

## **Chapter 12: Tax and Compliance Matters Unique to States**

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## 12.100: Introduction

Each state has unique laws for various taxes imposed by the state or local municipality. The first part of this chapter is a brief explanation of the most common taxes imposed by these local governments. The church and school are exempt from most of these taxes, but, in some cases, they must pay taxes like any other organization. In some cases, the church may be exempt from payroll tax as a religious institution but the school may not be because it is treated as an educational institution.

The second part of this chapter is material prepared by and available from your district office. It provides information and forms for compliance with the laws in your state. Contact your district business office for your state tax information.

## 12.200: Annual Reporting

In some states, nonprofit corporations are required to file reports with the secretary of state's office annually or biennially. (Contact the secretary of state's office in your state to determine your filing requirements.) The report generally is brief and requires, among other things, the purpose of the organization, the names and addresses of the board of directors or governing body, and the name of the registered agent. A nominal fee sometimes accompanies the report.

Failure to file the annual or biennial report imposes penalties that differ by state. Some states impose only a nominal fine, but others may call for cancellation of a corporation's certificate of incorporation, which has the effect of terminating the existence of the corporation.

## 12.300: State/Municipal Taxes

### 12.305: State Income Tax

*All churches and schools are exempt from paying corporate state income tax because of the federal exemption under IRC Section 501(c)(3).*

However, the organization's employees are not exempt from paying state income tax. In those states with an income tax, the church or school may be required to withhold state income tax from its employees' payroll checks as it does for the federal income tax, and in some states the tax may be withheld from the "minister of the Gospel."

### 12.310: Property Taxes

Real and personal property taxes may be imposed by the state, county or city where the church or school is located. In most cases churches and schools are exempt from these taxes, but the exemption laws vary by taxing authority within some states. In some states the church and school may retain their exemption as long as they use the property for their tax-exempt purpose. In other states, the organization may be required to file a periodic exemption form.

The amount of the exemption allowed for the church building, school building, church or school grounds, parsonage, undeveloped land or personal property and any nonexempt manner in which they are used, varies from state to state.

Usually, churches are required to pay special assessment taxes for streets, sewers and similar improvements.

### 12.315: Sales and Use Tax Payments

In some states, not-for-profit organizations are exempt from the state- or county-imposed sales tax for goods **purchased by** the organization. In other states schools may be exempt from sales tax payments while churches are required to pay this tax. See Table 12-1 for information regarding your state or call your district office for information.

Where sales taxes are imposed on purchases by not-for-profit organizations, states may also collect a Compensating Use Tax for goods purchased in another state. Although generally it is the seller's responsibility to collect this tax, the end user has the responsibility of reporting such purchases and remitting any additional tax (if applicable) to the state in which they do business. Accordingly, you may have a use tax liability on the goods that you received from out-of-state. If you're not certain whether such transactions are subject to use tax in your state, we recommend contacting your Department of Revenue for a determination. Churches located near state borders where purchases are made in both states may need to be aware of this compensating use tax. Purchases made online may be subject to use tax.

### 12.318: Process of Acquiring an Exemption from Sales Tax Payments

Among those states that exempt purchases by churches and schools from sales taxes (refer to Table 12-1), some require the organizations to apply to the state's Department of Revenue for the exemption. Once the application has been processed, the state will respond by returning either a letter or certificate of exemption. A copy of the document should be made available to each vendor upon request. Other states simply require the exempt entity to provide the vendor directly with a certification of its exemption.

Sales Tax Exemptions for Purchases by Churches/Schools (some states require registration)				
State	Type of organization:		Register for exempt certificate?	<i>The information in this table must not be relied on for accuracy or completeness. Instead, contact your state's Department of Revenue to find out whether your organization qualifies for exemption and under what conditions.</i>  <b>Comments:</b>
	Churches	Schools	Y=yes N=no N/A=not applicable	
Alabama		✓	Y	Must renew annually
Alaska	Does not impose sales tax			
Arizona		*	N	*limited to food purchases by child care centers; must apply annually for letter of exemption
Arkansas	Not exempt		N/A	
California	Not exempt		N/A	
Colorado	✓	✓	Y	Certificate valid indefinitely
Connecticut	✓	✓	Y	Must have 501(c)(3) designation from IRS
Delaware	Does not impose sales tax			
DC	✓	✓	Y	Certificate valid until expiration date on certificate
Florida	✓	✓	Y	Must renew every 5 years
Georgia	Not exempt		N/A	
Hawaii	Not exempt		N/A	
Idaho	*	✓	N	Claim provided directly to vendor (Form ST 101); *limited to food for church members and church food bank
Illinois	✓	✓	Y	Must renew every 5 years
Indiana	✓	✓	N	Claim provided to vendor
Iowa		✓	N	Claim provided directly to vendor
Kansas	✓	✓	Y	Must renew every 5 years
Kentucky	✓	✓	Y	Certificate valid indefinitely
Louisiana	Not exempt		N/A	
Maine	✓	✓	Y	Certificate valid indefinitely
Maryland	✓	✓	Y	Must be located in Maryland or surrounding states to qualify; must renew every 5 years
Massachusetts	✓	✓	Y	Must renew every 10 years
Michigan	✓	✓	N	Certificate valid indefinitely
Minnesota	✓	✓	Y	Certificate valid indefinitely
Mississippi	*	✓	Y	Certificate valid indefinitely; *limited to church utilities
Missouri	✓	✓	Y	Certificate valid indefinitely
Montana	Does not impose sales tax			
Nebraska	✓	✓	Y	Certificate valid indefinitely
Nevada	✓	✓	Y	Must renew every 5 years
New Hampshire	Does not impose sales tax			
New Jersey	✓	✓	Y	Certificate valid indefinitely
New Mexico	✓	✓	Y	Certificate valid indefinitely
New York	✓	✓	Y	Certificate valid indefinitely
North Carolina			N/A	
North Dakota		✓	Y	Certificate valid indefinitely
Ohio	✓	✓	N	Claim provided directly to vendor
Oklahoma	✓	✓	Y	Renew certificate every 3 years; *school exemptions are severely restricted
Oregon	Does not impose sales tax			
Pennsylvania	✓	✓	Y	Certificate valid indefinitely
Rhode Island	✓	✓	Y	Must renew every 4 years
South Carolina		✓	Y	Limited to textbooks, library media; Certificate valid indefinitely
South Dakota		✓	Y	Certificate valid indefinitely
Tennessee	✓	✓	Y	Certificate valid indefinitely
Texas	✓	✓	Y	Certificate valid indefinitely
Utah	✓	✓	Y	Certificate valid indefinitely
Virginia	✓	✓	Y	Certificate valid indefinitely
Vermont	✓	✓	Y	Certificate valid indefinitely
Washington	Not exempt		N/A	
West Virginia	✓	✓	Y	Must renew with renewal of business registration
Wisconsin	✓	✓	Y	Certificate valid indefinitely
Wyoming	✓	✓	Y	Certificate valid indefinitely

**TABLE 12-1**

## 12.320:

### **Sales Tax Collections**

Some churches and schools may have sales of tangible personal property (e.g., books) that are subject to the collection of sales tax. States may also impose such taxes on dinners, bake sales, garage sales, auctions, etc. The organization may be required to collect the tax and forward it to the state.

In most cases, the organization will be able to obtain an exemption. In other cases, the dinners, etc., are considered incidental sales and, unless conducted regularly, the state does not enforce the tax.

Different sales tax liabilities may also apply to incidental sales based on whether the goods sold are donated or purchased for resale.

## 12.325:

### **Franchise or Business Tax**

Unless the church or school has unrelated business income (see Chapter 11), the organization will be exempt from business taxes. However, an unrelated business activity may require the church to file income tax returns, as well as franchise or business tax reports. In some states a franchise fee or business tax is also required. These taxes are not to be confused with the periodic nonprofit report that also may be required by the state. (See 13.400 for more information on corporate reporting.)

## 12.400:

### **Unemployment Tax**

*The church and school are exempt from federal unemployment tax because they are IRC Section 501(c)(3) exempt organizations.*

However, unemployment tax is primarily a state responsibility, and, in some states, the laws are different for churches and schools. In most cases, all church and school employees are not eligible for coverage under the state unemployment laws because the organization is exempt from the tax or has elected not to participate. If the organization does not participate in the tax, the organization's employee handbook should state that its employees are not eligible for an unemployment claim should they decide to leave the employment of the church or school.

#### **SAMPLE STATEMENT:**

The Synod and its entities, as a church or church-operated school, are exempt from the Unemployment Compensation Act. This means that any employee who terminates or is terminated and is unable to find new employment is not eligible to collect federal unemployment insurance benefits.

However, some states allow "self-insurance" funds for a claim by a former employee if the employer agrees to reimburse the state fund.

## 12.500:

### **Workers' Compensation**

Workers' Compensation is a statutory insurance provided by the employer for the benefit of employees injured on the job. Very few states allow an exemption to a church or school for this insurance. In most states, the church and school are required to pay a premium for the "minister of the Gospel" and for any other employee. (See 26.245 for more information on Workers' Compensation.) Some states may permit grouping of employers for workers' compensation insurance. Since there is usually a basic fee for this insurance, there may be savings by grouping a number of churches. This could be done across denominations.

## **12.600:**

### **Listing of State Withholding Tax Offices/ Departments of Revenue**

**Alabama**  
**revenue.alabama.gov**  
Department of Revenue  
Withholding Tax Section  
PO Box 327480  
Montgomery, AL 36132-7480  
(334) 242-1300

**Alaska**  
**dor.alaska.gov**  
No income tax

**Arizona**  
**azdor.gov**  
Department of Revenue  
Withholding Division  
P.O. Box 29009  
Phoenix, AZ 85038-9009  
(602) 255-3381

**Arkansas**  
**dfa.arkansas.gov**  
Department of Finance and  
Administration  
Withholding Tax Branch  
PO Box 8055  
Little Rock, AR 72203-8055  
(501) 682-7290

**California**  
**edd.ca.gov**  
Employment Development  
Department  
Taxpayer Assistance Center  
PO Box 826880  
Sacramento, CA 94280-001  
(888) 745-3886

**Colorado**  
**colorado.gov/revenue**  
Department of Revenue  
1375 Sherman St.  
Denver, CO 80261-0009  
(303) 238-7378

**Connecticut**  
**ct.gov/drs**  
Department of Revenue Services  
450 Columbus Blvd. Ste. 1  
Hartford, CT 06103  
(860) 297-5962

**Delaware**  
**revenue.delaware.gov**  
Division of Revenue  
Carvel State Building  
820 N. French St.  
Wilmington, DE 19801  
(302) 577-8779

**District of Columbia**  
**otr.cfo.dc.gov**  
Office of Tax and Revenue  
1101 4th St. SW, Suite 270 West  
Washington, DC 20024  
(202) 727-4829

**Florida**  
**floridarevenue.com**  
No income tax

**Georgia**  
**dor.georgia.gov**  
Department of Revenue  
Withholding Tax Unit  
PO Box 49432  
Atlanta, GA 30359  
(877) 423-6711

**Hawaii**  
**tax.hawaii.gov**  
Department of Taxation  
Income Tax Division  
PO Box 3827  
Honolulu, HI 96812-3827  
(808) 587-4242

**Idaho**  
**tax.idaho.gov**  
State Tax Commission  
PO Box 36  
Boise, ID 83722-0410  
(208) 334-7660

**Illinois**  
**tax.illinois.gov**  
Department of Revenue  
PO Box 19447  
Springfield, IL 62794-9447  
(217) 782-3336

**Indiana**  
**in.gov/dor**  
Department of Revenue  
P.O. Box 7222  
Indianapolis, IN 46207-7222  
(317) 233-4016

**Iowa**  
**tax.iowa.gov**  
Taxpayer Services  
Department of Revenue  
PO Box 10465  
Des Moines, IA 50306-0465  
(515) 281-3114

**Kansas**  
**ksrevenue.org**  
Department of Revenue  
PO Box 750680  
Topeka, KS 66625-0680  
(785) 368-8222

**Kentucky**  
**revenue.ky.gov**  
Kentucky Department of Revenue  
501 High Street  
Frankfort, KY 40601  
(502) 564-4581

**Louisiana**  
**revenue.louisiana.gov**  
Department of Revenue  
PO Box 201  
Baton Rouge, LA 70821-0201  
(855) 307-3893

**Maine**  
**maine.gov**  
Maine Revenue Services  
P.O. Box 1060  
Augusta, ME 04332-1060  
(207) 626-8475

**Maryland**  
**marylandtaxes.gov**  
Comptroller of Maryland  
Revenue Administration Division  
Taxpayer Services Section  
110 Carroll St.  
Annapolis, MD 21411-0001  
(410) 260-7980

**Massachusetts**  
**mass.gov**  
Department of Revenue,  
Customer Service Bureau  
PO Box 7010  
Boston, MA 02204  
(617) 887-6367

**Michigan**  
**michigan.gov/treasury**  
Customer Contact Division  
Department of Treasury  
PO Box 30427  
Lansing, MI 48909  
(517) 636-6925

**Minnesota**  
**revenue.state.mn.us**  
Department of Revenue  
600 N. Robert Street  
St. Paul, MN 55146  
(651) 282-9999

**Mississippi**  
**dor.ms.gov**  
State Tax Commission  
Income Tax Bureau  
PO Box 1033  
Jackson, MS 39215-1033  
(601) 923-7700

**Missouri**  
**dor.mo.gov**  
Department of Revenue  
Taxation Bureau  
PO Box 3375  
Jefferson City, MO 65105-3375  
(573) 751-8750

**Montana**  
**mtrevenue.gov**  
Department of Revenue  
125 N. Roberts St.  
PO Box 5835  
Helena, MT 59604-5835  
(406) 444-6900

**Nebraska**  
**revenue.nebraska.gov**  
Department of Revenue  
PO Box 94818  
Lincoln, NE 68509-4818  
(402) 471-5729

**Nevada**  
**tax.nv.gov**  
No income tax

**New Hampshire**  
**revenue.nh.gov**  
No income tax

**New Jersey**  
**nj.gov/treasury/revenue**  
Department of Treasury  
Division of Taxation  
PO Box 269  
Trenton, NJ 08695-0269  
(609) 292-6748

**New Mexico**  
**tax.newmexico.gov**  
Taxation and Revenue Department  
1100 South St. Francis Dr.  
Santa Fe, NM 87505-4147  
(505) 827-0700

**New York**  
**tax.ny.gov**  
NYS Tax Department  
PO Box 4131  
Binghamton, NY 13902-4131  
(518) 485-6654

**North Carolina**  
**ncdor.gov**  
Department of Revenue  
PO Box 25000  
Raleigh, NC 27640-0640  
(877) 252-3052

**North Dakota**  
**nd.gov/tax/**  
State Tax Commissioner  
State Capitol  
600 E. Boulevard Ave.  
Bismarck, ND 58505-0599  
(701) 328-1248

**Ohio**  
**tax.ohio.gov**  
Department of Taxation  
Central Registration Unit  
PO Box 182215  
Columbus, OH 43218-2215  
(888) 405-4089

**Oklahoma**  
**tax.ok.gov**  
Tax Commission  
Withholding Tax Division  
2501 N. Lincoln Blvd.  
Oklahoma City, OK 73194  
(405) 521-3160

**Oregon**  
**oregon.gov/DOR/**  
Department of Revenue  
955 Center St. Northeast  
Salem, OR 97301-2555  
(503) 378-4988

**Pennsylvania**  
**revenue.pa.gov**  
PA Department of Revenue  
PO Box 280904  
Harrisburg, PA 17128-0901  
(717) 787-1064

**Rhode Island**  
**tax.ri.gov**  
Division of Taxation  
One Capitol Hill  
Providence, RI 02908  
(401) 574-8829

**South Carolina**  
**dor.sc.gov**  
Department of Revenue  
PO Box 125  
Columbia, SC 29214-0004  
(844) 898-8542

**South Dakota**  
**dor.sd.gov**  
No income tax

**Tennessee**  
**tn.gov/revenue**  
No income tax

**Texas**  
**comptroller.texas.gov**  
No income tax

**Utah**  
**tax.utah.gov**  
State Tax Commission  
210 N. 1950 West  
Salt Lake City, UT 84134-3212  
(801) 297-2200

**Vermont**  
**tax.vermont.gov**  
Department of Taxes  
133 State St.  
Montpelier, VT 05633-1401  
(802) 828-2551 Option 3

**Virginia**  
**tax.virginia.gov**  
Department of Taxation  
Division of Income Tax Withholding  
PO Box 1115  
Richmond, VA 23218-1115  
(804) 367-8037

**Washington**  
**dor.wa.gov**  
No income tax

**West Virginia**  
**tax.wv.gov**  
West Virginia State Tax Department  
Taxpayer Services Division  
1124 Smith Street  
Charleston, WV 25301-3784  
(304) 558-3333

**Wisconsin**  
**revenue.wi.gov**  
Department of Revenue  
PO Box 8902  
Madison, WI 53708-8902  
(608) 266-2776

**Wyoming**  
**revenue.wyo.gov**  
No income tax

## **12.700: New Hire Reporting**

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), requires employers to report certain information on their newly-hired employees to a designated state agency. Penalties may be imposed on employers who fail to comply with these rules.

The majority of the information you will be submitting is already being collected when a new employee completes a W-4 form. Each New Hire report must contain the following elements: employee name, employee address and Social Security number, employer's name, employer's address and employer identification number. Some states may require additional data.

Federal law mandates that New Hires be reported within 20 days of the date of hire. However, states are given the option of establishing reporting timeframes that may be shorter than 20 days. You must adhere to the reporting timeframe of the state to which you report.

Because the reporting methods, due dates and data requirements vary from state to state, be sure to check with your state to learn of its requirements. For state-specific filing requirements go to [acf.hhs.gov/css/contact-information/state-new-hire-reporting-websites](http://acf.hhs.gov/css/contact-information/state-new-hire-reporting-websites). For the "State New Hire Reporting Contacts and Program Requirements matrix" go to [acf.hhs.gov/css/contact-information/state-new-hire-reporting-contacts-and-program-requirements](http://acf.hhs.gov/css/contact-information/state-new-hire-reporting-contacts-and-program-requirements).

## **12.800: Raffles, Bingo and Other Games of Chance**

In planning a fundraising event, a congregation should consider the application of laws regulating charitable solicitation in each state in which the game of chance is to be conducted. Courts and other legal authorities have consistently defined games of chance under state law as consisting of three parts: 1) a prize; 2) the element of chance; and 3) consideration, or payment for the right to participate. The importance of these three is that if one can be eliminated (typically chance or payment), then usually the event will not be considered a game of chance and therefore not subject to gaming regulations. For information about the taxable consequences of gaming events, refer to Chapter 11.

## **12.900: Information and Forms for Compliance Locally**

Contact your district's business manager or treasurer for your state's specific tax information and other information.

