

TAXATION OF STAFF PERKS

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Summer brings missions trips, camps and choir tours. The church becomes mobile and the staff must accompany these groups. Like every other aspect of church life, tax issues arise. Some churches allow the staff members to attend any church event for free or reduced fee. Also, their families are sometimes afforded similar benefits. This month we examine the tax issues that arise when staff and their families participate in these activities.

IS THE PERK TAXABLE?

Unless a specific Internal Revenue Code section excludes a type of benefit from taxable income, then the benefit or perk is taxable income. The goal is to find a Code section that allows the benefit or perk to be excluded from taxable income.

ACCOUNTABLE EXPENSE REIMBURSEMENT PLAN

As detailed in the Treasury Regulations, an employer may adopt a written plan for expense reimbursements. In sum, the plan must require that the employee adequately account for the expenses by justifying the expense as an ordinary and necessary expense of the employer. It also requires receipts and other information to satisfy travel and entertainment rules. A sample accountable reimbursement plan for churches is found at www.wkpz.com.

Travel and entertainment expenses require that the employee provide a receipt (if the amount exceeds \$75.00), the destination(s) of the trip, the names of the persons traveling and the purpose of the trip. For church trips, the employee must have significant duties and responsibilities related to their job description on the trip. I suggest that the church require a daily itinerary from each employee.

If the church pays expenses of an employee but the trip expenses do not qualify for reimbursement or payment, then the reimbursement or payment is taxable income to the employee. Further, if the church pays the expenses of an employee but the employee fails to provide adequate documentation, then the amount paid is taxable income to the employee.

For example, a Youth Minister is required by the church to accompany the youth to camp. He is required to supervise all aspects of the trip and camp. Then, upon the presentation of adequate documentation, the church may pay or reimburse all costs associated with the Youth Minister related to the camping trip.

OTHER TYPES OF PERKS

Section 132 of the Internal Revenue Service provides a “catch-all” exclusion from taxable income for certain types of benefits. The following represent some of the most common benefits or perks.

No Additional Cost

If the church regularly offers an activity and the addition of an employee to the activity will not cost the church any additional funds, then the church may allow employees to participate and not add the benefit to the employee's taxable income. For example, the church chartered a bus to transport the choir to another city. If the choir requires only 30 of the bus' 45 seats, then employees may accompany the choir without incurring taxable income.

Qualified Employee Discount

If the church allows employees a discount of goods that the church sells, as long as the discount does not cause the item to be sold for less than the church paid for the item, then the discount is not taxable income to the employee. If the church provides a service, then the discount cannot exceed 20% of the regular price charged the public. Further the employee must be involved in the activity related to the goods or service. For example, the church provides English classes to low income individuals for \$20.00 per class. If the church allows an employee to attend the class for \$5.00, then the employee has additional taxable income in the amount of \$15.00.

Working Condition Fringe

If the church would consider the expense an ordinary and necessary expense of the church, then the church should not add the benefit to the employee's taxable income. For example, if the employee pays for a dinner in which she entertains the member of the Church Council and their spouses, then the church should not add the value of the meal consumed by the employee to taxable income.

De Minimis Fringes

The term "de minimis fringe" means any property or service the value of which is (after taking into account the frequency with which similar fringes are provided by the employer to the employer's employees) so small as to make accounting for it unreasonable or administratively impracticable. For example, the employee makes copies of a personal tax return on the church copier. Since this activity is infrequent and costs very little money to the church, the church should not add the value of the copies to taxable income.

FAMILY MATTERS?

All benefits or perks provided to family members of the employee will be taxable unless the benefit or perk would fit a specific exclusion if it was provided directly to the employee. For example, if the church pays for the children of an employee to attend camp, then that would be taxable income to the employee because it does not fit any of the exclusions. On the other hand, if the employee is required to work at the camp, then the camping fee is not taxable income because it is a working condition fringe benefit.

Other benefits are also excluded from taxable income. The best way to determine the correct tax treatment of a benefit or perk is to ask your professional tax advisor. Sometimes, the benefit can be structured to fit within one of the allowable exclusions.