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**IMPORTANT PAYROLL TAX MATTERS**

Dear Father:

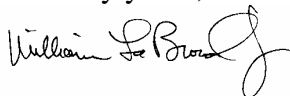
As a reminder to our parishes about complying with IRS regulations, I am writing to you regarding Forms W-2, W-3, 1099-MISC and 1096. As the case in previous years, with the vast majority of parishes utilizing either QuickBooks or a payroll service to process payroll, there is a very limited need for these forms. Therefore, no forms are enclosed. If you require a supply, you may obtain them from an IRS office, U.S. Post Office, or for a minimal charge, at an office supply store. The attached "sample" IRS forms are for illustration purposes only; they are **NOT** acceptable for filing.

The Internal Revenue Service requires that Form 1099-MISC be submitted for compensation paid to non-employees in the amount of \$600 or more during the calendar year. The deadline for supplying this form to the recipients is January 31, 2012. Parishes have until February 28, 2012 to file the forms with the IRS. Instructions and examples are attached. Please keep in mind that the IRS' preference is to eliminate as many independent contractors as possible, so it aggressively pursues classifying these non-employees as employees. It is, therefore, extremely important that you follow the regulations as explained in the instructions.

Please remember that compensation paid to diocesan clergy, in any amount, is to be reported on Form W-2. Those instructions begin on Page 3 of the attached. The deadline for supplying the W-2 forms to clergy and lay employees is January 31, 2012. Parishes have until February 28, 2012 [*some IRS, Social Security and DOR Publications do not recognize February 29, 2012*] to file the forms with the Social Security Administration.

The enclosed materials are intended to assist you in complying with the law and they should be read carefully. If you are uncertain about how to comply with these regulations, please do not hesitate to contact the Diocesan Finance Office to speak with me (452-0687) for assistance.

Sincerely yours,



William F. LaBroad, Jr.  
Finance Officer

## **REMINDER AND INSTRUCTIONS – FORMS 1099 & W-2**

### **SUMMARY**

Form 1099-MISC is required for reporting payments for services performed by individuals not treated as employees of the entity which made the payment. This procedure is similar to that which requires Form W-2 for reporting compensation given to employees. Form 1096 is required as a summary and transmittal form to accompany all the “Copy A” pages for Form 1099-MISC which must be sent to the Internal Revenue Service. This procedure is similar to that which requires Form W-3 to transmit all the “Copy A” pages of Form W-2 to the Social Security Administration.

### **FORM 1099 INSTRUCTIONS**

#### **Who must file?**

Each parish, institution or other tax entity, which makes payments which total \$600 or more for fees, commissions, or other forms of compensation to an individual who is not your employee for services performed in your trade or business. For example, use Form 1099-MISC to report payments to an independent contractor. See Page 2 of “Classification of Employees” document to determine who is an employee. Each parish, institution or other tax entity, which issues prizes and/or awards that are not for services performed (e.g., raffle prizes) and are valued at \$600 or more must report the value of the prize awarded on Form W-2 G.

#### **HOW MUCH IS REPORTABLE**

The total amount given to each person or entity during the calendar year is the reportable amount. This total may be paid in one payment or as monthly or periodic compensation.

Example: A lay person who receives a total of \$600 or more from the parish during the calendar year. Total reportable amount: \$600 or the actual amount paid, if greater than \$600.

#### **HOW DO YOU COMPLETE THE FORM?**

Form 1099-MISC is a five-part form, which is printed with two forms on a page. Before separating the copies, complete the entire page of two forms as follows:

1. In the large space provided, type or machine print PAYER’S name, street address, city, state and zip code. Payer is the parish, institution or other tax entity which made the payment.
2. Put the parish, institution or other tax entity’s federal identification number in the space labeled “PAYER’S federal identification number”.
3. Put the social security number of the person to whom the payment was made in the space labeled “RECIPIENT’S identification number”. If the recipient is not an individual, put the recipient entity’s federal identification number in that space.
4. Type or machine print the name and address of the person or entity to whom the payment was made in the spaces labeled, respectively:  
RECIPIENT’S name (First, Middle, Last)  
Street Address  
City, State and Zip Code

5. In Box 7 – Non-employee compensation, type or machine print the dollar amount paid the person. (The “total reportable amount” described above). NOTE: It is not likely that any federal income tax was withheld from the payment. If federal or state income taxes were withheld, the “total reportable amount” is the gross amount before deduction of federal or state income taxes. The amount of federal income tax withheld, if any, should be reported in Box 4. The amount of state income tax withheld, if any should be reported in Box 16.
6. In Box 3-Other income, type or machine print the dollar amount paid the recipient in prizes or awards. If the prize or award was made in merchandise, include the fair market value (FMV) of the merchandise won.

Repeat steps (1) through (6) above for each individual to whom the parish, institution or other tax entity made reportable payments during the calendar year. Each page of blank forms can be used for two persons or recipients. If a mistake is made on one recipient’s form, put an “X” in the box marked “void” directly above that form. Then complete a new form for that recipient. Note: The box marked “corrected” should be used only if the form being submitted corrects a form previously submitted which was not marked “void” when submitted. Use as many pages as are required for the number of recipients to whom the payments were made.

### **WHAT DO YOU DO WITH THE COMPLETED FORMS?**

Separate the five pages of the completed form as follows:

1. Copy A must go to the Department of the Treasury, Internal Revenue Service Center, Austin, TX 73301 by February 28, 2012 [*some IRS and DOR Publications do not recognize 02/29/12*]. “Copy A” pages from the payer must be mailed together with a completed Form 1096 – Instructions below. Mail the entire “Copy A” page(s) intact even if only one of the forms on that sheet is used.
2. Copy B must be separated and sent to each individual recipient on or before January 31, 2012.
3. Copy C must be retained for the parish, institution or other tax entity’s files.
4. Copy 1 and Copy 2 may be discarded unless State income tax was withheld (see Note in item 5 above). If State tax was withheld, call the Diocesan Finance Office for instructions re: Copy 1 and Copy 2.

### **FORM 1096 INSTRUCTIONS**

A completed Form 1096, Annual Summary and Transmittal of U.S. Information Returns, must be mailed with all of the payer’s “Copy A” pages as described above.

#### **Complete Form 1096 as follows:**

In Space “FILER’S NAME”, type the payer’s name, street address, city, state and zip code.

1. In Box 1, put the payer’s federal identification number.
2. Leave Box 2 blank.
3. In Box 3, put the total number of documents being transmitted. This is the number of correctly completed forms – not the number of pages and not counting blank or voided forms.
4. Box 4 should remain blank unless the payer withheld federal income tax from the recipient(s). Put the total federal income tax withheld from all recipients for whom Form 1099-MISC is transmitted with this Form 1096.

5. In Box 5, put the total amount reported with this Form 1096. This should equal the total of the Form 1099-MISC Box 7, Non-employee compensation and/or Box 3, Other Income amounts for all the recipients for whom Form 1099-MISC "Copy A" is transmitted with this Form 1096.
6. Put an "X" in the box below "1099-MISC".
7. Sign and date the form where indicated. The person signing should put his or her title where indicated.

If you have any questions, please call the Diocesan Finance Office.

## **FORM W-2 INSTRUCTIONS**

As you know, the compensation for all diocesan clergy, in any dollar amount (even less than \$600), is to be reported on Form W-2 as it is for lay employees. **Clergy compensation should not be reported on Form 1099.** The payer must prepare a Form W-2 for each priest of the Diocese of Springfield who performs substitute or temporary services at the parish. Priests from outside the Diocese may be issued a Form 1099 if compensation equaled or exceeded \$600.

### **HOW MUCH IS REPORTABLE**

The total salary, Christmas and Easter bonuses, Mass stipends and Stole Fees given to each priest through the parish is the reportable amount. Only the net effect of the amount that has been labeled "Auto Allowance" i.e., reimbursement less expenses, should be reported on the W-2. **Please see important note below.** Also reportable as wages are any amounts of checks to "Cash" or to the priest or lay employee that are not supported by receipts presented to the parish. These amounts are reportable as additional salary in Box 1 and Box 16 of Form W-2.

### **Note About "Professional/ auto Allowance"**

1. To substantiate automobile expenses a log of business travel must be kept. Business miles are reimbursable as follows:
  - a. January 1, 2011 to June 30, 2011 at \$0.510 per mile
  - b. July 1, 2011 to December 31, 2011 at \$0.555
  - c. Effective January 1, 2012 at \$0.555.
2. Copies of all automobile related and professional expense receipts must be submitted/kept monthly in the parish bookkeeping files along with the travel log.
3. At the end of the calendar year, the business mileage and related auto and professional expenses are totaled. The amount is compared to the annual "Professional /Auto Allowance". The difference is reported as taxable on Form W-2. The total "Professional/ Auto Allowance" for 2011 was \$8,220.
4. If the priest did not submit any automobile mileage or receipts for business related auto expenses or other professional expenses, the entire \$8,220 is to be reported as taxable income on the W-2 in Box 1 and Box 16.

## **SECTION 125 HEALTH INSURANCE PARTICIPANTS**

For those lay employees covered by health insurance who participate in the Section 125 Plan, all taxes (Federal Withholding, State Withholding, Social Security and Medicare) are calculated **after** their share of the premium is deducted. Thus, their reportable wages must reflect that deduction.

## **ARE TAXES WITHHELD FOR CLERGY**

Unlike lay employees, it is up to the individual priest to request that Federal and State taxes be withheld. This is strictly voluntary on the part of the priest. You **must not** withhold taxes for Social Security or Medicare on clergy salaries. Under the law the clergy are still considered “self-employed” for these taxes and must complete a Schedule SE to compute their self-employment taxes and must file Schedule SE along with the Federal Income Tax Form 1040.

## **HOW DO YOU COMPLETE THE FORM**

Form W-2 is a six-part form, which is printed with two forms on a page. Before separating the copies, complete the entire page of two forms as follows:

1. In Box a, type the employee’s social security number.
2. In Box b, type the parish or institution federal tax identification number.
3. In Box c Type the Payer’s name, street address, city, state and zip code.
4. In box d, typically you will not complete this box, it is optional.
5. In box e, type the employee’s name above the broken line. Below the broken line type the employee’s address.
6. In box 1, type the taxable income as described under “How Much Is Reportable”.
7. If Federal Tax was withheld, type the total in box 2. (See Note below)
8. For Boxes 3, 4, 5 and 6 – See Note below.
9. In box 16, type the taxable State income as described under “How Much Is Reportable”.
10. If State Tax was withheld, type the total in box 17.
11. In box 14, type \$4,800 (Fair Market Value of Room & Board) for clergy assigned to the parish or institution. Below that amount type “housing & food”.
12. For those clergy and lay employees contributing to a 403(b) Plan, enter the letter “E” in the code box 12a. Then enter the amount of the contribution for 2011 on the same line.

### **Note:**

Boxes 3, 4, 5 and 6, “Social Security Wages”, “Medicare Wages”, “Social Security Tax Withheld” and “Medicare Tax Withheld” must remain blank for the clergy. Boxes 3, 4, 5 and 6 **must** be completed for all lay employees, however.

## **WHAT DO YOU DO WITH THE COMPLETED FORMS**

Separate the six pages of the completed form as follows:

1. Copy 1 is required to be filed with the Commonwealth of Massachusetts, Department of Revenue accompanied by reconciliation forms M-3or M-3M and must be filed by the end of February due date. Reconciliation forms M-3and M-3M and filing instructions are available at the Department’s website, [www.mass.gov/dor](http://www.mass.gov/dor). Note, the filing requirement had been eliminated in previous years.
2. Copy B, C and 2 are to be given to the recipient on or before January 31, 2012.
3. Copy D is retained for parish or institution files.
4. Copy A must go to the Social Security Administration, Data Operations Center, Wilkes-Barre, PA 18769-0001 along with Form W-3 by February 28, 2012.

## **FORM W-3 INSTRUCTIONS**

A completed Form W-3 Transmittal of Wage and Tax Statements should be mailed with all of the payer's "Copy A" pages, as described above in item 4, by February 28, 2012 [*some IRS and DOR Publications do not recognize 02/29/12*]. If you have lay employees, the clergy forms should be added to them and only one Form W-3 submitted by each entity.

Complete Form W-3 as follows:

1. In box b, enter X under "941".
2. In box c, enter number of statements enclosed. This is the number of correctly completed forms – not the number of pages and not counting blank or voided forms.
3. In box e, enter the employer's federal tax identification number.
4. In box f and g, enter the employer's name, street address, city, state and zip code.
5. Box 1 will include clergy compensation, as described above, along with the total wages paid to lay employees.
6. Enter Federal Income Tax withheld from clergy and lay employees in Box 2.
7. Enter lay employees' Social Security and Medicare wages in Boxes 3 and 5. **Do not include clergy compensation in Boxes 3 or 5.**
8. Enter lay employees' Social Security and Medicare taxes withheld in Boxes 4 and 6.
9. Enter State wages for clergy and lay employees in Box 16.
10. Enter State Income Tax withheld from clergy and lay employees in Box 17.
11. Sign and date the form where indicated. The person signing should enter his or her title where indicated.

If you have any questions, please call the Fiscal Affairs Office.

### **PLEASE NOTE:**

Form W-3 is a summary form of all W-2's prepared and submitted for your Federal Tax Identification number. Please ensure that the sum of the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> quarter Forms 941 also agree with Form W-3. If the totals do not agree, **please reconcile and make corrections prior to submitting Form W-3 to the Social Security Administration.**

If the Form 941 totals do not agree with the W-2 and W-3 totals, you **will** receive a letter from the IRS demanding reconciliation and, possibly, additional tax payments, penalties and interest.