

## PAYROLL POLICIES AND PROCEDURES

**Policy:** Parishes/Schools will maintain strong internal controls over the payroll function. Compliance with Diocese payroll policies, IRS, and NYS regulations is required.

**Purpose:** To provide policies and procedures relative to payroll matters including employee classifications, pay periods and record keeping. The proper recording and maintenance of payroll records is essential not only in determining the costs of parish/school operations, but also for Federal and State reporting purposes. The Internal Revenue Service (IRS) and local taxing authorities require employers to maintain records of the compensation paid to each employee performing services for the parish/school. They also require various payroll reports to be prepared and submitted according to specific filing schedules. Compensation is usually the largest single expense of a parish/school. For all these reasons, parishes/schools must exercise extreme care in all matters relating to payroll processing and accounting.

**Scope:** Applies to all persons employed by the parish/school.

### A. Employee Classifications

It is particularly important for the parish/school to correctly determine the employment status of workers because different payroll withholding and reporting requirements exist for different types of employees and independent contractors. The IRS defines an employee as **“anyone who performs services subject to the will and controls of the employer both as to what shall be done and how it shall be done”** and receives remuneration for such services. The employer-employee relationship is determined not by job title, work assignment, or the intent or desires of the worker or employer, but critical factors. A few of the critical factors are discussed in Paragraph 11 of this section. Although none of the factors is considered to be controlling in employment determinations, the IRS has tended to classify a rather broad range of workers as employees, rather than independent contractors. Parishes/Schools should carefully consider the twenty (20) factors before determining a worker’s employment status, keeping in mind that it is seldom wrong to classify a worker as an employee. Employers may request a status determination by filing Form SS-8, Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding. Parishes/Schools that need additional information should contact the Diocesan Human Resources Office. An individual’s employment status remains the same even if the individual is performing more than one job in the parish/school. This means an employee should not be considered an independent contractor when performing a secondary or additional job for the same parish/school. All compensation paid by the parish/school to an employee should be reported on that person’s Form W-2 and the proper and appropriate taxes withheld.

Parishes/Schools should make a special point to refer their employees to the section on Benefits Eligibility in their Employee Policy Manual so that they know

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how their classification affects their benefits. This would be a good thing to do during orientation and annually as a reminder and to answer any questions they might have or to explain any changes that may have been implemented.

### **1. Parish/School Hourly Employees Non-Exempt for Overtime Premium Pay**

Employees covered by the minimum wage and overtime provisions of the Fair Labor Standards Act (FLSA). These employees are considered non-exempt under the provisions of the FLSA. Examples of parish/school employees under the non-exempt category are: Housekeeper, Custodian, Receptionist, Secretary, Administrative Assistant/Parish Secretary, and Bookkeeper.

Also consider when the custodian is classified as a supervisor and must be in the supervisory position for seventy percent of the time, only then that supervisor can be paid as exempt employee. This supervisor should not be turning a wrench or throwing the hammer down for more than thirty percent of the time, and they must supervise the staff that performs the manual labor functions.

Overtime at the rate of time-and-one-half, the employee's base rate will be paid to non-exempt eligible employees when work is performed in excess of 40 hours in one week. The time-and-a-half is only paid for hours worked, so if an employee takes a sick, vacation, holiday or comp time, then those hours are not included as part of the 40 hours worked. Hours worked on the seventh consecutive day of the week are paid at the rate of two times the employee's base rate if they are in excess of 40 straight-time hours. Any hours worked in addition to the employee's regular schedule may either be paid to the employee (at the appropriate rate) or accrued as compensatory time. If the hours are accrued as compensatory time, they must be taken off before the end of the week in which they were accrued. Compensatory accrued time should be avoided, generally because there is a tendency to not properly document and monitor these benefits.

Hourly employees need to maintain daily records of the days and the hours that they work. These records must be reviewed and approved by their supervisor and should also indicate when sick, vacation or other leave time are used.

### **2. Parish/School (Salaried) Employees Exempt for Overtime Premium Pay**

Employees not covered by the minimum wage and overtime provisions of the Fair Labor Standards Act (FLSA). These employees are considered exempt under the provisions of the FLSA. Example of parish/school employees under the exempt category are: All Coordinators, Director, Pastoral Assistant (non-ordained), Teacher, Campus Minister, Supervisor, Diocesan Coordinator, Office Manager, Business Manager, Principal, Parish Director (non-ordained) and Diocesan Administrator/Director.

Exempt employees will not receive overtime pay. Any questions regarding eligibility should be directed to the Pastor/Parish Director/Administrator or Principal.

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Exempt employees need to document the days and the hours that they work. This should include any vacation time, sick time or other time off with or without pay used during a pay period. These records should be reviewed and approved by the employees direct supervisor.

### **3. Full-Time Employee (For Benefit Eligibility)**

Any employee who is regularly scheduled to work 35 hours per week or more (1820 hours per year). Full-time employees are eligible for various parish or school benefits as specified in their Policy Manual.

### **4. Part-Time Employee**

Any employee who is regularly scheduled to work less than 35 hours per week (less than 1820 hours per year). Part-time employees will accrue benefits based on their employers policies. Part-time employees are eligible for certain parish or school benefits and should consult their Policy Manual.

### **5. On-Call Employee**

Any employee who works on an as-needed basis without a regular schedule. On-call employees are not entitled to any of the normal employee benefits as outlined in the parish or school Policy Manual.

### **6. Regular Employee**

Any employee whose position does not have a predetermined ending date, or whose predetermined date is five (5) months or more from the hiring date.

### **7. Temporary Employee**

An employee whose position has a predetermined ending date that is less than five (5) months from the hiring date. Temporary employees are not eligible for parish or school benefits. It is the Pastor's/Parish Director's/Administrator's responsibility to make sure that employees are not misclassified as temporary if they have been working for more than (5) months. When you hire a temporary employee, make a note of the ending date on your calendar and make sure they are either off of the payroll or reclassified as regular after five months have elapsed.

### **8. Diocesan Priest**

Diocesan Priests are dual status employees:

**For Federal Income Tax purposes, Diocesan Priests are employees. Their wages are reported on Form W-2 and they are subject to State, Local and Federal income taxes. For Social Security purposes, Diocesan Priests are self-employed. They are subject to and pay self-employment tax, which is handled on the Priest's Federal Income Tax return.**

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A Diocesan Priest **MAY NOT** have the parish/school deduct Social Security and MEDICARE taxes from his wages at the employee's rate and pay the matching share, as the parishes/schools does for regular employees. Priests must file Schedule SE with their Federal tax returns. Schedule SE computes self-employment tax. Parishes/Schools should receive a letter from the diocese, around the start of each fiscal year advising as to what the diocesan Priest's salary will be for the coming fiscal year. Priests may voluntarily have federal and state taxes withheld from compensation.

### **8. A – Retired Priests from your Diocese working in your Diocese**

Retired priests may qualify to receive reported earnings for their services in addition to the 1099R, which they receive for their retirement earnings. If the retired priest works as weekend help, either regular or occasional, those earnings are reportable by the employer and are subject to withholding taxes. Each case will need to be reviewed to determine if they should receive a W-2 or a 1099 at year-end.

### **9. Members of Religious Communities**

Members of religious communities who have taken a vow of poverty are not subject to income tax on amounts paid to the community for their services. Checks for payments of services should be made payable directly to the religious order or the order and the individual, never to just the individual. The IRS will consider payments made to an individual taxable income even if he or she is a member of a religious community. Payments to visiting priests who are members of religious orders should be made (payable) to the order, not to the priests. The parish/school should not prepare Form W-2 or Form 1099 for religious, should not withhold taxes, and should not include payments on Form 941. Parishes/Schools should have a written agreement with the religious order for each individual outlining work responsibilities and amounts to be paid.

The compensation provided to members of religious communities working, as members of parish/school staff should be computed using the sample diocesan worksheet. (This should include the base salary, plus allowances providing for the cost of health, dental and life insurance premiums.) **Additionally, the Parish/School must execute a parish/religious order agreement with the religious order.**

### **9. A – Visiting Priests**

Visiting Priests are considered employees and should have all the appropriate forms when they begin their assignment. If the priest is from a foreign country, they will need a Religious Working Visa. Without a Religious Working Visa, the priest is not to receive compensation from the parish for their services under immigration laws. Visiting priest payments should be recorded in the Parish general ledger as clergy temporary help fees and expenses. Visiting Priests should receive a W-2 at the end of their assignment. Their wages are reportable

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wages, so it should appear on Form 941, line 2 only, Form NYS-45 part A – line 1 and part C - columns (a) to (c) and for the 4<sup>th</sup> quarter column (d), Form W-2 boxes 1 and 16.

### **10. Lay Employees**

Lay employees are fully subject to Federal, State and Local Income tax withholdings on their earnings. The parish must also withhold Social Security and MEDICARE taxes and pay the employer's matching share. At the beginning of the calendar year, the rate and wage base for Social Security and MEDICARE may change. The parish should consult Circular E., issued by the IRS each January, for the proper withholding rates. According to U.S. Catholic Conference, all employees earning over \$100/year must have Social Security withheld. Employees of the Diocese of Buffalo are required to have written contracts/agreements with their parishes. The parish should have a copy of the current contract/agreement signed by all parties, in its files. The parish/school should establish a formal system, tailored to the unique situations for their parish/school, to record the work of all employees. This recording system may take the form of timecards, payroll sheets, or a time book. At a minimum, the record should show the number of hours worked each pay period, comp. time earned and used, holiday hours, vacation and sick leave earned and used, and other miscellaneous types of hours used per the Parish Employee Handbook.

Parishes/Schools are reminded that all non-exempt employees are eligible for overtime and must be paid overtime when they work more than forty (40) hours in one workweek. (Holiday, vacation, sick and comp time hours do not count as hours worked in determining overtime hours.) The rules for computing and compensation for overtime hours are quite specific. Contact the Diocesan Human Resources Office if you have any questions concerning how to handle overtime hours.

### **11. Independent Contractors**

Parishes/Schools may sometimes enlist the services of workers who are not employees and who are not working as part of an organized business enterprise. These workers are called Independent Contractors. The parish/school should require the vendor to complete IRS Form W-9 in order to obtain the required tax identification information. The parish/school must then issue Form 1099-MISC to any non-corporate independent contractor to whom it pays \$600 or more in one calendar year. (Note: All legal fees paid even if to a corporation or if below \$600 must be reported on Form 1099-MISC.) No taxes should be withheld from payments to independent contractors, and the parish/school should not pay Social Security or MEDICARE taxes or other benefits for them.

The IRS takes a hard line when differentiating between an employee and an independent contractor. The IRS continues to declare this an area of special interest and attention. The difference between paying an independent contractor and paying an employee is that the employee has tax withholdings on his/her

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paycheck while an independent contractor is responsible for the payment of their taxes. If the IRS deems a vendor to be an employee when the parish/school is treating the vendor as an independent contractor, the IRS can assess the parish/school the taxes that would have been withheld, plus penalties and interest. In the past, there have been much discussion about the “20 Factor Test” when determining the employment status of a vendor. In actuality, the IRS regulations contain only a few critical factors:

- **Right to Control** – Does the employer (parish/school) have the right to control the work and the details of how the services are performed?
- **Right to Discharge** – Does the employer (parish/school) have the right to discharge the vendor?
- **Furnishing Tools** – Does the employer (parish/school) furnish the tools to perform the job?
- **Furnishing Place to Work** – Does the employer (parish/school) furnish the place to perform the job?

Of all the factors mentioned above, control is the key. If the employer (parish/school) has the right to control the details and means by which the service is performed, then the individual is probably an employee. If the employer (parish/school) only has the right to control the final result, then the individual is probably an independent contractor. Parishes/Schools are cautioned to use extreme care in classifying workers as independent contractors. The employer-employee relationship is defined not by the type of work performed or the amount of compensation paid. If there is any doubt about the status of a worker or vendor, he or she should be treated as an employee. Contact the Diocesan Human Resources Office if you are unsure as to the status of a particular individual or arrangement. Parishes/Schools should immediately terminate the relationship with any independent contractor who makes his or her services contingent upon NOT having compensation reported to the IRS. The parish/school does not have an option – by law, all payments of \$600 or more in one calendar year to one individual must be reported to the IRS and to the individual.

### **B. PAY PERIOD, PAYDAY AND HOURS OF WORK**

Consult the Parish Employee Handbook for specific information.

### **C. TIMESHEETS**

All employees will be responsible for preparing and signing a Time Sheet. A Time Sheet will be maintained for each employee for each pay period. The Time Sheet is formatted for a bi-weekly pay period, but can be used for weekly and semimonthly pay periods, and should be used to record hours worked, paid time off and holidays. Employees (timekeepers or supervisors) are required to complete the Hours Worked (time) section and can just fill in the Regular Hours worked for that day. At the end of the pay period, the employee should sign the time sheet.

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Time Sheets are to be completed at the end of each pay period and approved by each employee's supervisor. Supervisors are responsible for collection and submitting the time sheets on employees they are responsible for to the appropriate office responsible for payroll processing. Prior to taking time off, employees are responsible for completing and submitting their Time Sheet to their supervisor. If an employee is absent the day that Time Sheets are due (i.e., illness, injury, etc.), the employee's supervisor should complete and submit the Time Sheet and notify Accounting of any corrections upon the employee's return.

### D. PAYROLL DEDUCTIONS

**1. General** – By law, the parish/school is required to deduct, where applicable, Federal and State withholding taxes, Social Security taxes and garnishments. Voluntary deductions may include, group health and life insurance premiums, credit union deductions, cafeteria plan deductions, excess federal and state withholding, etc.

**2. Priests' Tax-Deferred Annuities** – Priests of the Diocese of Buffalo may make Contributions to a 403(b) tax-deferred annuity plan. A priest who wishes to contribute to a 403(b) account should contact a TDA company to open an account into which deposits can be made. A list of approved TDA companies can be obtained from the Diocesan Human Resources Office. The IRS limits contributions under certain circumstances. There are additional contribution limits imposed on priests who have reached the age of 70. Priests who wish to participate in a 403(b) plan should consult with a TDA representative or personal tax consultant before making contributions. All contributions must be made through payroll deduction. Contributions are taxed at the time of withdrawal. Therefore, the amount deducted from the priest's salary should be subtracted from gross wages on his Form W-2. Early distributions from the account are usually assessed a 10% penalty. The priest's contribution will be transmitted by the parish/school, directly to the TDA account, each time that the priest is paid. A priest may contribute as much as the IRS will permit to his TDA account.

**3. Lay Employees' Tax Deferred Annuities** – Lay employees of the Diocese of Buffalo may contribute to a 403(b) tax-deferred annuity plan after one year of full-time employment. All contributions must be made by payroll deduction. Amounts deposited into a TDA are not taxable until withdrawn from the program. Therefore, amounts contributed to a TDA should be subtracted from gross wages on the employee's Form W-2. Amounts deposited into a TDA are subject to Social Security and MEDICARE taxes. They should be included in Social Security wages on Form W-2 and on the parishes' quarterly Form 941 tax return. The Diocesan Office of Human Resources can provide a list of approved TDA companies. Limits exist on the annual contribution lay employees may contribute to a TDA. The employee should contact a TDA representative or personal tax consultant to determine how much he or she may contribute.

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### **E. PAY ADJUSTMENTS**

If an employee discovers an error in their paycheck, they should review the matter with the office responsible for payroll processing at their parish. Changes to an employee's wage withholding (Form W-4) filing should be submitted along with their Time Sheet for the period that the change is to become effective.

### **F. ADVANCES**

Advance payment of earned wages is highly discouraged; however, may be made in an emergency and must be approved by the Pastor/Parish Director/Administrator. Employee advances for travel may be made upon approval by the Pastor/Parish Director/Administrator. Such advances must be documented on a check Requisition Form and receipts and other appropriate documentation provided immediately upon return from the trip. Any unused advance must be returned to the parish/school at that time. If an employee does not document advances, the total advance must be added to the employee's Form W-2 at year-end and reported as taxable income to the employee.

### **G. GARNISHMENTS**

By law, parishes/schools are required to honor legal garnishments of employees' wages. The employee will be notified of any garnishment received by the parish/school.

### **H. LOST PAYCHECKS**

Employees should report checks lost or otherwise missing to the payroll department or the Diocesan Finance Office, if that office processes their payroll, immediately so that a stop-payment order (30 days from date of check) may be initiated. The Pastor/Parish Director/Administrator will determine when a replacement check can be issued.

### **I. FINAL PAYCHECKS/SEPARATION PAY**

New York employers are required by statute to immediately pay discharged (dismissed or fired) employees their accrued earnings or to pay them within six (6) hours of activating the accounting unit that produces paychecks. When an employee voluntarily quits (resigns), New York statutes require that the employer pay accrued earnings on the next regular payday. In either of these situations, the employer has the right to reduce the employee's final paycheck by any lawful charges or indebtedness owed by the employee to the parish/school. The supervisor terminating the employee should carefully review the employee manual and the personnel file to determine all funds owed to the employee. The failure of the parish/school to comply with these statutory requirements, without a good faith legal justification for non-compliance, may make the parish/school liable for one and one-half times the unpaid compensation due to the employee plus the employee's legal fees.

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### **J. UNEMPLOYMENT COMPENSATION**

The Diocese of Buffalo is required to and does provide Unemployment Compensation Benefits. The unemployment tax is charged during the processing of the payroll and remitted to the State Unemployment Insurance Department.

### **K: Workmen's Compensation**

The Diocese of Buffalo provides workers' compensation benefits for employees of all parishes, schools and institutions that are part of the Diocesan master insurance program. The Diocese of Buffalo is a licensed self-insured employer in the state of New York. Should a work related injury occur requiring outside medical treatment and/or lost time from work, the employee must immediately notify the employer (Diocese/Parish/School) representative. The employer should complete the workers compensation claim form known as a C-2. If you access the Diocese of Buffalo website and follow the links to the Insurance Services Department, the C-2 can be downloaded and printed. The completed C-2 should then be mailed or faxed (716-847-5538) to the Diocese of Buffalo Insurance Services Department. The Diocese of Buffalo Insurance Services claim representative will notify First Niagara Risk Management, Inc. who will assign a claim number and notify the Workers Compensation Board. The claim must be reported within 48 hours of the injury. In the event the employee has lost time from work and is subsequently released to return to work where there are documented medical restrictions/limitations, it must be determined if the employer can accommodate the restrictions. If not, the Director of Human Resources must be contacted. All medical expenses associated with a work related accident/injury will be paid by First Niagara Risk Management on behalf of The Diocese of Buffalo. When lost time is involved, the injured employee is eligible to receive up to 2/3 of their average weekly wages (not taxable) subject to a maximum of \$500 per week (maximum will increase to \$600 per week in the next 18 months) once they have been out in excess of 2 weeks.

#### **Short Term Disability**

The Diocese of Buffalo provides statutory short-term disability benefits for employees of all parishes, schools and institutions that are part of the Diocesan master insurance program. The Diocese of Buffalo is a licensed self-insured employer in the state of New York. Should an employee sustain an injury/illness or any other medically authorized reason the employee cannot go to work that is NOT work related, the employee is entitled to collect disability benefits. The time missed from work must exceed one week before disability benefits are paid. In the event an employee will be eligible for disability benefits, the employer, the employee and the employee's medical provider must complete their respective sections of the disability claim form (DB 450). Similar to workers' compensation, the form can be downloaded from The Diocese of Buffalo website. The employer

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must give the form to the employee who will complete Part A, then give it to their medical provider who will complete Part B. The employee is then responsible for returning the form with Parts A and B completed to the employer. The employer must complete Part C and then mail or fax (716-847-5538) the fully completed form to the Diocesan Insurance Services Department. The form will be sent to First Niagara Risk Management, Inc. who will administer the claim. The employee is entitled to receive 50% of their average weekly wages subject to a maximum of \$170 per week (taxable income) following the first week of time off. The employee is entitled to use sick days in lieu of receiving disability benefits – this insures continuation of full wages during the disability period subject to having enough sick time to cover the time missed from work. If the employee opts for using sick time, the disability benefits will be paid directly to the employer. The employer will in turn reinstate a portion of the employee's sick time in the proportion the weekly disability benefits bears to the employee's weekly wages. An employee cannot work in any capacity during the disability period or benefits will be suspended. Return to work must be accompanied by a doctor's written authorization.

### **L. TAXABLE WAGES**

All compensation paid to lay employees must be reported to the IRS and State taxing authorities and taxes should be withheld. Compensation includes gifts of cash or cash equivalents regardless of the amount, overtime pay, and pay for additional services performed for the same employer. All compensation should be paid for by check to ensure earnings are properly recorded in the accounting records and properly reported to the State and Federal taxing authorities. The earnings of all employees must be reported to the State and Federal authorities and the appropriate amounts withheld.

Federal and State taxing authorities consider bonuses to be part of an employee's compensation. Accordingly, they are subject to Federal, State, and FICA taxes. The same rule applies to cash gifts to employees. To make calculating taxes easier, the IRS allows employers to use a flat withholding rate of 28% for bonuses, whether the person is single or married, no matter how many exemptions he or she claims. State taxes should be withheld at the appropriate State rate. The tax rates change from year to year. Parishes/Schools should consult the current Circular E for appropriate rates. Of course, you may also choose to withhold at the employee's regular withholding rates, if you prefer. In that case, substitute the employee's State and Federal withholding rates in lieu of the flat rate.

### **M. PAYROLL PROCESSING**

Payroll should be processed and paid in a consistent, careful manner. The following guidelines should be as follows:

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- No information in the payroll system, be it a manual system or an automated system, may be added, deleted, or changed unless there is proper written documentation. Payroll changes should never be made based upon verbal information.
- Authorization for payroll additions, deletions, or changes is the responsibility of the Pastor/Parish Director/Administrator and should not be made by the person responsible for preparing the payroll checks.
- The person responsible for preparing payroll checks should not approve time cards, or sign the paychecks.
- Calculate payroll deductions using the employee's current Form W-4, the Federal, State, and City withholding tables. Do not modify the payroll withholdings unless the employee completes a new Form W-4. Do not discard old Form W-4s'. The employee may elect to have an **additional fixed dollar amount** withheld by indicating that amount in Box 6 of Form W-4. If an employee has claimed an exemption from withholding in the prior year they **must** complete a new W-4 form by **February 16**. Beginning January 1, 1999 priests may opt to withhold (Federal tax only or both Federal and FICA taxes and record that amount in box 6) or not withhold taxes. They may use the W-4 to withhold for each pay cycle, or they may continue to file quarterly estimated tax returns. All priests must complete a Form W-4 regardless of which option they choose.
- NYS Form IT-2104 – Employee Withholding Allowance Certificate If Form IT-2104 is not filed, you may use the same number of allowances as claimed on the W-4 form. However, if the number of allowances is different than the Form W-4, an IT-2104 must be filled out.
- Calculate other deductions such as health insurance premiums and tax-deferred annuities (TDA's), flexible spending accounts and voluntary benefit programs.
- Prepare the payroll check. Under no circumstances should an employee be paid in cash.
- Prepare payroll tax reports as necessary.
- Forward checks, along with supporting documentation, (e.g. time sheets) to the person(s) authorized to sign checks. The signer should review each check for familiarity with the name and reasonableness of the amount.
- After all checks are signed, remove and file all supporting documentation.
- Direct deposit, hand deliver or mail the payroll checks to each person. No checks should be delivered to anyone other than the employee unless written permission has been granted by that employee.
- Mail checks to financial institutions for which employees have initiated a direct deposit authorization.
- Under no circumstances should a payroll check be cashed for an employee by using Petty Cash accounts or Offertory collection monies.

### N. PAYROLL TAXES

Parishes/Schools must exercise extreme caution when preparing and remitting payroll taxes. The Federal government is very serious about employers meeting,

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reporting, and remitting deadlines. Failure to report and/or remit payroll taxes could result in expensive liability to the parish/school and to the preparer personally. Payroll taxes to be withheld from an employee's check are Federal, FICA Social Security, MEDICARE, State and City (where applicable) taxes. Be sure to calculate the withholdings based upon the employee's most current Form W-4, and not on verbal requests or directions. Retain all Form W-4's in the parish/school payroll record.

**1. Federal Payroll Tax and FICA Withholding** – At the beginning of each year, the IRS will issue a new tax-withholding booklet called Circular E, Employer's Tax Guide (Publication 15). This guide provides specific details about the withholding amounts, remittance dates, and remittance transmittals. Additionally, the guide will specify the FICA rate, the MEDICARE rate, and wage base for the FICA tax. Beginning January 1, 1994, there is no wage base for the MEDICARE tax.

(a) Federal Income Tax withholding - Upon receipt of the new Circular E, determine the effective date of the new tax tables. They are generally effective on January 1 of each year, but have been known to change in the middle of the year. If your payroll is automated, update the tables, rates and limits. File the previous year's Circular E in case you need to refer to it, but be careful not to use the old tables by mistake.

(b) FICA, Social Security and MEDICARE Taxes in addition to Federal tax withholdings, a percentage of the gross wages must be withheld for FICA, Social Security and MEDICARE taxes. The FICA Social Security and Medicare rates and specified wage limits are found in Circular E. The employer's share of FICA, Social Security, and MEDICARE taxes is the same as for the employee.

(c) Tax Withholding Deposits Effective January 1, 1993, the IRS simplified the Federal tax deposit requirements. In the past, an employer had to evaluate its tax liability at each payroll to determine if a deposit was required. Under the new regulation, the IRS determines the deposit schedule by looking back at the Federal Employment Taxes reported during a four-quarter "lookback" period. The IRS will then notify the parish/school of its federal tax deposit requirements.

(d) Tax Withholding Report. Regardless of deposit dates, all parishes/schools must file a Form 941 each quarter, which reports the amounts of withholdings. These quarterly reports are generally due by the end of the month following the end of the quarter; refer to the most current Circular E for specific dates.

**2. Unemployment Taxes** – The parishes/schools within the Diocese of Buffalo are exempt from the Federal Unemployment Programs. Each employee should be advised of this fact during their initial employee orientation and periodically reminded of this fact. Should you have payroll processed through a Payroll Service – you must notify the Service that you are FUTA exempt.

### O. PAYROLL TAX FORMS

W-2 Employee Wage and Tax Statement:

- This form must be issued to every employee no later than January 31.

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- Form W-2 details Taxable Wages, Federal, State, Social Security and Medicare tax withheld from employee paychecks, and Deferred Compensation (TSA's) during the calendar year.
- W-2 forms must be filed with the Internal Revenue Service no later than February 28.
- Beginning with the calendar year 1999, remuneration paid to priests must also be reported on Form W-2. A priest W-2 will have federal and state wages boxes 1 and 16 filled in, and may have their corresponding withholdings boxes filled in as well..

### W-3 Transmittal of Wage and Tax Statements:

- This form must be completed and filed along with the IRS copies of the W-2 forms by **February 28**.
- The totals on the transmittal Form W-3 must agree with the sum total of all the W-2 forms.

### 941 Employer's Quarterly Federal Tax Return (Paper submission):

- All employers who pay wages subject to income tax withholding (including withholding on sick pay and supplemental unemployment benefits) and/or Social Security and Medicare taxes must complete form 941.
- Report wages, subject to Federal Income Tax, paid to priests and lay employees on Form 941, line 2. Wages subject to income tax **do not** include amounts contributed to 403(b) TSA plans, Section 125 or 143 pre-tax health benefit plans, or reimbursements for employee out-of-pocket business expenses.
- **Do not include any priest wages on Form 941 lines 6(a) or 7(a).**
- Include Section 403(b) TSA contributions in the wages reported for employees on lines 6(a) and 7(a) of Federal Form 941. Do **not** include Section 125 & 143 Plan contributions in the employee wages reported on Federal 941 lines 6(a) and 7(a).
- The amount on all four quarterly reports for income tax withholding, social security and Medicare wages should reconcile to Forms W-3 and W-2's at year end.
- Substantiated, documented, and allowable priest business expenses that are reimbursed through the Clergy Business Expense Allowance contained in the Clergy Compensation Scale are not taxable wages. Priest expenses that are not substantiated, not documented, and/or not allowable under the tax code may not be applied against the clergy business expense allowance. Surplus clergy business expense money (expense money advanced which exceeds the amount spent and substantiated) is fully taxable and must be reported as wages in the fourth quarter Federal 941 filing (line 2) as well as the priest Form W-2.
- Form 941 is due the last day of the month following the end of the quarter as follows:

Calendar Quarter	Due Date
January 1 to March 31	April 30
April 1 to June 30	July 31

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July 1 to September 30  
October 1 to December 31

October 31  
January 31

941 (TeleFile Tax Record (Submission per Telephone)

1096 Annual Summary and Transmittal of U.S. Information Returns

- This form must be completed and filed along with the IRS copies of the 1099 forms by **February 28**.
- The totals on the transmittal form must agree with the sum total of all 1099 forms.

1099-Misc Miscellaneous Income Statement

- This form must be completed and sent to qualifying payees no later than **January 31**.
- This form is filed for anyone that is **not your employee**. Please see above A 11 for more information on filling out Form 1099-Misc.
- The 1099 forms must be filed with the Internal Revenue Service no later than **February 28**.

8109 Federal Tax Deposit Coupon Book

NYS-45 Qtly. Combined Withholding, Wage Reporting and Unemployment Insurance Return

- This form is used to reconcile the withholding for NYS for the quarter and to report employee wages, and tax information.
- If you have more than 5 employees you must file **NYS-45-ATT** attachment to report individual employee information.
- The amount on all four quarterly reports for NYS income tax withholding should agree with the sum total of amounts withheld for NYS on the W-2 forms and reported on transmittal form W-3.
- The due dates for filing the quarterly returns are the same as Form 941, noted above.

NYS-1 Report of Tax Withheld

Form 940 Federal Unemployment Insurance

- The Diocese of Buffalo and all parishes are **exempt** from filing FUTA Form 940.
- **This form should not be submitted.** If you receive this form, contact the Diocesan Fiscal Office.

In addition to the above forms the employer must have the following forms completed by the employees and retained (permanently) in the personnel files.

I-9 Employment Eligibility Verification

W-4 Employee Withholding Allowance Certificate

IT-2104 Employee Withholding Allowance Certificate

Independent Contractors should complete and turn in to the Parish/School the following form before starting work for the Parish/School:

W-9 Request for Taxpayer Identification Number and Certification

## PAYROLL POLICIES AND PROCEDURES

Forms, instructions and publications can be obtained by calling the following toll free numbers:

- Internal Revenue Service 1-800-829-3676
- Fax on Demand 1-703-368-9694
- Via IRS web site at: [www.irs.ustreas.gov](http://www.irs.ustreas.gov)
  
- New York State 1-800-462-8100
  
- Fax on Demand 1-800-748-3676
  
- Via NYS web site at: [www.tax.state.ny.us](http://www.tax.state.ny.us)

For more information on withholding and tax information order:

IRS Publication 15 Circular E, Employers Tax Guide and NYS Publication – NYS-50 NYS Guide to Withholding Tax and Wage Reporting.

### **P. RECORDING PAYROLL**

The gross payroll should be debited to the appropriate personnel expense account (xxxx – xxxx) and appropriate sub accounts and withholdings (Federal Tax, State Tax, Social Security, and MEDICARE) credited to appropriate liability withholding accounts (xxxx – xxxx). The employer's portion of FICA Social Security and MEDICARE Taxes should be recorded each pay period against the appropriate personnel tax expense account (xxxx). Tax deposits are made at appropriate financial institutions in accordance with IRS Rules and regulations. When deposits are recorded to clear these liabilities, the appropriate withholding liability account should be debited to clear the liability. In this way, the balance in the withholding accounts will be zero when all withholdings and taxes have been deposited. Any undeposited amounts will appear as liabilities on the Balance Sheet.

Remember that the withholding accounts are only holding accounts for amounts the parish/school must deposit with the State and Federal Taxing authorities. The balances in them should reflect only those amounts the parish/school has not yet deposited. Before the parish/school closes a month and at the end of the fiscal year, the accountant or bookkeeper should check that the balances in the withholding accounts are accurate. The account balances should equal the unpaid liabilities for that month. If the parish/school withholds other amounts, such as tax deferred annuities, from employee's pay, those amounts should also be recorded in the appropriate withholding liability account(s). Payment of amounts withheld would be recorded in a manner similar to tax deposits. The payment of the voluntary benefits, tax deferred annuities and flexible spending account funds should be made directly after the payroll is processed.

Reference:

***"INCOME TAXES FOR PRIESTS ONLY"***

## PAYROLL POLICIES AND PROCEDURES

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