Ending 2025 Well for Church Leaders

A webinar presented by:

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†This is not a CPA firm.

Governance

- Review bylaws to ensure all required meetings of the governing board and congregation have been held
    - This is particularly important if your church is governed by a corporate board for "corporation matters" and by another body for spiritual matters
- Ensure any annual attestations regarding conflicts of interest among directors and officers have occurred
- Ensure the church's corporation status remains in good standing with the state Secretary of State's office
    - Most state Secretary of State offices have a "business search" function on their website that will facilitate this
- Review who is authorized to sign checks and make sure the list is up-to-date at the bank
- If the church will have a financial statement audit or review* performed, ensure an independent audit firm has been identified and engaged

Minister’s Housing Allowance Designations

- Minister’s housing allowances for 2026 must be approved in advance
  - This is commonly done via a board resolution in one of the last board meetings of the year
  - If your church approves the compensation of one or more ministers in a congregational meeting, make sure this meeting happens before the first 2026 payroll
  - Find sample housing allowance and parsonage allowance resolutions in chapter 6 of Richard Hammar’s online *Church & Clergy Tax Guide*
- If you require your minister(s) to submit a housing allowance request form, make sure this form is provided well in advance of the due date determined by the church
- Make sure all ministers are included in the resolution
  - If you develop this year’s resolution from the text of last year’s resolution, add ministers hired during the year

Payroll Reporting

- Make sure **ministerial employees** have updated their W-4 for changes to **voluntary withholding** for SECA purposes for the following year
- Employees should review their W-4 to ensure they are having an adequate amount of tax withheld
  - This may be done in a self-service fashion on some payroll vendor systems
  - Employees may access IRS Form W-4 at the IRS website
- Assess the classification of employees under the rules published by the U.S. Department of Labor and the IRS
  - Ensure that workers who meet the definition of an employee are not treated as independent contractors
  - The IRS publishes determinations made from the review of IRS Form SS-8 at https://www.irs.gov/businesses/ss-8-determinations-of-worker-classification
    - There are several examples of ministers and worship pastors included in the list

Payroll Reporting (continued)

- Consistent with your plan, prepare to update employee contributions to healthcare and dependent care flexible spending arrangements
    - 2026 healthcare FSA limit is $3,400; the maximum carryover to 2027 is $680
    - 2026 dependent care FSA limit is $7,500 ($3,750 for married individuals filing separately)

Tax Reporting

- Confirm you are withholding state income tax for the proper state for remote employees
  - Pay special attention to employees who became remote employees during the year and began to work remotely from another state
- Ensure you have current addresses for all persons to whom you will issue a Form W-2
  - Pay special attention to employees who have separated from service
  - In some states (e.g., Indiana), it is necessary to confirm to the county and/or city in which an employee resided on the first day of the year
- Make sure you have a Form W-9 on file for all parties to whom you must issue a Form 1099-NEC or Form 1099-MISC
  - A key source of IRS notices is a misspelled name or an incorrectly entered SSN or EIN
- If you made payments to non-US citizens during the year, do you understand your reporting requirements?

Tax Reporting (continued)

- For 2025, the threshold for issuing a Form 1099-NEC or Form 1099-MISC is $600
  - For 2026, the One Big Beautiful Bill Act (OBBBA) increased this amount to $2,000

Contributions

- Donors who itemize their deductions must have their donation receipt in hand before filing their individual income tax return
  - Consider including a statement in a church newsletter or bulletin reminding donors of this fact and advising them of the estimated date donor statements will be available
- Make sure your donor receipts include the following required statement:
  - "No goods or services were provided in exchange for your gift(s) other than intangible religious benefits."
- Properly apply the cut-off rules to determine to which year contributions belong
  - Determine your contribution cutoff date for mailed items postmarked before January 1 and received in the new year
  - Review the "When to Deduct" section in IRS Publication 526 for contribution cutoff rules

Budgeting

- Review spending in 2025 for variances between budgeted income or expenses vs. actual to gain insight for 2026 budgeting
  - Review projected monthly budgeted expenses for reasonableness compared to actual prior experience
  - For example, compare your most recent monthly expenditures to your January 2026 budgeted expenditures to assess the reasonableness of your budget assumptions
- Prepare a list of activities that will be discontinued in 2026 and new activities that will be started in 2026 to ensure the 2026 budget reflects these items
- Ensure maintenance or use of reserves is accounted for in preparing the budget in accordance with your church’s reserve policy

Close Your Books

- Prepare to close your books by:
  - Reviewing your fixed asset records and:
    - Removing any assets sold or retired during the year
    - Recording depreciation entries
- Reconciling your donor system to your general ledger
- Confirming any loan balances reconcile to the lenders' record of the amount owed
- Preparing to convert from cash to accrual, as needed
  - Hold open payables to capture items to accrue at 12/31/2025
  - Determine your contribution cutoff date for mailed items postmarked before January 1 and received in the new year

If You Operate a School . . .

- Beginning January 4, 2025, the OBBBA expanded the use of 529 account funds for primary and secondary education to include:
    - curriculum and curricular materials
    - books or other instructional materials
    - online educational materials
    - tuition for tutoring or educational classes outside the home if taught by an unrelated, licensed, and experienced teacher
    - fees for nationally standardized achievement tests, advanced placement examinations, or college entrance examinations
    - fees for dual enrollment in a higher education institution
    - fees for educational therapy provided by a licensed or accredited practitioner or provider, including occupational, behavioral, physical, and speech-language therapies

If You Operate a School . . . (continued)

- Beginning January 1, 2026, the OBBBA increased the amount of funds that can be distributed from a 529 account for primary and secondary education expenses from $10,000 to $20,000
- State 529 programs must act to conform to these changes
    - Have you assessed what actions your state has taken to conform?
    - State tax credits may be subject to recapture if used to fund tuition outside the state that sponsors the program
        - E.g., Indiana does not recapture for college tuition, but does recapture for K-12 tuition paid to an institution outside of Indiana
    - Have you been in contact with parents of students about these changes?

Other Items

- Review documents and records for destruction in accordance with your document retention and destruction policy
    - If you don’t have a document retention and destruction policy, consider adopting one
- Review your insurance coverage, particularly if you’ve:
    - Purchased new real property or tangible personal property during the year
    - Added new programmatic activities, especially if the activity involves children or other protected groups

Other Items (continued)

- Make sure your employment files are caught up
    - Performance reviews

Church Law

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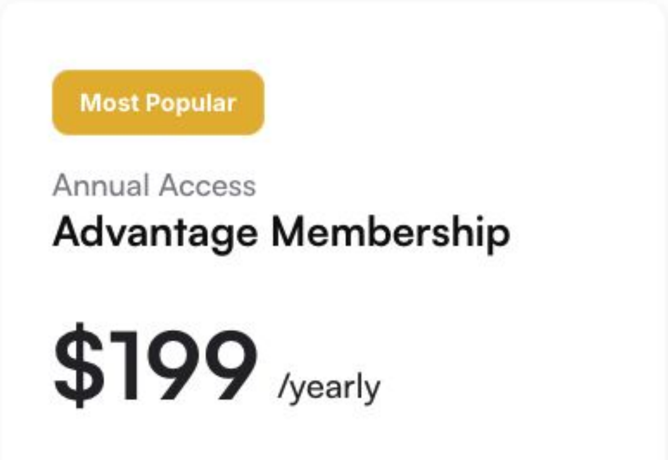

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