a penalty against an organization, it can take collection action against personal assets of a responsible individual. For instance, the IRS can file a Notice of Federal Tax Lien against a responsible individual.**



❖ **Form MW 506 – Employer’s Return of Income Tax Withheld**

Preprinted payment vouchers used to submit employee payroll amounts to the State.

❖ **Form MW 507 – Employee’s Maryland Withholding Exemption Certificate**

An informational form completed by employees indicating filing status and the number of withholding allowances.

❖ **Form MW 508 – Annual Employer Withholding Reconciliation Report**

A report filed with the State of Maryland summarizing employee earnings and withholdings.

State of Maryland - Filing Requirements



- ❖ **The Revenue Administration Division will mail you a coupon book containing your Employer's Return of Income Tax Withheld (MW506).**
- ❖ **Employers who withheld \$15,000 or more in the prior calendar year and currently have \$700 or more of accumulated withholdings in any pay period are required to file within 3 days following each payroll date.**
- ❖ **Employers with less than \$700 of withholding per quarter are to file quarterly. Quarterly payments are due on the 15th day following the quarter end.**
- ❖ **Employers with more than \$700 in any one quarter are to file monthly. Monthly payments are due on the 15th of the following month.**

State of Maryland Filing Requirements (Cont.)



- ❖ **If you are making a payment of \$10,000 or more, you are required to make that payment electronically.**
- ❖ **When hiring a new employee, you must obtain a certificate of exemption, Form MW507, from the employee.**
- ❖ **On or before February 28th, employers must file an annual reconciliation, form MW508, along with the state copy of Federal Form W-2.**

❖ *State of Maryland - Penalties*



❖ **As notification of overdue business taxes, the Comptroller of Maryland sends a Statement of Accounts to taxpayers who have incurred charges for taxes, interest, and penalties. The same statement also serves as a notice of failure to file a required return. If the Statement of Account indicates a balance due to the Comptroller, that balance, including penalties and late charges, is due immediately upon receipt of the statement.**



Federal Forms

❖ **Form I-9 – Employment Eligibility Verification**

All U.S. employers are responsible for completion and retention of Form I-9 for each individual they hire for employment in the United States after November 7, 1986. This includes citizens and noncitizens. On the form, the employer must verify the employment eligibility and identity documents presented by the employee and record the document information on the Form I-9. This form does not need to be filed with a federal agency, but it must be available for inspection by officials from the US Department of Labor.

❖ **Form 1099 – MISC – Miscellaneous Income**

A form used to report payments made in the course of a trade or business to another person or business who is not an employee. Form 1099 should be issued to any individual or business that was paid \$600 or more in a calendar year. See handout #3 for details on employee/non-employee classification.

Other Forms - Federal (Cont.)



Federal Forms

❖ Form 1096 - Annual Summary and Transmittal of U.S. Informational Returns

A form summarizing all Form 1099s issued in a calendar year. This form must be submitted to the IRS with individual Form 1099s.

❖ Form W-2G - Certain Gambling Winnings

❖ BINGO

Form W-2G must be provided to individuals if a single bingo prize winning is \$1200 or more. 25% of bingo winnings must be withheld if the winnings are \$5000 or more for a single individual. Prizes of \$1,200 to \$4999.99 do not require withholding provided that the winner's Social Security number is on file. If a winner's Social Security number is not on file, 31% of the winnings must be withheld.



❖ **Form W-2G – Certain Gambling Winnings (Cont.)**

❖ **Instant Bingo Games/Pull Tabs**

A single pull tab prize of at least \$600 but not more than \$5,000 requires the completion of a Form W-2G if the prize is 300 times the amount of the wager. The winner must provide identification as well as a Social Security number or the 31% of the prize should be withheld. A single pull tab prize winning, less the wager, exceeding \$5,000 requires the completion of Form W-2G, and regular gambling withholding of 28% of net winnings.



❖ **Maryland Form 1 - Personal Property Return**

Parishes and schools are referred to as exempt organizations and are fully exempt throughout Maryland from any assessment and taxation. However, to obtain this exemption, parishes and schools must submit written information detailing their operations, which is accomplished by filing Maryland Form 1. This form is sent to parishes and schools at the beginning of each year, and must be completed and filed by April 15th. The completed return should be mailed to the Department of Assessments and Taxation. Failure to file the Form 1 can result in the forfeiture of the charter of a domestic corporation or the right to do business in the State.

Other Forms – State (Cont.)



❖ Maryland Unemployment Insurance Quarterly Contribution Report

- ❖ The Maryland Unemployment Insurance Quarterly Contribution Report is due to the State of Maryland one month after the end of the quarter. The Archdiocese of Baltimore will mail each parish and school a blank copy of the report when received by the Division of Insurance.**
- ❖ The completed report should list all employees, except clergy and religious, their social security numbers, and their gross wages for the quarter.**
- ❖ The reports can be filed manually, electronically, or by a third party (payroll service).**
- ❖ If reports are filed electronically or by a third party, no documentation needs to be provided to the Archdiocese of Baltimore.**
- ❖ If reports are filed manually, the reports should be sent to the Archdiocese of Baltimore Division of Insurance by the 15th of the month following the quarter end. The Division of Insurance will then forward the report to the State of Maryland. A file copy should remain in the parish or school offices.**

Reports To Be Filed with the Archdiocese



Parish Reports

- ❖ **Parish Annual Financial Report**
Due 30 days after the end of the fiscal year: July 31st
- ❖ **Parish Quarterly Financial Reports**
Due 30 days after the end of each quarter: October 31st, January 31st, April 31st
- ❖ **Annual Consolidated Report**
Due August 30th
- ❖ **Calendar Year Earnings Report (Unless the parish/school has the new ADP arrangement)**
- ❖ **Minutes of Annual Board of Corporators Meeting**

School Reports

- ❖ **School Annual Financial Reports**
Due August 15th
- ❖ **School Fall Marketing Survey**
Due August 15th
- ❖ **School Year End Marketing Survey**
Due September 30th



By January 31

- Furnish individuals with Forms W-2 and 1099.
- File 941 & deposit any undeposited income, Social Security or Medicare taxes.
- File MW506 and related withholdings if appropriate.
- File Parish Quarterly Financial Report.

By February 15

- Request new W-4 from employees.
- Request new MW 507s from employees.

February 16

- Old W-4s expire.

By February 28

- File forms W-2 & W-3 if filing in paper format.
Note: Do not file these before February 28 as changes can be made up to this date to correct errors.
- File forms 1099 & 1096 if in paper format.
- File forms MW 508.

By March 31

- File forms W-2 and 1099 if filing electronically.

By April 15

- File Maryland Form 1

By April 30

- File 941 & deposit any undeposited income, Social Security or Medicare taxes.
- File forms 1099 & 1096.
- File form MW 506 and related withholdings if appropriate.
- File Parish Quarterly Financial Report.

Calendar (Cont.)



By July 31

- File 941 & deposit any undeposited income, Social Security or Medicare taxes.
- File MW506 and related withholdings if appropriate.
- File Parish Annual Financial Report.

By August 15

- File School Annual Financial Report.
- File School Fall Marketing Survey.

By August 30

- File Parish Annual Consolidated Report.
- File School Year End Marketing Survey.

By October 31

- File 941 & deposit any undeposited income, Social Security or Medicare taxes.
- File MW506 and related withholdings if appropriate.
- File Parish Quarterly Financial Report.

By December 1

- Remind employees to submit a new Form W-4 if their withholding allowances have changed or will change in the next year.



❖ Taxes for which parishes are liable:

- ❖ Social Security/Medicare as an employer
- ❖ Excise taxes on gas, oil, phone, etc. (except certain educational institutions)
- ❖ Personal property tax only if agreed upon as part of a lease agreement
- ❖ Titling fee for vehicle purchase
- ❖ Unemployment insurance as billed through the Archdiocese Insurance/Benefits office

❖ Taxes for which parishes are not liable:

- ❖ Maryland Sales Tax (The parish should have a sales tax exemption card.)
- ❖ Maryland Personal Property Tax. However, the parish is still required to file MD Form 1.
- ❖ Corporate Income Tax
- ❖ Property Taxes (except for property not used specifically for religious purposes)
- ❖ Federal Unemployment Tax Act (FUTA)

❖ Churches and parish schools are not required to file an IRS Form 990. (Some foundations will ask for a copy of your Form 990 if you request a grant.)