

Chapter 3: Lay Employees

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3.100: Classification

There are three classes of workers in the LCMS system: 1) Ministers of Religion– Ordained, 2) Ministers of Religion – Commissioned, 3) Lay Employees. For the details of Class 1 and 2, please see chapter 1. Any employees who belong to class 1 or 2, but without a divine call, or do not belong to class 1 or 2, are classified as lay employees. This classification is very essential in terms of tax withholding purposes. Below are categories commonly classified as lay employee’s positions:

3.105: Organists, Choir Directors, Nurses, Secretaries, Administrative Professionals and Custodians

Organists, choir directors, nurses, office support persons and custodians, whether full-time or part-time, are classified as lay employees for tax purposes.

3.110: Teachers, Parish Workers and Assistants

Teachers, parish workers and assistants not identified on Synod’s roster as “commissioned ministers” are to be treated as lay employees for tax purposes.

3.115: Vicars, Interns and Other Students

Teaching interns, DCE interns, deaconess interns and vicars (including delayed vicars and students in the Specific Ministry Pastor program assigned as vicars) are to be classified as lay employees.

Exception: Commissioned ministers (teachers, DCEs, DCOs, etc.) who are serving as vicars in anticipation of ordination retain their status as ministers of the Gospel for tax purposes.

3.200: Employee or Self-Employed

The individuals referenced in 3.105 – 3.115 are treated as employees rather than self-employed. They are subject to income, social security and Medicare tax withholding. (For limited exceptions, contact your tax advisor.) Generally, when the means and methods by which one does one’s work are determined by the employer, the recipient of the pay is an employee (see paragraphs 7.105, 7.110).

3.300: Income, Social Security and Medicare Taxes

3.305: Withholding Taxes

Compensation paid to lay employees is subject to income, social security and Medicare tax withholding. The amount of wages subject to taxes may change annually. The employer can determine how much to withhold from the lay employee’s compensation from the Form W-4 “Employee’s Withholding Allowance Certificate” completed by the employee. The amount to be withheld is determined from the tax rate and tables included in IRS Publication 15-T, “Federal Income Tax Withholding Methods.”

Church organizations are required to withhold the employee’s portion of social security and Medicare tax from their compensation and pay a matching amount, which is the employer’s share for all lay employees. If an employee is paid less than \$100 during a calendar year, their wages are not subject to social security and Medicare taxes. (For rates, see 7.343)

3.310: Reporting Wages

The individual’s wages should be reported on Form W-2 “Wage and Tax Statement” and provided to the employee no later than January 31, following the calendar year in which the compensation was paid. Salary should be included in Box 1 titled “Wages, tips, and other compensation” and in Box 3 and 5 for social security wages and Medicare wages.

Taxable cost of group term life insurance coverage in excess of \$50,000 must also be included in Box 1, and in the boxes for social security wages and Medicare wages. The amount and Code C should be included in Box 12.

Moving expenses should be reported and treated as salary. This applies whether the payment for the moving expenses is made to the employee or directly to the moving company.

The payroll deduction for 403(b) contributions from the employee’s wages should not be included in the box for wages, tips and other compensation. However, they should be included in the boxes for social security and Medicare wages and in Box 12 with the appropriate code letter. The employer’s matching and non-elective contributions to a TSA are reported nowhere on Form W-2.

Items to include/exclude on Form W-2 in the box, “Wages, tips, other compensation”

INCLUDE

- Salary
- Any allowance (non accountable plan)
- Taxable cost group term life insurance premium for coverage in excess of \$50,000
- Moving expense payments (regardless of who paid to)

- Fair market value of housing provided (see 3.405)
- Designated Roth contributions made under a 403(b) salary reduction plan.
- Employee contributions to an HSA (unless made through a cafeteria plan)
- Tangible and intangible gifts (see 1.315)
- Personal use of employer provided auto (see 7.600)

EXCLUDE

- 403(b) tax-sheltered annuity payments (other than Roth)
- Accountable expense reimbursements
- Cafeteria plan deductions

3.320:

Reporting Compensation

Lay Employees should use the Form W-2 “Wage and Tax Statement” to report their compensation on Form 1040 “US Individual Tax Return.” If the lay employee receives honoraria, it should be reported as income on Schedule C or Schedule C-EZ “Profit or Loss from Business,” along with any related expenses.

3.400:

Allowances and Other Compensation

Congregations sometimes provide lay employees with allowances, like an auto allowance, or provide other forms of “compensation,” such as interest-free loans, debt forgiveness or rent-free housing. For the lay employee, these forms of compensation are taxable income.

Another option for the congregation is to have an Accountable Plan Reimbursement Policy which is described in Section 6.110.

3.405:

Housing and Housing Allowances

The lay worker enjoys no special income tax treatment or special status regarding housing or a housing allowance furnished as an employee of a church. A house or apartment provided to a lay worker is a taxable fringe benefit. Its fair market value constitutes wages; likewise, any utility payments made by the congregation directly to the utility company. These are treated as paid on any basis the congregation chooses but at least as often as once a year. The only circumstances under which the employer-provided housing may be excluded from taxable wage income is if the home is on church premises and it is provided solely for the convenience of the congregation and occupancy of such housing is a condition of the employee’s service to the congregation.

3.410:

Educational Assistance Program

If a congregation desires to pay for its employees’ educational expenses, it should consider adopting an educational assistance program. This program is a separate written plan that provides educational assistance only to employees under rules set up by the employer that do not favor highly compensated employees. Up to \$5,250 of educational assistance paid to an employee under an educational assistance program may be excluded from the employees’ taxable wages each year. A reasonable notification of the availability and terms of the program must be provided to all eligible employees.

Qualified educational expenses under an educational assistance program include cost of books, equipment, fees, supplies and post-secondary tuition, including graduate-level courses (masters and doctorate degrees). The program must not allow employees a choice to receive cash instead of educational benefits. Educational reimbursements that exceed the \$5,250 limit or otherwise do not qualify for income exclusion must be added to the employee’s wages and are subject to income, social security and Medicare tax withholding. IRS has indefinitely suspended the requirement to file Schedule F (Form 5500) previously imposed on employers maintaining an educational assistance program.

If the congregation doesn’t adopt an educational assistance program, reimbursement of educational expenses that directly relate to the job in which the employee was hired to do may also be excluded from the worker’s taxable wages. However, such reimbursements are restricted to those more “plain vanilla” types of educational courses and training that either maintain or improve the skills of an employee in his or her employment or are required by his or her employer.

3.415:

Gifts

All tangible and intangible gifts to employees, including lay employee and minister, which have been either purchased or paid directly from the congregational treasury or solicited from individual members in an organized manner (e.g. door collection), are taxable compensation and should be included on Form W-2. (See 1.315)

