



# WHY CHURCHES OFTEN FAIL TO COMPLY FULLY WITH THE PAYROLL REPORTING RULES

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The risks associated with tax code section 6672 are aggravated by the widespread noncompliance of churches with federal payroll tax reporting obligations. Churches too often fail to comply with the payroll tax reporting obligations—either by failing to withhold taxes or by failing to pay withheld taxes over to the government. As one court observed, “Because these [withheld taxes] accrue on the withholding date but generally are paid on a quarterly basis, they can be a tempting source of available cash to [an employer].”

Why do so many churches fail to comply with these rules? Some of the reasons are listed below.

- Payroll tax reporting rules are complex.
- Unique rules apply to churches, including the exemption of ministers from income tax withholding, the treatment of ministers as self-employed for Social Security purposes, and the availability of an exemption from the employer’s share of FICA taxes for some churches that file a timely application. Church treasurers cannot assume that a church can be treated like a secular business.
- Most church treasurers are volunteers who serve for limited terms. Often it is difficult for such individuals to adequately familiarize themselves with the application of federal payroll tax reporting obligations to churches.