In this newsletter, the Internal Audit Department offers advice on how to reduce overall financial and administrative risk to your parish in regards to “Best Practices” related to payroll and tax matters.

**Does the Parish Need to Withhold Payroll Taxes on Bonuses, Gifts, Prizes, or Awards?**

If a cash payment (for a bonus, gift or award) is made to an employee it is considered wages and is subject to all federal, state, and local withholding taxes and must be included on the employee’s W-2. The IRS provides no minimum dollar amount in its regulations, and therefore, any amount of cash payment is taxable.

Gift cards given to employees are generally fully taxable. If the gift cards can be exchanged for cash or used for general merchandise, it’s fully taxable. However, there are narrow exceptions. Contact the diocesan payroll office if there are questions or locate the answer in IRS Publication 15-A, Employer’s Supplemental Tax Guide.

**Does the Parish Need to Withhold Taxes on Other Benefits to Employees?**

Free or discounted rent to an employee is normally taxable at the full fair market value, unless the following three conditions are met: 1) the housing is on the employer’s premises; 2) it is for the convenience of the employer; and 3) the employee is required to live there as a condition of employment.

Use of a car may be taxable if the car is used exclusively by one individual and not available for other parish employees.

Discounted tuition is not taxable when offered as a documented fringe benefit to all school employees universally. Parish employees must have tuition discounts reported on the W-2 form (except for that portion allocated for school related responsibilities). Generally, a school employee is one who works for the school and has a reporting relationship with the principal.

Expense reimbursements are NOT taxable. However, these must be supported by receipts or the IRS could interpret the payments as taxable compensation to the employee and the Parish should have withheld taxes. Please consult our office for more specific issues.
What are the top Six ‘Best Practices’ Among Parishes Related to Payroll & Taxes?

1) Utilize the services of Catholic Payroll Services.
2) Payments to employees that are not expense reimbursements and any non-cash benefits to employees are reported on the W-2 form, unless specifically defined as non-taxable by the IRS.
3) Time sheets are completed (in pen) by all employees (including Salaried) and signed by employee and supervisor before payroll is prepared.
4) Segregate duties when possible to avoid having one person handle all payroll functions without adequate oversight (no one is added, removed, or salaries adjusted without approval from the Pastor).
5) Require paychecks to be distributed by a person other than the one authorizing or recording payroll transactions or preparing payroll checks.
6) Business Manager reviews payroll registers/reports every pay period for reasonableness. In addition, Pastor review of each payroll report or register with each pay period, and initial to indicate his review.

We recommend you share this information with your trustees and finance council / committee and document, in a memorandum, your payroll and tax matter procedures and communicate these to affected individuals during a periodic training session.

Next topic will discuss computer safeguards.