

**North Georgia  
Conference Treasurer's  
Office**

**Winter, 2018**

**Financial Administration  
Training**

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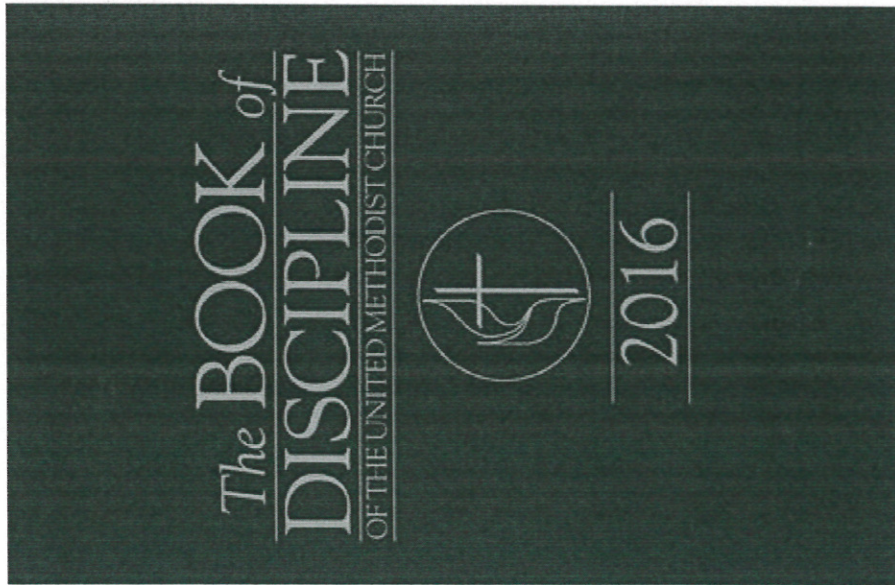
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## Finance Committee Responsibilities

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# Book of Discipline 2016



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**Suggested Local Church Finance Minimum Standards** - the following guidelines should be in place for all local churches as a measure of protection for those with financial responsibilities in the church. These minimum standards should be increased for churches with higher volumes of transactions but should not be compromised for lower volumes of transactions. All local churches are expected to meet these minimum standards.

- Treasurer and Financial Secretary should not be the same person and should not be in the same immediate family residing in the same household
- Counting team (at least two unrelated persons) should count offerings and document totals - not treasurer and not financial secretary
- Offerings should be deposited the same or next business day
- Offering count details should be given to financial secretary for recording
- Offering totals should be given to the treasurer to record deposit
- The Financial Secretary's deposit log should be compared to the bank statement to verify deposits (by bank reconciliation reviewer)
- At least two persons should be listed as authorized signatures on all accounts
- Financial policy and authority guidelines should be written and approved by the Finance Committee
- Invoices should be required for all payments from all accounts
- Someone other than the treasurer (with authority by Finance Committee) should approve invoices for payment
- The Treasurer should make payments only after the invoice is approved
- All accounts should be reconciled monthly
- Someone other than treasurer should review bank reconciliation at least bi-annually - including bank statements, invoices, checks written, and financial reports
- The Treasurer should make detailed report of budget and designated fund activities to the Finance Committee at least quarterly
- There must be an annual evaluation of financial records - at least in as much detail as the Local Church Audit Guide (completed by May 1 for preceding year) - including ALL accounts of the church (except UMW may be under separate evaluation or audit) - ALL accounts includes the general fund, building funds, designated accounts, cemetery funds, discretionary funds, etc.
- An full annual audit of ALL accounts should be done at least every three years for churches with annual operating budget more than \$500,000 per year (completed by May 1 for preceding year)
- An full annual audit of ALL accounts should be done every year for churches with annual operating budget more than \$1,000,000 per year (completed by May 1 for preceding year)
- W-2s must be issued for employees and 1099s issued for nonemployee compensation by January 31 for preceding year (federal law requirement)
- Payroll tax forms and deposits done as required for payroll amount (federal law requirement) - payroll reporting should be completed for the IRS and SSA by appropriate due date for filing method
- Housing allowance or exclusions approved annually at charge conference and kept on file (federal law requirement)
- Prepare list of all church property for insurance purposes - include item description, serial number and value
- Prepare list of safety deposit box contents - update authority as needed - access should be allowed by two unrelated people
- Computer records are backed up and password protected for security
- Number of persons required for regular financial procedures - **four** - financial secretary, treasurer, person to review and approve invoices, person to review bank reconciliation

# Internal Controls

CHECKLIST FOR PROTECTION OF CHURCH FINANCES

Following is Pastor's checklist to help ensure adequate control over church finances.

CONTROL POINTS	Compliance?
1. Finance Committee is organized according to the 2012 Book of Discipline, including the designation of a Treasurer and Financial Secretary.	
2. The Finance Committee Chairperson, Treasurer and Financial Secretary are not the same person, nor from the same family or household.	
3. The church has a budget approved by the church Council.	
4. Treasurer's financial report is submitted at least quarterly. Results are compared to the budget and inquiries made of variances at Finance Committee meetings.	
5. All checking and savings accounts are under control of the Treasurer. Investment accounts are accounted for and activity reported monthly to the Finance Committee.	
6. At least two <b>unrelated</b> people count the weekly church offerings for deposit, and prepare the deposit slip. The deposit slip and deposit are placed in a bank deposit bag and locked. <b>See 2012 Book of Discipline section 258 .4 (a), pages 198</b>	
7. Deposit slip stamped by the bank is given to the Treasurer for recording and comparison to the bank statement.	
8. Annually the Finance Committee approves the signatories on all church bank accounts. <b>Pastor should NOT be a signatory on any church account.</b>	
9. Bank account reconciliations are performed monthly and reviewed by the Finance Committee Chairperson or designee at least quarterly. This review includes examination of copies of cancelled checks to ensure proper church purpose.	
10. Quarterly, the Finance Chair asks the Treasurer at a committee meeting for documentation of timely payment of state and federal payroll taxes.	
11. Annual audit is completed by a qualified person and reported to the Church Conference. <b>(See 2012 Book of Discipline, 258 4. (d), pages 198-199)</b>	
12. All financial records are retained in accordance with an appropriate record retention guidelines provided by the Conference Treasurer. (Attached). <b>Records should be securely maintained at the church with duplicates of critical records kept off-site. Pastor should have access to church records.</b>	

Checked and certified by Pastor: Signed \_\_\_\_\_ Date \_\_\_\_\_


Checked and certified by Finance Chair: \_\_\_\_\_ Date \_\_\_\_\_

Resources:

- Questions about internal controls over church finances can be directed to Keith Cox, Conference Treasurer, at 678-533-1393 or kcox@ngumc.org.
- The Local Church Audit Guide, developed by the General Council on Finance and Administration, and suggested Record Retention guide can be obtained from the GCFA website, www.gcfa.org

# ForwardThinking

Best governance practices for not-for-profit executives and board members

Grant Thornton 



## Trend on the rise: Eliminating or reducing the number of corporate credit cards

By Frank Kurro, National Managing Partner, Not-for-Profit Industry Practice

Recently, one of our partners met with a client audit committee to discuss various controls and procedures. Part of the audit committee discussion centered on the use of corporate credit cards by employees of the not-for-profit organization.

The audit committee was surprised to hear that approximately 80 employees (one third of the organization's employees) held corporate credit cards.

The organization's policy required that employees submit receipts with appropriate supporting documentation to the accounting department on a timely basis. However, since the organization directly paid the credit card bills, there was no incentive to submit timely receipts other than the threat to take away someone's credit card – a threat that was rarely enforced.

This example of a credit card policy is very similar to many other not-for-profit organizations' policies. This type of policy often leads to credit card abuse. The typical problems encountered include employees failing to submit credit card receipts and other supporting documentation to the accounting department in a timely manner; submitting incomplete information or not submitting the required documentation at all.

Despite a strict policy forbidding the charging of personal expenses to these cards, this is an abuse that occurs often. Abuses also occur when employees have the ability to take cash advances on credit cards and use advances for personal use.

The following recommendations should be considered for implementation to enhance corporate credit card controls and procedures:

- Eliminate corporate credit cards and require employees to utilize their own credit cards to charge corporate expenses. Once receipts and other supporting documentation are submitted, employees would be reimbursed for these expenditures. The excuse often given for not implementing an expense reimbursement policy is that employees are forced to advance their own funds to pay corporate expenses. The reality is that, if employees submit their expense documentation in a timely manner, they will be reimbursed before their credit card payments are due.
- If an organization decides to continue its corporate credit card policy, limit credit cards to senior management and ensure card usage is closely controlled. >

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Comments or questions to the editor may be directed to [editors@gt.com](mailto:editors@gt.com).

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In addition, the purchasing department could use a corporate credit card to make bulk purchases.

- The corporate expenditures of the chief executive officer should be reviewed and approved on a periodic basis by a board member - typically either the chair of the board or the chair of the finance or audit committee.
- Organizations should have a written policy in place regarding the use of corporate credit cards and stipulate that credit cards cannot be used for personal charges. A minority of not-for-profit organizations permit employees to use credit cards for personal use and then reimburse the organization. This effectively results in an interest free loan to the employee, which is not an appropriate activity in today's environment.
- Organizations should have a written policy requiring that credit card receipts and other documentation be submitted in a timely manner. Multiple violations of this policy

should result in termination of corporate credit card privileges.

- Corporate credit cards should not permit employees to take cash advances or have check writing privileges.

By maintaining close oversight of and strict controls over credit card usage, not-for-profit organizations not only mitigate the risk of fraud, but also further demonstrate to stakeholders their commitment to safeguarding funds.



Best regards,

Frank L. Kurre  
National Managing Partner  
Not-for-Profit Industry Practice

## Reputational Risk: Board monitoring of fraud prevention, detection controls

With the many instances of fraud noted over the past several years in both the corporate and not-for-profit worlds, trust that boards have become more focused on activities and monitoring key areas of prevention and fraud detection controls.

Fraud prevention controls protect the organization and deter individuals from committing fraud while fraud detection controls identify possible instances of fraud for investigation.

Audit committees primarily have the responsibility for reviewing and monitoring key fraud prevention and fraud detection controls, including:

- Transactions with board members and key officers, including: o Conflicts of interest o Transactions with affiliated entities o Use of corporate credit cards o Separated audit trails o Information flow o Travel and entertainment expenses
- Vendor approval and competitive bidding process
- Personnel board authorization
- Controls over cash receipts, centralized cash function
- Codes of conduct and
- Segregation of duties over the preparation, authorization and posting of journal entries

As a best practice, some audit committees have begun requesting a series of informational briefings to have controls over various key processes of an organization. Open briefings permit audit committees to become more knowledgeable about the organization's key controls and ask appropriate oversight questions.

Audit committees engaged in control discussions tend to enhance an organization's controls by the very nature of their questions and the related management responses. ■

## Next practice: Enforcing gift policies with vendors

Gift policies stipulate what types of gifts employees can accept from vendors and potential vendors. Very few not-for-profit organizations, however, have placed the compliance burden for these policies on vendors or potential vendors. As a "Next Practice," boards and senior management teams will likely focus more on this issue.

Many times these "gifts" are soft in nature, for example employees receiving free meals or invitations to various sporting and other entertainment events. Other times, the gifts are more extensive and may include items such as appliances, televisions or other commodities.

Organizations employ various degrees of gift policies for employees. Some organizations have established a policy which prohibits all gifts of any nature. Other organizations have limited gifts to a value below a certain threshold (i.e., \$25 per gift).

In the near future, more not-for-profit organizations may limit the ability of employees to receive gifts from vendors and potential vendors.

In addition to ensuring employee gift policy compliance, organizations should consider developing policies requiring certifications from vendors and potential vendors relating to compliance with gift policies and the avoidance of conflicts of interest.

Board members and management need to be free from conflicts of interest and select vendors based on what is in the best interest of the organization. Gifts may limit the ability of individuals to make fair judgments as to the best vendors to select for the purchase of goods and/or services.

Enforcing gift policies with both employees and vendors ensures that only the quality of goods and services - not gifts - influence which vendors an organization chooses to work with. ■



## FINANCIAL Q&amp;A



**Q:** Our pastor asked the church board to provide him with a credit card in the church's name since his credit rating was too poor for him to obtain one on his own. The board agreed to do so. It understood that the pastor would use the card for mostly personal expenses, and that he would reimburse the church for the charges he made. During the previous year he made \$6,000 in charges to the card, and has paid back about half of this. What should the church do? Should we cancel the card? Was it an appropriate arrangement? How much of the charges, if any, should the church report as taxable income on the minister's W-2?

**A:** There are several points to consider, including the following:

**1. Inurement.** One of the requirements for exemption from federal income tax is that none of a church's funds or assets inures to the benefit of a private individual, other than as reasonable compensation for services. Inurement may occur in many ways, including excessive compensation, payment of excessive rent, and the payment of personal expenses of an officer that the church did not characterize as compensation at the time of payment. It is possible that your pastor's use of a church credit card for his own personal needs and expenses constitutes inurement, especially if he fails to reimburse the church for all personal charges. This exposes the church to a loss of its tax-exempt status.

**2. Excess benefit.** The IRS deems any taxable fringe benefit provided to an officer or director of a tax-exempt charity (including a church), or a relative of such a person, to be an automatic excess benefit that may trigger substantial excise taxes (called "intermediate sanctions") of up to 25 percent of the amount of the benefit, unless it was timely reported as taxable income by the charity. A nonaccountable expense reimbursement is an example of a taxable fringe benefit.

As a result, to the extent that a pastor uses a church credit card for some business expenses and fails to comply with the strict requirements for an accountable reimbursement arrangement, then those charges constitute nonaccountable reimbursements. If the church fails to report them as taxable income on the pastor's W-2 form, then this amounts to a taxable fringe benefit that was not reported as taxable income, thereby exposing the pastor to intermediate sanctions assuming that he or she is an officer or director of the church. The penalty may be avoided if the pastor reports the benefit as taxable income, but this rarely happens if the church fails to do so.

**3. Nonaccountable reimbursement.** As noted above, a nonaccountable expense reimbursement represents taxable income to the employee. A reimbursement (including a charge to an employer's credit card) is nonaccountable if it fails to meet all of the following requirements for an accountable plan: (1) only business expenses are reimbursed; (2) no reimbursement is allowed without an adequate accounting of expenses within a reasonable period of time (not more than 60 days after an expense is incurred); (3) any excess reimbursement or allowance must be returned to the employer within a reasonable period of time (not more than 120 days after an excess reimbursement is paid); and (4) an employer's reimbursements must come out of the employer's funds and not by reducing the employee's salary.

The fact that the pastor fails to return to the church all credit card charges ("reimbursements") over and above substantiated business expenses within 120 days renders them nonaccountable.

**4. Risk management.** The best practice would be for a church not to provide a credit card to employees who, for whatever reason, are unable to obtain a card on their own. Such an arrangement may constitute prohibited inurement of church funds to a private individual, even if all charges are properly reported as taxable income since the employee in effect is converting a church resource into a personal benefit.

In most cases, churches provide credit cards to employees as a convenient way to reimburse them for business expenses that they incur (travel, meals, church equipment, and so on). So long as a card is used primarily for business expenses, and the employee substantiates all charges on a timely basis under an accountable arrangement, reimbursing the church within 120 days for any incidental personal expenses, there are no problems.

To protect against abuses, church leaders should consider the following precautions:

- Be sure your church has implemented an accountable reimbursement policy that only reimburses credit card charges that are adequately substantiated within 60 days of each expense, and that requires the refund of any personal charges within 120 days.
- Be sure your church reports nonaccountable reimbursements (those not fully complying with the requirements of an accountable plan) as taxable income.
- Consider inserting "merchant category codes" on church-issued credit cards that prevent the cards from being used at specified locations or with designated vendors or facilities (i.e., ATM machines, salons, drug stores, clothing stores). Most employees, including churches, are not aware of this option.
- Impose low spending limits on each card.
- Adopt a written policy for the use of church credit cards that fully explains how they may be used, the limitations and conditions that apply, and potential tax consequences. The lack of such a policy often leads to abuse. Be sure that your policy applies to all employees who use church credit cards, including the senior pastor.
- Restrict the use of church credit cards to those employees with a legitimate need to charge purchases. Not all employees need access to a church credit card.
- Issue a separate church credit card to each approved employee, which makes it easier to account for individual employee's charges and enforce purchase limits.

To submit a question for consideration in a future Q&A, email: [CFTeditor@ChristianityToday.com](mailto:CFTeditor@ChristianityToday.com).

## RECORD RETENTION

Document	How Long to Keep (Minimum)
Articles of incorporation, amendments, bylaws	permanently
Certificate of incorporation and corporate records to the state	permanently
Tax returns	permanently
Work sheets and related backup documents for tax returns	7 years
Minutes	permanently
Annual corporate reports	permanently
Property records	permanently
Contracts and leases in effect	permanently
Insurance policies (including expired policies)	permanently
Insurance letters/correspondence	permanently
Audit reports of CPAs and financial statements	permanently
Employment applications (for current employees)	permanently
Bank statements and reconciliations	7 years
Canceled checks for standard transactions	7 years
Invoices from vendors	7 years
W-2 or 1099 forms	7 years
Housing allowance forms	7 years
Business correspondence	3 years
Employee personnel records (after termination)	3 years

Some of the suggested retention periods are for legal reasons, while others are based on practical considerations. You may want to keep some records longer than the table suggests.

1. It is an excellent idea for your organization to discuss and adopt a record retention policy. The above table gives you some suggestions on items to be included in the policy and time periods to be used.
2. When developing a record retention policy, it is important to think about where those files will be kept, how secure those files will be, and the conditions under which files will need to be stored (heat and particularly dampness can be very destructive to files).
3. Some of the reasons to keep files and records include legal requirements, potential relevance in future litigation, and the needs of the organization, as well as historic importance. It goes without saying that should there be threatened litigation or an investigation on a certain subject matter, particular care should be given that no file or document relating to that matter be destroyed.
4. Tax returns and governmental reports affecting tax liability should be kept permanently. However, most backup records, such as receipts documenting income deductions need only be kept for seven years. The Internal Revenue Service calls for a six-year statute of limitations. The IRS has three years from the date of when the income tax return is filed to question or audit it. If the IRS can prove an omission of at least 25% of income, the time period doubles to six years. Therefore, the seven-year period gives a one-year cushion beyond that time limit. While most churches are not required to file tax returns, these periods apply to any entity that must file, as well as individual filers.
5. *Of particular importance is the retention of insurance policies and related documents. From time to time, lawsuits are brought which reach back many years. Therefore, it is important to determine the policy in effect at the time that a claim arose. Should those policies be missing, they can often be recreated by contacting your broker or insurance company to establish coverage.*

UNITED METHODIST CHURCH  
SAMPLE INTERNAL CONTROL POLICY and PROCEDURES

Applicability:

All funds administered by \_\_\_\_\_ United Methodist Church and church-issued credit cards.

Purpose:

To establish procedures to safeguard Church assets and to insure compliance with applicable regulatory guidelines/statutes

Procedures:

- I. Finance Committee Oversight
  1. Finance Committee (FC) or its equivalent oversees work of Lay Treasurer. Lay Treasurer is accountable to the FC
  2. Finance Committee will meet at least on a quarterly basis to review specific financial information.
- II. Management of Banking and Investment Accounts
  1. Two (2) signatures shall be required on all checks AND authorizations for wire transfers or withdrawals from investment accounts.
  2. There should be no more than one operating checking account and one payroll checking account.
  3. There may be no more than four (4) authorized check signers
- III. Church Credit or Purchasing ("P") Cards

While the issuance of "corporate" credit cards is discouraged, it is acknowledged that certain circumstances might necessitate their issuance.

Approved usages:

1. Airline Reservations
2. Lodging Reservations
3. Rental Car Reservations
4. Office Supplies. (This does NOT include the purchase of electronic devices, such as computers, cell phones, PDA's, or any equipment purchase over \$100)

All other expenses should be paid/reimbursed from the Church checking account, pursuant to an Accountable Reimbursement Plan.

IV. Cash Procedures

1. Each church may establish a petty cash account not to exceed \$100. The petty cash account shall be replenished as needed. Receipts must accompany the check to reimburse the petty cash fund, and must total the amount of the check. ALL expenses paid out of petty cash MUST be accompanied by a receipt, regardless of amount.
2. Safeguarding Cash – Other than petty cash, no cash should be kept on premises overnight. Miscellaneous cash receipts should be deposited weekly and never mixed with petty cash.
3. Deposits – Checks should be endorsed (stamped) "For Deposit Only" immediately upon receipt.
4. A "Receipts Log" should be used weekly before the deposit ticket is prepared. The receipts log can serve as additional supportive documentation when reviewing the monthly bank statement.

V. Review

The FC will review bank statements/reconciliations and credit card statements at its scheduled meetings.

The FC will review sample expenses reimbursements and other invoices at its scheduled meetings

VI. Proper/Improper Reimbursement Items

# Accountable Reimbursement Plan

plan, as explained next, are not reported as pay. Reimbursements treated as paid under nonaccountable plans, as explained later, are reported as pay. See Publication 15 (Circular E), Employer's Tax Guide, for information on employee pay.



## Accountable Plans

To be an accountable plan, your employer's reimbursement or allowance arrangement must include all of the following rules.

1. Your expenses must have a business connection — that is, you must have paid or incurred deductible expenses while performing services as an employee of your employer.
2. You must adequately account to your employer for these expenses within a reasonable period of time.
3. You must return any excess reimbursement or allowance within a reasonable period of time.

"Adequate accounting" and "returning excess reimbursements" are discussed later.

An excess reimbursement or allowance is any amount you are paid that is more than the business-related expenses that you adequately accounted for to your employer.

The definition of reasonable period of time depends on the facts and circumstances of your situation. However, regardless of the facts and circumstances of your situation, actions that take place within the times specified in the following list will be treated as taking place within a reasonable period of time.

- You receive an advance within 30 days of the time you have an expense.
- You adequately account for your expenses within 60 days after they were paid or incurred.
- You return any excess reimbursement within 120 days after the expense was paid or incurred.
- You are given a periodic statement (at least quarterly) that asks you to either return or adequately account for outstanding advances and you comply within 120 days of the statement.

**Employee meets accountable plan rules.** If you meet the three rules for accountable plans, your employer should not include any reimbursements in your income in box 1 of your Form W-2. If your expenses equal your reimbursement, you do not complete Form 2106. You have no deduction since your expenses and reimbursement are equal.

**TIP** If your employer includes reimbursements in box 1 of your Form W-2 and you meet all the rules for accountable plans, ask your employer for a corrected Form W-2.

**Accountable plan rules not met.** Even though you are reimbursed under an accountable plan, some of your expenses may not meet all the rules. Those expenses that fail to meet all the rules for accountable plans are treated as

having been reimbursed under a nonaccountable plan (discussed later).

**Reimbursement of nondeductible expenses.** You may be reimbursed under your employer's accountable plan for expenses related to that employer's business, some of which are deductible as employee business expenses and some of which are not deductible. The reimbursements you receive for the nondeductible expenses do not meet rule (1) for accountable plans, and they are treated as paid under a nonaccountable plan.

**Example.** Your employer's plan reimburses you for travel expenses while away from home on business and also for meals when you work late at the office, even though you are not away from home. The part of the arrangement that reimburses you for the nondeductible meals when you work late at the office is treated as paid under a nonaccountable plan.

**TIP** The employer makes the decision whether to reimburse employees under an accountable plan or a nonaccountable plan. If you are an employee who receives payments under a nonaccountable plan, you cannot convert these amounts to payments under an accountable plan by voluntarily accounting to your employer for the expenses and voluntarily returning excess reimbursements to the employer.

## Adequate Accounting

One of the rules for an accountable plan is that you must adequately account to your employer for your expenses. You adequately account by giving your employer a statement of expense, an account book, a diary, or a similar record in which you entered each expense at or near the time you had it, along with documentary evidence (such as receipts) of your travel, mileage, and other employee business expenses. (See Table 5-1 in chapter 5 for details you need to enter in your record and documents you need to prove certain expenses.) A per diem or car allowance satisfies the adequate accounting requirement under certain conditions. See *Per Diem and Car Allowances*, later.

You must account for all amounts you received from your employer during the year as advances, reimbursements, or allowances. This includes amounts you charged to your employer by credit card or other method. You must give your employer the same type of records and supporting information that you would have to give to the IRS if the IRS questioned a deduction on your return. You must pay back the amount of any reimbursement or other expense allowance for which you do not adequately account or that is more than the amount for which you accounted.

## Per Diem and Car Allowances

If your employer reimburses you for your expenses using a per diem or a car allowance, you can generally use the allowance as proof for the amount of your expenses. A per diem or car allowance satisfies the adequate accounting requirements for the amount of your expenses only if all of the following conditions apply.

- Your employer reasonably limits payments of your expenses to those that are ordinary and necessary in the conduct of the trade or business.
- The allowance is similar in form to and not more than the federal rate (defined later).
- You prove the time (dates), place, and business purpose of your expenses to your employer (as explained in Table 5-1) within a reasonable period of time.
- You are not related to your employer (as defined next). If you are related to your employer, you must be able to prove your expenses to the IRS even if you have already adequately accounted to your employer and returned any excess reimbursement.

If the IRS finds that an employer's travel allowance practices are not based on reasonably accurate estimates of travel costs (including recognition of cost differences in different areas for per diem amounts), you will not be considered to have accounted to your employer. In this case, you must be able to prove your expenses to the IRS.

**Related to employer.** You are related to your employer if:

1. Your employer is your brother or sister, half brother or half sister, spouse, ancestor, or lineal descendant,
2. Your employer is a corporation in which you own, directly or indirectly, more than 10% in value of the outstanding stock, or
3. Certain relationships (such as grantor, fiduciary, or beneficiary) exist between you, a trust, and your employer.

You may be considered to indirectly own stock, for purposes of (2), if you have an interest in a corporation, partnership, estate, or trust that owns the stock or if a member of your family or your partner owns the stock.

**The federal rate.** The federal rate can be figured using any one of the following methods.

1. For per diem amounts:
  - a. The regular federal per diem rate.
  - b. The standard meal allowance.
  - c. The high-low rate.
2. For car expenses:
  - a. The standard mileage rate.
  - b. A fixed and variable rate (FAVR).

**TIP** For per diem amounts, use the rate in effect for the area where you stop for sleep or rest.

**Regular federal per diem rate.** The regular federal per diem rate is the highest amount that the federal government will pay to its employees for lodging, meals, and incidental expenses (or meals and incidental expenses only) while they are traveling away from home in a particular area. The rates are different for different locations. Your employer should have these rates available. (Employers can get Publication 1642,

## EXAMPLES OF REIMBURSABLE EXPENSES

Reasonable travel and related expenses for attending meetings (e.g., annual conferences, United Methodist meetings, etc.) Travel Expenses include:

- The cost of getting to and from your business destination (air, rail, bus, car, etc.)
- Telephone charges
- Meals and lodging while away from home
- Taxi fares
- Baggage charges
- Cleaning and laundry expenses

Lunch meetings with members of the District Finance Committee to discuss district office business

Church-related continuing education

Annual credit card fee up to \$100 for personal credit cards used solely for business

"Going Away" Gifts to Long-Term or Retiring Employees (Pre-approval required-must not exceed \$100)

Christmas meals with department staff.

Meals for nationally recognized events, such as Boss's Day, Admin Assistant's Day, etc.

Civic Club Dues

Quarterly staff lunches as part of departmental meetings/staff development meetings.

A computer required for church work, **if one is not available at the office**

DSL Line or equivalent, **when required** for remote computer/database/website maintenance

Church-related books and periodicals

Medical expenses related to international mission trips

**Spouse's** travel expenses where the spouse accompanies the pastor **but only if the spouse was required by the Conference to be present for a business purpose** (e.g., the spouse is an elected delegate to the church meeting or group in charge of registration at the meeting and making a speech to the business meeting, etc.,

Business meals which include spouse.

Long distance telephone calls to the district office/conference office when on vacation

Professional Association Dues

12/11/2012

## EXAMPLES OF NON-REIMBURSABLE EXPENSES

Professional license fees

Mileage to church from home for daily work (considered personal) – mileage to home and back to church for lunch breaks – also referred to as "commuting mileage"

Meals with co-workers only (when not traveling)-see exceptions on "Approved" list

Spouse's travel under certain circumstances (see example of proper reimbursement in limited circumstances above) (See attached GCFA Memo)

Trips to visit a sick relative

Tickets to attend plays of a religious nature or otherwise

Gifts

Expenditures (e.g. travel, books, phone calls) to research a book.

Payments to an individual

Continuing education primarily for personal improvement (non-church related) unless approved by Supervisor or respective Board.

A computer used at home and equipment related to such computers

Alcohol, even as an item on a receipt for a business meal

Medical expenses (may be part of a cafeteria or flexible spending reimbursement plan)

Life or disability insurance premiums

Casualty losses

Medical insurance premiums (may be part of a cafeteria or flexible spending plan)

Charitable contributions, tickets to non-church related charity functions (United Way, etc.)



Expenditures related to a private business or generating income from a non-church source

Housing related expenses (e.g. utilities, furniture, upkeep (part of housing allowance))

Subscriptions to a national news magazine for the pastor's personal use (these subscriptions may be in the name of the District/Conference and mailed to the district/conference offices and paid by the district/conference)

Political contributions

\*These items listed, in most cases, are improper. There may be some circumstances, particularly where the organization has directed the staff person to make the expenditure for organizational mission, when these items may be proper.

Exceptions must be approved by CF&A

Reimbursement for items on this list, or items which are not included on the "reimbursable" list must be included as income on the recipient's W-2 or 1099.

## Reimbursement for Cell Phones

IRS NewsWire - Issue Number: IR-2011-93; September 14, 2011

### IRS Issues Guidance on Tax Treatment of Cell Phones; Provides Small Business Recordkeeping Relief

WASHINGTON — The Internal Revenue Service today issued guidance designed to clarify the tax treatment of employer-provided cell phones.

The guidance relates to a provision in the Small Business Jobs Act of 2010, enacted last fall, that removed cell phones from the definition of listed property, a category under tax law that normally requires additional recordkeeping by taxpayers.

The Notice issued today provides guidance on the treatment of employer-provided cell phones as an excludible fringe benefit. The Notice provides that when an employer provides an employee with a cell phone primarily for noncompensatory business reasons, the business and personal use of the cell phone is generally nontaxable to the employee. The IRS will not require recordkeeping of business use in order to receive this tax-free treatment.

Simultaneously with the Notice, the IRS announced in a memo to its examiners a similar administrative approach that applies with respect to arrangements common to small businesses that provide cash allowances and reimbursements for work-related use of personally-owned cell phones. Under this approach, employers that require employees, primarily for noncompensatory business reasons, to use their personal cell phones for business purposes may treat reimbursements of the employees' expenses for reasonable cell phone coverage as nontaxable. This treatment does not apply to reimbursements of unusual or excessive expenses or to reimbursements made as a substitute for a portion of the employee's regular wages.

Under the guidance issued today, where employers provide cell phones to their employees or where employers reimburse employees for business use of their personal cell phones, tax-free treatment is available without burdensome recordkeeping requirements. The guidance does not apply to the provision of cell phones or reimbursement for cell-phone use that is not primarily business related, as such arrangements are generally taxable.

Details are in the memo and in Notice 2011-72, posted today on IRS.gov.



North Georgia Conference  
Check Requisition Form

Vendor \_\_\_\_\_  
 SS# \_\_\_\_\_  
 Address: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Note: United States Code Section Title 26, Subtitle F, Chapter 61, Subchapter B, Section 6109 requires certain payees to provide their federal identification numbers. The treasury's office will collect this information when required. Further information regarding this requirement can be found on IRS Form W-9.

Date: \_\_\_\_\_

Invoice Reference:

Meals/Catering	Restaurant	Amount	Names of Attendees	Business Purpose	Account Code or description*

Other INCL Mileage	Account Code or description*	Amount	Description	Business Purpose

\$ \_\_\_\_\_

Please attach supporting document and receipts AND MILEAGE log

If you have any questions please contact the Treasurer's office. Thank you.

\_\_\_\_\_

Requestor \_\_\_\_\_

Authorizing Signator \_\_\_\_\_

\* If you are not sure, just describe which Conference program or department this disbursement relates to and the treasurer's office will assign the code.

# All About Apportionments



## Interpretation of 2018 Conference Apportionment Budget

The Conference budget for 2018 is \$22,020,804, a **decrease** of \$113,292 versus the approved 2017 budget. Conference direct mission and ministry budgets comprise 62.2% of the Conference portion of the budget versus 59.26% in 2017.

This budget includes a 1.3% salary increase for the Cabinet and 2.5% salary increase for UM Center staff.

General Church apportionments reflect an increase of 4.0%.

### CONFERENCE FUNDS:

<b>AREA I. MINISTERIAL SUPPORT</b>	
Episcopal Residence/Office/Discretionary	\$ 290,000
District Superintendents' Compensation	1,871,550
District AA Pension/Ins	90,000
Equitable Compensation Fund	310,000
Board of Ordained Ministry	<u>333,000</u>
Total Area I	<u>\$ 2,894,550</u>

The Episcopal Residence and Office Fund provides the conference share of financial support for the office and residence expense for North Georgia's Resident Bishop. In 2018, the General Church share of residence support is \$10,000, while the General Church's share of office support is \$84,558. The increase in Area I is primarily due to the reestablishment of the full-time Executive Assistant to the Bishop position (This position was full-time from 1999-2011).

The District Superintendents' Compensation line item represents salaries, health insurance and pension benefits for the twelve (12) district superintendents of our conference.

The Equitable Compensation Fund enables our conference to ensure all appointed clergy will receive Conference minimum compensation.

The Board of Ordained Ministry coordinates, with the Cabinet, deployment and credentialing of clergy. Additionally, it coordinates the provision of support for conference clergy through myriad services, continuing education activities, seminars and counseling support, which is essentially a clergy-specific expanded EAP Program subsidized by the Annual Conference. This ministry enables our conference to meet the high standards and expectations of local church congregations.

**AREA II. RETIRED MINISTERS PENSION/INSURANCE**

Retired Minister Insurance Premiums	\$2,125,000
Benefits Office Staff and Admin Exp.	240,000
Disability Premiums	210,000
Retirees' Past Service Pension (Pre-1982)	500,000
Retiree Medical Supplement Liability	<u>500,000</u>
Total Area II	<u>\$3,575,000</u>

Retired Minister Pension/Insurance reflects funding in order to assure continued "full funded" status despite actuarial risk factors.

Also included is the OneExchange defined contribution funding for the Heath Reimbursement Account for retired/eligible clergy and Conference staff. The amount is based on claims expenses passed on to the Conference by WesPath (formerly known as the General Board of Pension and Health Benefits). The benefit per claimant is currently capped at \$3600/annum. This program allows us to manage and address the retiree medical insurance **net** unfunded liability, estimated to be \$5,300,000 as of 12/31/2016.

**AREA III. ADMINISTRATIVE FUND**

Annual Conference Session/Journal/Handbook \$ 190,000

This line item represents total direct Annual Conference session production expenses including documentation.

The following Area III office "sub totals" include director and staff salaries and benefits and office related expenses.



Office of Treasurer/Admin/IT Services \$ 640,000

This office develops, maintains and administers a comprehensive plan of fiscal and administrative policies, processes and services for the all Conference's administrative ministries. Additionally, the office provides workshops for clergy and laity who serve as church treasurers, financial secretaries, business administrators and finance committee chairpersons. This office also administers all conference databases and computer equipment. The IT Director and assistant also provide support for the district offices.

Office of Ministerial Services and Spiritual Formation \$ 371,450

This office provides for the many needs of those who have dedicated their lives to God's service through the church, including maintenance of clergy service records/files. This department also provides for credentialing and support of all conference clergy.

BOT/"New" Methodist Center Operating Expenses \$ 110,000

This represents net operating expenses for the conference offices, including insurance and telephone service for the new leased space.

Council on Finance and Administration \$ 115,000

This includes conference and district audit fees, legal fees and meeting expenses for CFA.

Cabinet Expenses \$ 75,000

This represents expenses for Cabinet members related to Cabinet meetings, including Annual Conference session and Pastor's School.

Total Area III \$1,501,450

**AREA IV. CONFERENCE BENEVOLENCES**

**Connectional Ministries:**

Administrative Support & Staff	\$ 840,495
Communications	\$ 247,000
Program/Ministry Teams	\$ 237,000
Camp and Retreat Ministries	\$ 361,800
Conference Leadership Development	<u>\$ 30,000</u>

Sub Total Connect. Ministries \$1,716,295

The Connectional Ministries functions are responsible for equipping and training local church leaders for effective ministry.

Action Ministries \$ 575,000

This ministry continues the transformation of communities by counteracting social issues such as poverty, hunger and homelessness.

Housing and Homeless Council \$ 10,000

This line item will partially fund staffing and office expenses.

Ministry of the Laity \$ 45,000

The Conference Board of Laity fosters awareness of the role of laity both within the local congregation and through their ministries, develops and promotes stewardship, provides for training of lay members, provides support and direction for ministry of the laity and provides organization, direction and support for the development of local church leaders.

Total Area IV \$2,346,295

#### AREA V. CAPITAL FUNDING

CAPEX \$ 25,000

This represents funding for office equipment, computers and replacement for 3 old PowerPoint projectors.

UM Center Replacement Reserve \$250,000

This is included in order to build a reserve fund to either continue leasing the UM Center after lease expiration, or to have funding to consider building.

Total Area V \$275,000

#### AREA VI. HIGHER EDUCATION AND CAMPUS MINISTRY

Total Area VI \$ 1,453,000

This line item represents support to the nine (9) United Methodist Colleges (7 in NGA) and eighteen (18) Wesley Foundations (12 in NGA) on college campuses in Georgia. The balance goes to support office expenses and capital funding.

**AREA XII. CONGREGATIONAL DEVELOPMENT**

Total Area XII \$ 2,544,800

This budget includes funding for the following activities:

The Office of Congregational Development and Staff - The salaries, benefits and expenses for personnel in the Office of Congregational Development.

New Church Salary and Support - These funds are used to underwrite the compensation packages of our new church pastors and also to provide some start-up funding.

Market Research - These funds are used to maintain a contract with a demographic consultant and to provide partnership opportunities with districts to develop district strategies.

New Pastor Coaching- These funds are used to conduct the NExT Clergy Leadership Development Program.

**CONTINGENCY RESERVE** \$250,000

**SUB TOTAL**

2018 CONFERENCE BUDGET \$14,840,095

**GENERAL CHURCH FUNDS:**

**AREA VII. BLACK COLLEGE FUND**

Total Area VII \$ 493,788

This line item represents our denomination's support, via supplements, of the operations and capital funding of historically black colleges and medical schools related to the United Methodist Church, including Clark Atlanta University and Paine College.

**AREA VIII. MINISTERIAL EDUCATION FUND**

Total Area VIII \$ 1,237,903

This ministry provides our churches financial support for the recruitment and education of our future pastors and bishops. Please note that our conference retains 25% of the fund balance for use in our conference. The retained fund

balance as of 12/31/2016 is \$270,354. Scholarship grants can total \$1,000 per semester for undergraduate studies (certified candidates only) and \$3,000 per semester for seminary students with a lifetime maximum per student of \$26,000.

**AREA IX. INTERDENOMINATIONAL COOPERATION FUND**

Total Area IX \$ 96,813

This fund enables United Methodists to have a presence in the activities of ecumenical organizations, and provides our United Methodist share of the basic budgets of those organizations which relate to the ecumenical responsibilities of the Council of Bishops and the General Commission on Christian Unity and Inter-religious Concerns. Included in this fund in 2018 is support for:

National Council of Churches	\$29,300
World Council of Churches	\$25,680
World Methodist Council	\$22,700
Pan-Methodist Commission	\$ 1,170
Ecumenical Office and Travel	\$12,605
Interreligious Relations	\$ 1,760
Other	\$ 3,598

**AREA X. WORLD SERVICE FUND**

Total Area X \$ 3,665,107

The World Service Fund enables our denomination to strengthen its evangelism efforts, stimulate church growth, expand Bible studies and enrich spiritual commitment. This fund allows us to share in a worldwide ministry, including support for missionaries.

**AREA XI. AFRICA UNIVERSITY**

Total Area XI \$ 110,508

This fund supports the development of the first private university for young men and women from all over Africa. Courses of study include agriculture, theology, medicine and dentistry, education, technology and management.

**AREA XIV. EPISCOPAL FUND**

Total Area XIV \$ 1,085,388

This fund pays the annual salaries (approximately \$155,000) and benefits of active bishops worldwide and some support for the retired bishops worldwide, funds the majority of the expenses related to episcopal offices and a portion of

episcopal residence expenses. It also funds episcopal travel and moving expenses. 51 Jurisdictional and 18 Central Conference bishops receive support from this fund. The salary for active U.S. Bishops in 2018 will be \$159,162.

**AREA XV. GENERAL ADMINISTRATION FUND**

Total Area XV \$ 435,202

This area funds those General Church activities that are specifically administrative in nature, such as the General Council on Finance and Administration, General Conference session, Archives and History and Judicial Council.

**SUBTOTAL 2018 GEN CHURCH BUDGET** \$7,124,709

For more information on the General Church Budget go to:

*[http://s3.amazonaws.com/Website\\_GCFA/reports/financial/2017-2020\\_Financial\\_Committment\\_Book\\_FINAL\\_071316\\_02.pdf](http://s3.amazonaws.com/Website_GCFA/reports/financial/2017-2020_Financial_Committment_Book_FINAL_071316_02.pdf)*

**AREA XVI. JURISDICTIONAL MISSION & MINISTRY FUND**

Total Area XVI \$ 56,000

This area supports the administrative functions of the Southeastern Jurisdiction.

**GRAND TOTAL 2018 BUDGET** \$22,020,804

**How Are Apportionments Computed?**

**Step 1:** Conference determines annual budget, consisting of several ministries and programs, including retired ministerial support, regional ministries, new church development, General Church and Jurisdictional apportionments to the North Georgia Conference.

**Step 2:** At calendar year-end, the local church completes the Local Church Report to the Annual Conference. (For the 2018 recommended budget, the latest available reports are the 2016 year-end reports.)

**Step 3:** The Treasurer's Office accumulates all local church reports and determines each local church's **operating expenses**. **Operating expenses** consist of salaries, pension benefits, clergy housing-related expenses, expense

reimbursements, current program expenses, expenses related to commercial insurance and other current operating expenses. Operating expenses (also referred to as "decimal" expenses) do NOT include: Elder HealthFlex insurance expenses (Table 2, Line 47 of the Year-End Report), payments on indebtedness, or capital-related expenditures. Also, expenses related to "self-sustaining" activities and local benevolences are NOT considered operating expenses.

**Step 4:** The Treasurer's Office totals the local church operating expenses for ALL 850+ North Georgia United Methodist churches. For year end 12/31/2016, this total was \$193,585,604 (an **increase of 0.907%** over 2015).

**Step 5:** We determine "the decimal." This is the conference budget divided by total church operating expenses (from step four). The decimal for 2018 is .114, or 11.4 %. This is a **reduction of 0.2 percentage points** from the 2017 budget. **This means that the Conference budget, expressed as a percentage of local church expenditures, in aggregate, is down 1.7% versus the 2017 budget (0.2/11.6).**

**Step 6:** We multiply an individual church's operating expenses by the decimal, arriving at the total gross apportionment. We then prorate the gross apportionment to fifteen individual apportionment line items.

**Step 7:** Churches above 1000 members will have a "reasonableness test" applied to their apportionments (see formula below), and the Cabinet **might** adjust the computed apportionments for certain churches within that size range. This methodology was approved at AC 2006.

**Step 8:** We sum the apportionment for each individual district and send this information to the district offices. District Superintendents review the apportionments as calculated, **and may make adjustments to the calculated amounts.** Such adjustments should be made only after discussion with the church's senior pastor. Note that the District's aggregate apportionments cannot be changed.

**Step 9:** District superintendents notify local churches of their apportionment amounts. This information is provided to the pastors via "Local Church Apportionment Reports" at the summer/fall district set-up meetings.

Please note that churches that are considered "newly constituted" have 5 years to transition into their full computed apportionment. In effect, the difference between their *computed* apportionment and what they are *actually* apportioned is subsidized by the other churches in the Conference for a five year period. (This is accomplished generally by apportioning in increments of 20% of computed apportionments per year for 5 years-20% in year 1, 40% in year 2, etc.)

**Detailed Explanation of Step 7 as originally approved at 2006 Annual Conference Session (and re-ratified each year since):**

In order to assure that our apportionment computation and allocation system is as equitable as possible, we recommend that a "reasonableness test" be implemented, which will work as follows-

- a. Existing apportionment formula and rules for year-end report completion remain unchanged.
- b. After the apportionments have been computed for all churches, three (3) comparative groups will be established-churches with membership from 1000-1999; 2000-2999; 3000+
- c. The aggregate apportionments for each group will be divided by the aggregate membership of each group in order to calculate an average apportionment/member for each group.
- d. Any church whose apportionment/member falls below the average for its group will be referred to the Cabinet for discussion about possibly being moved up to the group average over a three (3) year period. Group average calculations will occur each year based on the latest reported membership statistics.
- e. The Cabinet will review the apportionments for the churches in all 3 groups and will, as a body, discuss and might make adjustments to each church whose apportionment is below the average for its size range.
- f. Apportionments added to the affected churches will not be offset by reductions in other churches, and will be applied to Conference-specific apportionment line items ONLY and will NOT be added to General or Jurisdictional line items.

**Information Only**

Note: Information reported by our churches on the year end "Table III" report, which is a report of revenues, indicates the following-

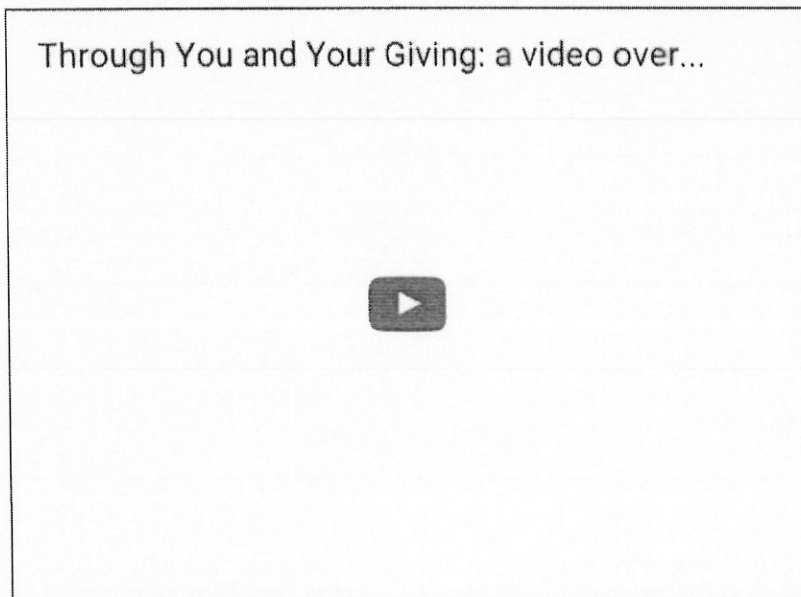
• Aggregate amount received through pledges	\$129,492,538
• Aggregate amount received through non-pledging, identified givers	\$126,262,201
• Aggregate amount received from Unidentified givers	<u>\$ 5,966,226</u>
Total "normal" giving	<u>\$261,720,965</u>

**The 2018 budget, expressed as a percentage of aggregate "normal" revenues, is 8.4%.**



[Home \(/\)](#) / [Administration \(/administration\)](#) / [Apportionments and Church Giving \(/giving\)](#)  
/ [Through You and Your Giving: a video overview on apportioned giving \(/throughyou\)](#)

## Through You and Your Giving: a video overview on apportioned giving



"What are apportionments and what do they do?" Perhaps you are a clergy or lay person who has either been asked that question ... or you have found yourself asking it! This video will help you understand the United Methodist apportioned giving system. It also is a spring-board that introduces a few of the North Georgia Conference ministries that apportioned giving supports. Because of your giving, we are better able to make disciples of Jesus Christ for the transformation of the world.

### [Apportionments and Church Giving \(/giving\)](#)

[Apportioned Giving Distribution Tool \(http://www.ngumc.info/calculator/\)](#)

[Churches that paid 100% in 2014 \(/churchesthatpaid100\\_2014\)](#)

[Churches that paid 100% in 2015 \(/churchesthatpaid100\)](#)

[Interpretation of 2016 Conference Apportionment Budget \(/budgetinterpretation\)](#)


Through You and Your Giving: a video overview on apportioned giving (/throughyou)

## Contact Us

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United Methodist Church web(at)ngumc.org  
678-533-1399

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UyBGM35Wg)

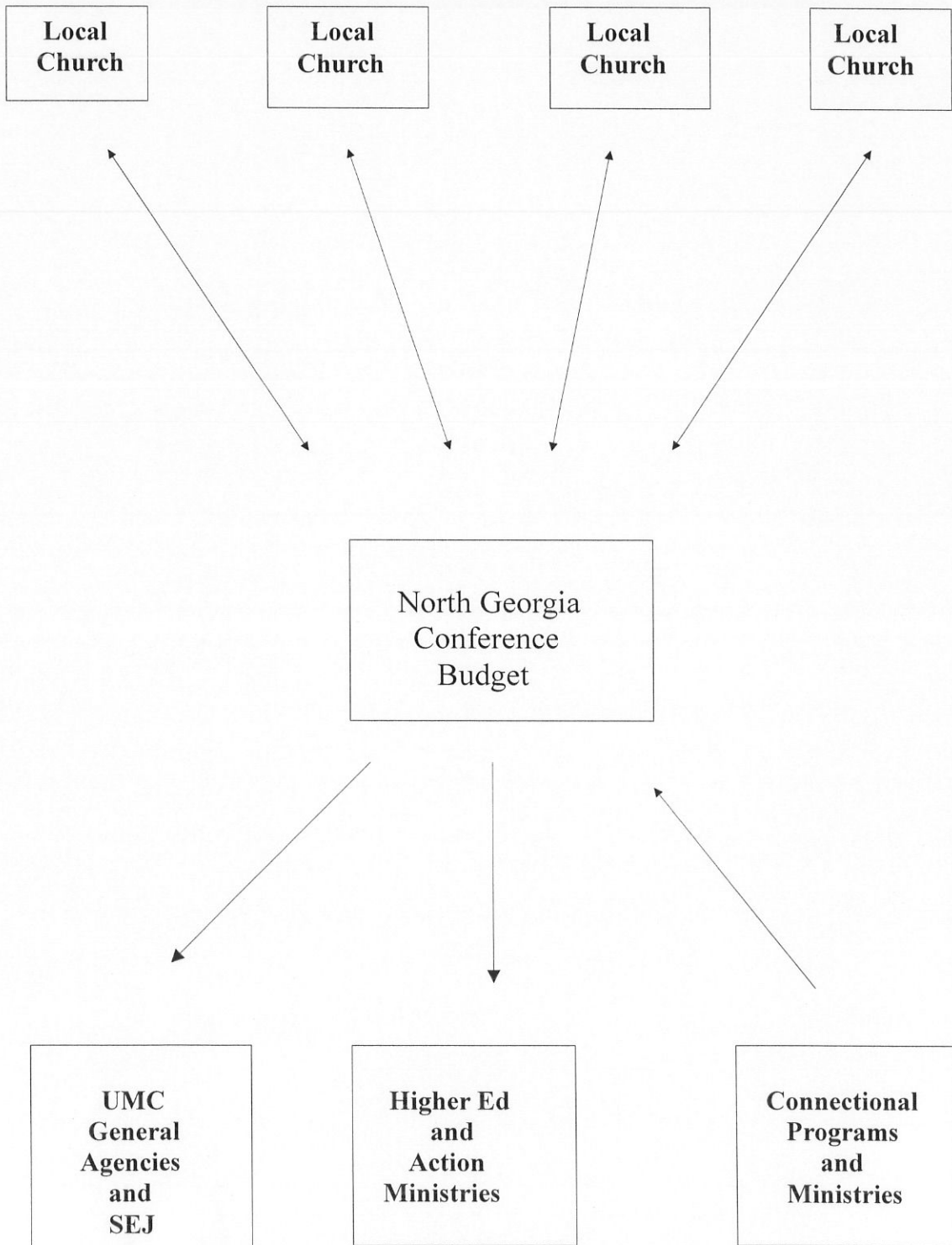


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Open hearts. Open minds. Open doors.

**NORTH GEORGIA CONFERENCE  
COUNCIL ON FINANCE AND ADMINISTRATION  
HOW THE 2018 CONFERENCE  
APPORTIONMENT BUDGET WAS DEVELOPED**



**NORTH GEORGIA CONFERENCE**  
**COUNCIL ON FINANCE AND ADMINISTRATION**  
**HOW THE 2018 CONFERENCE**  
**APPORTIONMENT BUDGET WAS DEVELOPED**

1. The "General Church" sets priorities and develops programs at the General Conference Session for a four (4) year period (the quadrennium). The new quadrennium began in 2017 and runs through 2020

The financial support for those worldwide ministries is apportioned to the Annual Conferences, which, in turn, apportions those amounts to the local churches. The 2018 General Church Apportionments are \$7,124,709 or 32.4 % of the 2018 total recommended Conference Budget. This is based on the budget approved by General Conference for the new quadrennium (\$604M).

The United Methodist Church is a worldwide, connectional denomination and every United Methodist church has the opportunity to support, via apportioned giving, our conference, regional and worldwide ministries.

2. Conference-based and Conference-subsidized programs and ministries requested funding based on their plans and priorities for the upcoming year. These plans are developed by program "conferencing" via staff as well as those serving on boards and committees, such as the Board of Church Development, the Board of Laity, the Board of Pensions and Health Benefits, the Board of Ministry, Action Ministries, et.al.

Representatives from several programs/ministries and their board chairpersons, if applicable, presented their requests to CFA via email and/or in person. CFA reviewed these requests on February 13, 2017.

Those requests were then put in the draft budget.

3. On March 10, 2017 CF&A met to review the draft budget. During this meeting, CF&A made very minor adjustments to the draft budget based on several factors, including: budget changes compared to change in local church expenditures; departmental fund balances; apportionment collection rates from prior years; feedback from the local churches, the Cabinet and other members of the Annual Conference; CF&A made a decision to slightly reduce the Conference portion of the budget. However the percentage allocable to mission and ministry initiatives continues to increase. The total approved budget for 2018 is **\$22,020,804**, a decrease of \$113,292 (-0.5%) from the approved 2017 budget.

**Note that our General Church apportionments increased by 4.0%.**

4. Through a series of District "pre-Conference briefings", District Superintendents, utilizing instructional videos prepared by Conference staff, briefed delegates (members) to annual conference on highlights of the budget
5. During Annual Conference Session, the budget was presented to members of annual conference, who represent all local churches.

After the recommended budget was approved, Conference staff calculated the local church apportionments, which represent each church's "share" of the Conference and world-wide ministry and mission, using the apportionment calculation methodology described in the "Budget Interpretation."

*The apportionments will be provided to each District Superintendent, who may alter individual apportionments within his/her district, but not the total amount for the district. It is expected that the DS will have conversations with the affected churches about any changes in the calculated apportionments.*

Final apportionments are distributed, by church, by the DS at his/her appointed District setup meeting in late summer/early fall.

**The Conference Treasurer's Office will NOT communicate apportionments to any church until after the 2017 District set up meetings have concluded!**

**Once the set up meetings have concluded, 2018 apportionments will be posted on the Conference website**

# Year End Statistical Reporting

[Home \(/\)](#) / [Administration \(/administration\)](#) / [End of Year Reports: Reference Materials \(/eoyreference\)](#)

## End of Year Reports: Reference Materials

Reports are to be submitted online through Data Services (<https://data.ngumc.org> (<https://data.ngumc.org>)) annually in January.

The deadline for 2017 reports is January 31, 2018.

The reports for the new quadrennium (2017-2020) have new line numbers. There are also a few changes to the questions.

Generate a report showing the 2016 amounts on the new 2017 lines.

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All Tables ▾
Church Number
Request

### Materials for the new quadrennium.

[Statistical Tables - Changes to Lines and Questions \(2017-2020\) \(/files/fileslibrary/endofyearreports/statistical tables - changes to lines and questions \(2017-2020\).pdf\)](#)

[Statistical Tables - Directions and Notes \(2017-2020\) \(/files/fileslibrary/endofyearreports/statistical tables - directions and notes \(2017-2020\).pdf\)](#)

[Statistical Tables - Explanation of Changes \(2017-2020\) \(/files/fileslibrary/endofyearreports/new quadrennium forms update explanations.pdf\)](#)

[Table 1 - English \(2017-2020\) \(/files/fileslibrary/endofyearreports/table 1 - english.pdf\)](#)

[Table 1 - Korean \(2017-2020\) \(/files/fileslibrary/endofyearreports/table 1 - korean.pdf\)](#)



# Health Insurance

# 2018 North Georgia Conference UMC

## HealthFlex /CRSP DB

RATE	GROUP	2018	
		Monthly	Annually
These rates combined pay-clergy HF DC	<b>APPOINTED CLERGY</b> (By church membership)	Based on 2016 membership	
(-15%)	1-100 members	\$1,063	\$12,756 *
(-10%)	101-200 mbrs	\$1,125	\$13,500 *
(Base)	201-499 mbrs	\$1,250	\$15,000 *
(+10%)	500-Above mbrs	\$1,375	\$16,500 *

CRSP DB	(full time)
2013	\$7,944
2014	\$5,880
2015	\$5,928
2016	\$5,976
2017	\$6,000
2018	\$6,360

Church or Employer responsible

Participant (clergy/lay) responsible

### Clergy/Lay 2018 HF Defined Contribution (DC) Paid by Employer/NGC

Single	\$666.67	\$8,000 **
2-party	\$ 1,216.67	\$14,600 **
Family	\$1,533.33	\$18,400 **

### Optional Dental & Vision Plans - Monthly rates

	PPO 1000	PPO 2000	PPO	VSP	VSP P
Single **	\$ 41.00	\$ 55.00	\$ 45.00	\$ 5.62	\$ 14.38
2-party **	\$ 80.00	\$ 110.00	\$ 90.00	\$ 9.06	\$ 23.32
Family**	\$ 112.00	\$ 154.00	\$ 128.00	\$ 14.32	\$ 37.03

### 2018 Employee Cost by Med Plan Amounts above DC

	B1000 yr month	C2000 yr month	C3000yr month
Single **	\$ 2,260	\$ 1,768	\$ 412
2-party **	\$ 4,852	\$ 3,976	\$ 1,348
Family **	\$ 6,164	\$ 5,048	\$ 1,736
<b>H1500 yr month</b>			
Single **	\$1,684	\$ 856	-\$356
2-party **	\$3,760	\$ 2,176	-\$104
Family **	\$4,796	\$ 2,780	-\$100
<b>H2000 yr month</b>			
Single **	\$140.33	\$71.33	-\$29.67
2-party **	\$313.33	\$181.33	-\$8.67
Family **	\$399.67	\$231.67	-\$8.33
<b>H3000yr month</b>			
Single **	\$140.33	\$71.33	-\$29.67
2-party **	\$313.33	\$181.33	-\$8.67
Family **	\$399.67	\$231.67	-\$8.33

Participants will have a choice of 6 medical/pharmacy plans. What is covered remains basically the same, but the point at which participant is financially responsible will vary among the plans.

\* Churches are billed on a blended rate scale to fund the HealthFlex Defined Contribution (DC) amounts provided by the North Georgia Conference as the "Employer" for clergy appointed to churches

\*\* Participants are responsible for Premium costs (including optional elections) above the employer HealthFlex Defined Contributions listed above, by pre-tax payroll deduction.

*(Handwritten initials)*

## W-2 Information

		a Employee's social security number	OMB No. 1545-0008			
b Employer identification number (EIN)		1 Wages, tips, other compensation		2 Federal income tax withheld		
c Employer's name, address, and ZIP code		3 Social security wages		4 Social security tax withheld		
		5 Medicare wages and tips		6 Medicare tax withheld		
		7 Social security tips		8 Allocated tips		
d Control number		9 Verification code		10 Dependent care benefits		
e Employee's first name and initial      Last name      Suff.		11 Nonqualified plans		12a		
		13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b		
		14 Other		12c		
				12d		
f Employee's address and ZIP code						
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	
					20 Locality name	

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

2017

Department of the Treasury—Internal Revenue Service

Copy 2—To Be Filed With Employee's State, City, or Local Income Tax Return

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## Instructions for Employee *(continued from back of Copy C)*

**F**—Elective deferrals under a section 408(k)(6) salary reduction SEP

**G**—Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan

**H**—Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan. See "Adjusted Gross Income" in the Form 1040 instructions for how to deduct.

**J**—Nontaxable sick pay (information only, not included in boxes 1, 3, or 5)

**K**—20% excise tax on excess golden parachute payments. See "Other Taxes" in the Form 1040 instructions.

**L**—Substantiated employee business expense reimbursements (nontaxable)

**M**—Uncollected social security or RRTA tax on taxable cost of group-term life insurance over \$50,000 (former employees only). See "Other Taxes" in the Form 1040 instructions.

**N**—Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (former employees only). See "Other Taxes" in the Form 1040 instructions.

**P**—Excludable moving expense reimbursements paid directly to employee (not included in boxes 1, 3, or 5)

**Q**—Nontaxable combat pay. See the instructions for Form 1040 or Form 1040A for details on reporting this amount.

**R**—Employer contributions to your Archer MSA. Report on Form 8853, Archer MSAs and Long-Term Care Insurance Contracts.

**S**—Employee salary reduction contributions under a section 408(p) SIMPLE plan (not included in box 1)

**T**—Adoption benefits (not included in box 1). Complete Form 8839, Qualified Adoption Expenses, to compute any taxable and nontaxable amounts.

**V**—Income from exercise of nonstatutory stock option(s) (included in boxes 1, 3 (up to social security wage base), and 5). See Pub. 525, Taxable and Nontaxable Income, for reporting requirements.

**W**—Employer contributions (including amounts the employee elected to contribute using a section 125 (cafeteria) plan) to your health savings account. Report on Form 8889, Health Savings Accounts (HSAs).

**Y**—Deferrals under a section 409A nonqualified deferred compensation plan

**Z**—Income under a nonqualified deferred compensation plan that fails to satisfy section 409A. This amount is also included in box 1. It is subject to an additional 20% tax plus interest. See "Other Taxes" in the Form 1040 instructions.

**AA**—Designated Roth contributions under a section 401(k) plan

**BB**—Designated Roth contributions under a section 403(b) plan

**DD**—Cost of employer-sponsored health coverage. **The amount reported with Code DD is not taxable.**

**EE**—Designated Roth contributions under a governmental section 457(b) plan. This amount does not apply to contributions under a tax-exempt organization section 457(b) plan.

**FF**—Permitted benefits under a qualified small employer health reimbursement arrangement

**Box 13.** If the "Retirement plan" box is checked, special limits may apply to the amount of traditional IRA contributions you may deduct. See Pub. 590-A, Contributions to Individual Retirement Arrangements (IRAs).

**Box 14.** Employers may use this box to report information such as state disability insurance taxes withheld, union dues, uniform payments, health insurance premiums deducted, nontaxable income, educational assistance payments, or a member of the clergy's parsonage allowance and utilities. Railroad employers use this box to report railroad retirement (RRTA) compensation, Tier 1 tax, Tier 2 tax, Medicare tax and Additional Medicare Tax. Include tips reported by the employee to the employer in railroad retirement (RRTA) compensation.

**Note:** Keep **Copy C** of Form W-2 for at least 3 years after the due date for filing your income tax return. However, to help **protect your social security benefits**, keep Copy C until you begin receiving social security benefits, just in case there is a question about your work record and/or earnings in a particular year.

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## Attention:

You may file Forms W-2 and W-3 electronically on the SSA's Employer W-2 Filing Instructions and Information web page, which is also accessible at [www.socialsecurity.gov/employer](http://www.socialsecurity.gov/employer). You can create fill-in versions of Forms W-2 and W-3 for filing with SSA. You may also print out copies for filing with state or local governments, distribution to your employees, and for your records.

**Note:** Copy A of this form is provided for informational purposes only. Copy A appears in red, similar to the official IRS form. The official printed version of this IRS form is scannable, but the online version of it, printed from this website, is not. Do **not** print and file Copy A downloaded from this website with the SSA; a **penalty** may be imposed for filing forms that can't be scanned. See the penalties section in the current General Instructions for Forms W-2 and W-3, available at [www.irs.gov/w2](http://www.irs.gov/w2), for more information.

Please note that Copy B and other copies of this form, which appear in black, may be downloaded, filled in, and printed and used to satisfy the requirement to provide the information to the recipient.

To order official IRS information returns such as Forms W-2 and W-3, which include a scannable Copy A for filing, go to IRS' Online Ordering for Information Returns and Employer Returns page, or visit [www.irs.gov/orderforms](http://www.irs.gov/orderforms) and click on Employer and Information returns. We'll mail you the scannable forms and any other products you order.

See IRS Publications 1141, 1167, and 1179 for more information about printing these tax forms.

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### Earnings Calculator\*

Fill in requested information, and then click CALCULATE to see amounts.

#### Area I of the Clergy Financial Support Worksheet

Base Compensation \$0.00

FSA – Flexible Spending Account (Medical), and Health Insurance \$0.00

UMPIP - UM Personal Investment Program - Clergy person's voluntary contribution to the pension plan \$0.00

#### Area II of the Clergy Financial Support Worksheet

Utilities and Other Parsonage-Related Allowances Paid To Or For The Pastor \$0.00

#### Area III of the Clergy Financial Support Worksheet

Housing Allowance \$0.00

(excludable income - utilities and parsonage-related allowances are excludable)

(minimum housing for full time clergy is \$17,600 for 2015 and 17,600 for 2016)

**Total for Area 1 + Area 2 + Area 3 \$0.00**

CALCULATE

#### W-2 Statement Calculations:\*\*

Box (1) is the total of Area 1 - (FSA, Health Insurance, and UMPIP) \$0.00

Box (12) is UMPIP \$0.00

Box (14) is the total of Area 2 + Area 3 \$0.00

\* Additional entries may be required (i.e. excess life insurance) to have an accurate W-2. Please contact the Treasurer's Office if you have any questions, and for assistance in completing your W-2 completed properly.

\*\* Please note that these numbers assume one FULL YEAR'S compensation.

(Printed: 1/27/2017 8:22:33 AM ) Revised 1/20/2017

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## Miscellaneous Tax Info

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## Welcome To GCFA Group Ruling Website

We are excited to offer this service to our local churches, annual conferences, and other ministries within the United Methodist connection. We hope you will find this online application to be a straightforward and convenient process for obtaining a group ruling certification letter for your organization. To begin the application, please click the 'Begin Application' button below.

If you have any questions or difficulties with the application, please use the links available throughout the application to contact GCFA's Legal Services Department.

Thank you for this opportunity to serve you and your ministry.

A. Moses Rathan Kumar  
General Secretary and Treasurer

[Begin Application](#)

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Contact the GCFA Legal Services Department at [legal@gcfa.org](mailto:legal@gcfa.org).  
For technical support please contact the Web Site Administrator at [support@gcfa.org](mailto:support@gcfa.org).

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**560-12-2-.22 Churches, Religious, Charitable, Civic and Other Non-Profit Organizations.**

No exemption is granted to churches, religious, charitable, civic and other non-profit organizations. They are required to pay the tax on all purchases of tangible personal property. Further, when such organizations engage in selling tangible personal property at retail, they are required to comply with provisions of the Act relating to collection and remittance of the tax.

Authority Ga. Code Ann. Secs. 92-3438a, 92-8405, 92-8406, 92-8409, 92-8427. History. Original Rule entitled "Churches, Religious, Charitable, Civic and Other Non-profit Organizations" adopted. F. and eff. June 30, 1965.



Publication 15-A (2012), Employer's Supplemental Tax Guide

(Supplement to Publication 16 (Circular E), Employer's Tax Guide)

For use in 2012

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**IT ALL STARTED WITH MACARONI:  
A TRIP THROUGH THE SHADOWY WORLD OF UBIT**

**By Mark B. Edwards**

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This outline was prepared for the 2005 Legal Forum by Mark B. Edwards (former Chancellor, Western North Carolina Annual Conference)

**IT ALL STARTED WITH MACARONI:  
A TRIP THROUGH THE SHADOWY WORLD OF UBIT**

By

Mark B. Edwards

I. It All Started With Macaroni

A. In 1946, Henry Mueller, majority stockholder of the C. F. Mueller Co., died. H. T. Sorg, a business broker, conceived the idea of using the company as a vehicle to help the Law School of New York University. He put together a plan under which the University bought the company with 100% financing and operated the company thereafter. Profits from the sale of macaroni and other products went to the Law School.

B. The Internal Revenue Service sought to collect income tax on the earnings of the macaroni company, stating that it was unrelated to the University's educational purposes. The United States Tax Court agreed. C. F. Mueller Co. v. Com'r, 14 T.C. 922 (1950).

C. On appeal, the Third Circuit Court of Appeals reversed the Tax Court, pointing out that the governing law looked only to the destination of the funds (i.e. the tax exempt university) and not to the source of the dollars. C. F. Mueller Co. v. Com'r, 190 F.2d 120 (3<sup>rd</sup> Cir. 1951).

D. In making its decision, the Court of Appeals had the luxury of knowing that, in the previous year, Congress had changed the statute, effective for tax years beginning after December 31, 1950.

E. These new statutes, embodied in sections 421 to 424 of the Internal Revenue Code of 1939, extended the concept of "unrelated business income" to the charitable world.

F. The purpose of the tax on unrelated business income is stated to be as follows:

1. The problem at which the tax on unrelated business income is directed is primarily that of unfair competition. The tax-free status of §501 organizations enables them to use their profits tax free to expand operations, while their competitors can expand only with the profits remaining after taxes. . . . In neither the House Bill nor your committee's bill does this provision deny the exemption where the organizations are carrying on unrelated active business enterprises. Both provisions merely impose the same tax on income derived from an unrelated trade or business as is borne by their competitors. S. Rep. No. 2375, 81<sup>st</sup> Cong. 2d Sess. 27 (1950), 1950-2 C.B. 483, 504.

2. Thus there entered into the vocabulary of churches the acronyms UBIT (unrelated business income tax) and UBTI (unrelated business taxable income).

G. It was not until the Tax Reform Act of 1969, however, that the concept of "unrelated business income" was applied to churches for years beginning after December 31, 1969. See Regs. §1.511-2(a)(3)(iii).

## II. Thus Says The Code

A. The provisions relating to the tax on unrelated business income (hereafter "UBIT") are now set forth in sections 511 to 514 of the Internal Revenue Code of 1986 (hereinafter the "Code")

B. Charitable organizations described in §501(c)(3) are subject to the UBIT. §511(a)(2)(A), (b)(2); Regs. §1.511-2(a)(1)(i), (b)(1).

1. This includes churches and conventions or associations of churches. Regs. §1.511-2(a)(3)(iii).

2. And churches cannot avoid these provisions by using subsidiaries because:

a. §502 provides that an organization operated for the primary purpose of carrying on a trade or business for profit is not eligible for exemption from taxation because all of its profits are payable to an exempt organization.

b. A subsidiary of an exempt organization is a nonexempt feeder organization if the subsidiary is operated for the primary purpose of carrying on a trade or business that would be an unrelated trade or business if regularly conducted by the exempt parent organization. Reg. §1.502-1(b).

c. A feeder organization is not subject to the UBIT because it is not an exempt organization, but it is subject to the regular income tax provisions.

C. The statutory process for determining the income subject to the UBIT (this income figure being called the Unrelated Business Taxable Income or UBTI) is set forth as follows:

1. §511 imposes a tax on the UBTI of an exempt organization.

2. §512 requires the organization to include in UBTI the gross income derived from any unrelated trade or business it carries on, reduced by allowable deductions applicable to the activity, subject to certain modifications and exclusions.

3. §513 defines what an unrelated trade or business is.

4. §514 adds to UBTI a special kind of income, income derived from debt financed property.

D. These rules are incredibly complicated and, being inherently factual, have generated extensive and ongoing litigation. We cannot hope to cover them in any great detail due to limitations in space and time. However, a general statement of the rules can be made. From the statutory provisions and the regulations issued by the Internal Revenue Service to explain them, a three-part test has been developed for determining UBTI. See Reg. §1.513-1(b). As articulated by the United States Supreme Court in U.S. v. American Bar Endowment, 477 U.S. 105, 109-110 (1986), gross income from an activity carried on by an exempt organization is subject to UBIT if the following three criteria are present:

1. The activity constitutes a "trade or business;"
2. The activity is "regularly carried on" by the organization; and
3. The conduct of the activity is "not substantially related" to the performance of the organization's exempt purpose.

E. Our next step is to examine each of these three tests to see how it is applied.

### III. What Constitutes a "Trade or Business?"

A. The term "trade or business" includes any activity that is carried on for the production of income from the sale of goods or the performance of services. §513(c).

1. Under §162, a trade or business is generally an activity engaged in for the primary purpose of generating income or profit.
2. This profit motive test is often used by the courts and the Service to determine if an activity of an exempt organization is a trade or business.
3. Other factors to be considered in making this determination include the degree of involvement by the organization, the making of a substantial profit over a period of time, and whether the activity is similar to activities engaged in by commercial enterprises.

4. The Regulations offer this statement of the rationale of the statute:

- a. The primary objective of adoption of the unrelated business income tax was to eliminate a source of unfair competition by placing the unrelated business activities of certain exempt organizations upon the same tax basis as the nonexempt activities business endeavors with which they compete. Regs. §1.513-1(b).

- b. Thus passive investment activities of the exempt organization are not considered to be a trade or business. See Hill Family Foundation v. U.S., 347 F. Supp. 1225 (D. Minn 1972).
- c. Moreover, as we will see later, dividends, interest, royalties and other income from investment activity are expressly excluded from the UBIT under §512(b).

B. Here are some factual examples for discussion:

- 1. A church maintains a shop within its facilities. The shop sells bibles, religious books, and souvenirs of the town in which it is located. Is there any application of the UBIT? [See Key IX.A.]
- 2. A church has a wilderness area near to the town in which it is located. It conducts regular retreats for its members and permits others to use the facilities at other times for a small charge. UBIT? [See Key IX.B.]

#### IV. When is a Trade or Business "Regularly Carried On?"

A. In determining if a business is "regularly carried on," the most important considerations are the frequency and continuity with which the activities are conducted, and the manner in which they are pursued. Regs. §1.513-1(c)(1).

- 1. One test is to compare the time span over which the activity is operated with the normal time span of comparable commercial activities of taxable enterprises. Regs. §1.513-1(c)(2)(i).
- 2. If the activity is an intermittent one, that is, one that is carried on discontinuously or periodically, it is generally not considered to be regularly carried on if it is conducted without the competitive and promotional efforts typical of commercial activities. Regs. §1.513-1(c)(2)(ii).
- 3. And if the activity is both intermittent and infrequent, neither the recurrence nor the manner of conduct will cause them to be treated as "regularly carried on." Regs. §1.513-1(c)(2)(iii).

B. Here are some factual examples for discussion.

- 1. A church has an extensive facility in a downtown location. Its parking lot is used for its members, staff and students through the week and on Sundays. On Saturday, however, the parking lot is available to members of the public for a fee comparable to nearby private lots. Is there a question of taxation? [See Key IX.C.]
- 2. A church located near the state capital operates a sandwich stand for two weeks each year at the state fair. Its prices are comparable to private operations at the fair. Query! [See Key IX.D.]



3. A church sells Christmas cards to its members. The sale starts in September with the delivery of the cards to the members asking for a "contribution". There are follow-up mailings to the congregation over an eight-week period. Are the card sales regularly carried on? [See Key IX.E.]

V. When is a Business "Not Substantially Related" to the Exempt Purpose

- A. To be liable for the UBIT, the exempt organization must carry on a business "the conduct of which is not substantially related...to the exercise or performance by such organization of its ...function constituting the basis for its exemption under section 501.... §513(a); Regs. §1.513-1(a).
- B. A trade or business is a related business if the conduct of it has a causal relationship to the achievement of an organization's exempt purpose, and for the business to be "substantially related," the causal relationship must be a substantial one. Regs. §1.513-1(d)(2). Put another way, the conduct of the business activity must contribute importantly to the accomplishment of the organization's exempt purpose. Regs. §1.513-1(d)(2).
- C. This determination is essentially a factual one, to be decided by the court or IRS after an examination of all the facts and circumstances.
  1. One factor considered is the size and extent of the business activity in relation to the nature and extent of the exempt function that the activity purports to serve. Regs. §1.513-1(d)(3).
  2. Another factor is the nature of the benefit derived by the exempt organization. If the activity benefits individual members in proportion to the payments they make, the activity is likely to be deemed unrelated.
- D. NOTE: the fact that the organization uses the profits from the activity for one or more exempt purposes does not in itself make the underlying business activity a related one. §513(a).
- E. Here are some factual examples for discussion.
  1. A church operates a parish nurse program. Frequently the nurse gives shots to members of the congregation, things like flu shots, tetanus shots, insulin shots, etc. A fee is charged over and above the cost of the medicine being administered. Query. [See Key IX.F.]
  2. A church has recently erected a new family life building offering to the congregation a full range of exercise and athletic options. Members of the general public are permitted to use the exercise facilities upon payment of a fee. Is there exposure to the UBIT rules? [See Key IX.G.]

3. A church organizes travel tours for its members to sites of religious meaning. An outside tour company handles the arrangements and remits a portion of each traveler's fee to the church. The church handles all promotions, and the senior pastor goes on the journey to answer questions and to lead worship services. There is entertainment nightly and optional side trips are offered. Related or not? [See Key IX.H for more discussion and factual variations.]

## VI. Exceptions Provided by the Code For Certain Business Activities

- A. Even if a trade or business would otherwise be deemed unrelated within the meaning of the statute, Congress has provided some exceptions to remove some of them from the reach of the UBIT.
- B. There are a ten (10) exceptions from the definition of "unrelated trade or business" currently provided in the Code. However, not all of them are relevant to normal church affairs. Those that are relevant are as follows:
  1. Section 513(a)(1) provides that a trade or business is not deemed "unrelated" if substantially all the work done in the business is done for the organization without compensation. This is commonly referred to as the "volunteer exception."
    - a. The volunteer exception is not restricted to a particular kind of business so long as the performance of services (done by the volunteers) is a material income-producing factor. Rev. Rul. 78-144, 1978-1 C. B. 168.
    - b. There are three questions commonly encountered in this exception:
      - (1) What constitutes the "work" related to the activity?
      - (2) What constitutes "substantially all" of the work?
      - (3) Do non-monetary or insubstantial benefits constitute "compensation" to the workers?
    - c. Factual example: The UMW of a church operates a retail store that sells merchandise to the general public. No important exempt function of the church is served by the activity, and all profits are used in the work of the UMW. All work in operating the store is done by the ladies who receive no compensation. Is this exempt from UBIT? [See Key 9.]
  2. Section 513(a)(3) provides that there is no unrelated trade or business where the exempt entity sells merchandise, substantially all of which has been received as donations. This is called the "thrift shop" exception because...
    - a. This was enacted specifically to exempt from the UBIT the proceeds of thrift store sales. Regs. §1.513-1(e).

- b. While there are no specific guidelines as to what constitutes "substantially all," most commentators believe that the exception is available if at least 85% of the merchandise is donated. See Regs. §1.5149B0-1(b)(1)(ii).
  - c. Factual example: Same facts as in paragraph 1.c above except that all items sold by the store are donated by local merchants upon the request of members of the UMW. While many of the clerks are volunteers, the daily manager and the bookkeeper are salaried and full time employees. UBIT? [See Key IX.J.]
3. Section 513(f)(1) exempts the income from certain bingo games from the scope of UBIT. Section 513(f)(2) sets out three requirements to be met for this exception to apply:
- a. The game is conducted where the wagers are made, winners are determined and the prizes are paid in the presence of all persons participating in the game.
  - b. The game is not an activity ordinarily carried out on a commercial basis.
  - c. The conduct of the game does not violate any state or local law.

#### VII. Exclusion of Certain Income Provided by the Code

- A. Even if the business is regularly carried on and not related to the exempt purposes and not covered within one of the exceptions mentioned about, there are some types of income (as distinguished from businesses) that is not subject to the UBIT.
- B. Again, not all of these exclusions are relevant to activities carried on by churches, but the following ones are.
  - 1. Section 512(b)(1) removes passive income and related deductions from the scope of the UBIT. Included are the following items:
    - a. Dividends;
    - b. Interest;
    - c. Annuities; and
    - d. Royalties.
  - 2. Of these, only royalties have generated much controversy. In general, a royalty is a payment for the use of a right, regardless of whether the property represented by the right is used. See Com'r v. Wodehouse, 337 U.S. 369 (1949).

- a. Royalties are normally received from books, stories, plays, copyrights, trademarks, trade names, formulas and patents. They are also received from utilization of natural resources such as coal, oil, minerals or timber. See Regs. §1.61-8(a).
  - b. Royalties do not include sums received for services rendered. Rev. Rul. 81-178, 1981-1 C.B. 135. Thus an exempt organization can lose royalty status if it is actively involved in the development and/or management of the underlying asset.
  - c. Factual example: The senior minister of a UM church writes a book and transfers ownership of the copyright to the church. Situation 1 – The church arranges for the printing, publicity and retail sale of the book, including advertising. Situation 2 – The church licenses the publication rights to a commercial publisher in return for stated royalties. In which case, if either, does UBIT apply? [See Key 11.]
3. Certain rents are also exempt from UBTI under §513(b)(3).
- a. Rents are exempt if they are from real property and if they are from personal property leased with the real property, provided that the rents from personal property must be incidental to the real property rental. §513(b)(3)(A) and (C); Regs. §1.512(b)-1(c)(2)(ii).
  - b. Rents are not exempt under three circumstances:
    - (1) The exclusion does not apply if more than 50% of the total rent is attributable to personal property. §513(b)(3)(B)(i).
    - (2) The exclusion does not apply if the rents are determined in whole or in part by the income or profits of the rented assets. §513(b)(3)(B)(ii).
    - (3) The exclusion does not apply to payments for the occupancy of rooms where services are also rendered to the tenant. Regs. §1.512(b)-1(c)(5).
  - c. Factual example: A church is asked by a local cellular company to lease space within its steeple for placement of a telephone antenna. Will UBIT apply here? [See Key 12.]
4. Finally, the Code excludes from UBTI all gains or losses from the sale or exchange of property other than inventory-type assets or property for sale to customers in the ordinary course of business. §512(b)(5).
5. Factual example: A UMC conference center sells lots to people who wish to live there and take advantage of its program of learning. The center also provides municipal services (water, trash collection, road maintenance, etc.) to

individuals living there. It also provides amenities such as tennis courts, golf course and swimming pool, which can be used by residents for a small fee. Which income, if any, is subject to UBIT? [See Key 13.]

#### VIII. Debt Financed Income and Deductions

- A. Under §514, certain income and deductions that otherwise would be outside the scope of UBIT are included because they are received because of debt financed property.
- B. The term "debt-financed property" is defined in §514(b)(1) as property (real or personal) having the following two characteristics:
  - 1. The property is held to produce income; and
  - 2. There is acquisition indebtedness with respect to the property at any time during the tax year.
- C. The income required under characteristic one can be any kind of income – dividends, interest, royalties, rents, even capital gain upon sale. Regs. §1.514(b)-1(a).
- D. The second characteristic – that there be an acquisition indebtedness – means a debt incurred in connection with the acquisition or improvement of the property, whether the debt is incurred before, after or at the time of the acquisition or improvement. §514(c)(1).
- E. As always under the Internal Revenue Code, there are exceptions to the general rules. Those which would be relevant for church activities are as follows:
  - 1. The concept of debt-finance property does not include property whose use is substantially related to the conduct of the exempt functions of the organization. §514(b)(1)(A).
    - a. Property is considered "substantially related" if 85% or more of its use is devoted to the exempt function. §514(b)(1)(A)(i).
    - b. If less than 85% is so used, the portion used for exempt purposes can still be exempt while the balance is taxable. §514(b)(1)(A)(ii).
  - 2. The term does not include property to the extent income from it is already subject to the UBIT. §514(b)(1)(B).
  - 3. Property used in a trade or business that is excepted from UBIT under the volunteer exception or the donations exception is not subject to the debt-financed property rules. §514(b)(1)(D).

4. Perhaps most importantly for churches, the debt-financed rules do not apply to land acquired for a prospective exempt use within 15 years of the date of its acquisition. §514(b)(3).

a. Generally the land must meet the following requirements under §514(b)(3)(A) for this exception to apply:

- (1) The property is real property to be used within 10 years for a substantially related purpose;
- (2) The property is in the neighborhood of other land owned by the organization and used in a substantially related function; and
- (3) The organization does not abandon its intent to use the property for exempt purposes within 10 years.
- (4) To expand upon the "neighborhood" requirement, Regs. §1.514(b)-1(d)(1) provides these requirements:
  - (a) The acquired property is contiguous with the previously owned property;
  - (b) The acquired property would be contiguous but for a road, street, railroad, stream, etc., or
  - (c) It is located within one mile of such property and it is not reasonable to purchase closer property.

b. For churches, these rules are modified to exclude the neighborhood requirement and to extend the time period to 15 years. §514(b)(3)(E).

c. Thus if a church acquires property for use in an exempt function commencing within 15 years of the acquisition, the property is not debt-financed property so long as the church does not abandon its plan.

d. However, after the first 5 years of the period, the church must obtain a ruling that the exempt use is likely to commence within the 15-year period. Regs. §1.514(b)-1(e)(2).

F. Here are some factual examples to discuss.

1. A church no longer needs its educational building so it sells it for \$3,000,000. It receives \$1,000,000 down and a mortgage for \$2,000,000. It then builds a new educational building for \$4,000,000, paying \$1,000,000 and borrowing \$2,500,000 from a bank. It retains the mortgage received in the sale as an investment. If there any debt-financed property here? [See Key 14.]

2. A church is building a new sanctuary. During the process, a cellular telephone company indicates a desire to lease space in the steeple for an antenna. In order to accommodate the antenna, the height and dimensions of the steeple are changed and an extra \$250,000 is borrowed to pay for the changes. [See Key IX.O.]

#### IX. The Keys – Answers to Discussion Problems

- A. Rev. Rul. 73-195, 1973-1 C.B. 264. The sales of souvenirs were held to constitute income subject to UBIT.
- B. Rev. Rul. 78-98, 1978-1 C.B. 167. Use by the public was held to be taxable. Query, could a church find comfort in its exempt purpose of evangelism and outreach?
- C. Regs. §1.513-1(c)(2)(i). The parking lot was held to be regularly carried on.
- D. Regs. §1.513-1(c)(2)(i). Held not to be regularly carried on.
- E. Veterans of Foreign Wars v. Com'r, 89 T.C. 7 (1987), Held the sales were regularly carried on.
- F. Rev. Rul. 68-374, 1968-2 C.B. 242 (Situation 1). Held not related to purposes of the hospital where sales were to the public. If sales limited to the congregation, perhaps result would be different.
- G. Rev. Rul. 79-360, 1979-2 C.B. 236. Operation of a health club held not substantially related to exempt purposes of the organization for the improvement of youth and their physical and mental health.
- H. Regs. §1.513-7(a) provides that the determination of whether travel is "related" to the exempt function is a factual determination to be made on a tour-by-tour basis. In Regs. §1.513-7(b), seven examples are set forth, of which Examples 1 and 7 are most closely on point. In both cases, the tours were deemed to be unrelated to the exempt purpose.
- I. Regs. §1.513-1(e). Held to be within the volunteer exception.
- J. Regs. §1.513-1(e). Held to be within the thrift shop exception.
- K. See Rev. Rul. 69-430, 1969-2 C.B. 129. In situation 1, UBIT applies, but in Situation 2, it does not because of the royalty exception. But note that the ruling said "the book does not contribute importantly to the exempt purpose." Query, what if the book were a book of devotions or theology?
- L. Probably exempt.

M. TAM 200047049. Sales of lots is UBTI; municipal services are exempt; and user fees from persons not registrants in its programs are also UBTI.

N. Regs. §1.513-1(c)-1(a)(2), Example 3(a). The retention of the mortgage makes it debt-financed property.

O. Very close case; too close to call.