

Exempt Organizations & Your Employment Taxes

Tax-exempt organizations, including churches and faith-based charities, have important responsibilities as employers while operating and managing their activities. Generally, most organizations will choose to make use of one of the several payroll services, such as ADP or Paychex, to have their payroll prepaid and the taxes collected and deposited with the U.S. Treasury. However, whether you choose to make use of a payroll service or handle your payroll internally, as the employer you are responsible for knowing what your responsibilities are and ensuring that they are carried out in a timely manner.

With this in mind let's review your payroll related duties as an employer:

FEIN

Before an organization becomes an employer and hires employees, it is required to apply for a federal Employer Identification Number (EIN). EIN's serve much the same purpose for an organization as a social security number does for individuals. Each number is unique and identifies your organization to the IRS and other organizations.

If the organization has employees, it is responsible for a number of federal, state, and local taxes. As an employer, the organization must withhold certain taxes from employees' pay checks. Employment taxes include the following:

- Federal income tax withholding (FITW)
- Social Security and Medicare taxes (FICA)
- Federal unemployment taxes (FUTA)

FITW

An organization generally must withhold federal income tax from each of its employees' wages. (Note: special tax rules apply to individuals paid as ministers). To determine how much to withhold from each wage payment, the organization should have each employee complete a Form W-4 and the follow one of the methods described in Employer's Tax Guide" (IRS Publication 15) and the Employer's Supplemental Tax Guide" (Publication 15-A).

FICA

Social Security and Medicare taxes pay for benefits that workers and families receive under the Federal Insurance Contribution Act (FICA). Social Security tax pays for benefits under the old-age, survivors, and disability insurance part of FICA. Medicare tax pays for benefits under the hospital insurance part of FICA. (Note: again for individuals paid as ministers' special tax rules apply for how social security and Medicare taxes are calculated and collected).

Generally, meals, lodging, clothing, services and other payments in-kind are subject to Social Security and Medicare taxes, as are wages paid in cash. However, meals are not taxable wages if

furnished for the employer's convenience and on the employer's premises. Lodging is not taxable if all three of the following conditions are met. The lodging is; furnished for the employer's convenience, on the employer's premises, and as a condition of employment.

The organization, as the employer, must withhold and deposit the employee's part of the taxes and pay a matching amount. The Social Security tax is withheld from the employee's gross wages until the employee's cumulative wages for the year reach the wage base limit subject to the tax. Wages above the wage base limit are not subject to Social Security tax withholding. However, since there is no wage base limit for Medicare tax, all covered wages are subject to Medicare tax. Report federal income taxes, Social Security, and Medicare taxes on Employer's Quarterly Federal Tax Return (IRS Form 941, *Employer's Quarterly Federal Tax Return*).

FUTA

The federal unemployment tax is part of a federal and state program, under the Federal Unemployment Tax Act (FUTA), that pays unemployment compensation to employees who lose their jobs. FUTA tax should be reported and paid separately from FICA and FITW. The FUTA tax is paid only from an organization's funds. Employees do not pay this tax or have it withheld from their pay.

An organization that is exempt from income tax under section 501(c)(3) of the Internal Revenue Code is also exempt from FUTA. This exemption cannot be waived. An organization that is not a section 501(c)(3) organization is not exempt from paying FUTA tax. Report FUTA taxes on Employer's Annual Federal Unemployment Tax Return" (Form 940, *Employer's Annual Federal Unemployment Tax Return*).

Depositing Taxes

In general, the organization must deposit income tax withheld, including both the employer and employee portions of FICA taxes with the IRS within a few days of the end of the payroll period. Beginning January 1, 2011 federal tax deposit (FTD) coupons are no longer allowed to be used for submitting depository taxes. Instead, the regulations mandate that deposits must be made electronically. Consider using **EFTPS** for making FTD payments.

<https://www.irs.gov/Charities-&-Non-Profits/Electronic-Filing-and-Payment-Options-for-Employment-Tax>Returns-of-Exempt-Organizations>

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This material is presented with the understanding that the author is providing basic information only, and assumes no liability whatsoever in connection with its use. Tax laws are constantly changing, are subject to differing interpretations, and the facts and circumstances in any particular situation may not be the same as those presented here. Therefore, we urge you to do additional research and make sure that you are fully informed and knowledgeable before using the information contained herein.