

DIOCESE OF JOLIET FINANCIAL POLICIES

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STATEMENT OF POLICY

Under Policy E, the provisions for payroll and other taxes as follows:

1. Churches and related religious activities under their control are generally exempt from most taxes. However, parishes may be exposed to, must pay or must collect some of the following taxes:
 - a. State, federal and local income taxes.
 - b. Social Security taxes.
 - c. Real estate property taxes.
 - d. Income taxes on unrelated business income.
 - e. Sales taxes on items purchased for resale. (See E-7.1 for sales tax exemptions)
2. All parishes and organizations listed in the Official Catholic Directory published annually by Kenedy & Sons, New York, are exempt from federal income taxes, under Internal Revenue Code Section 501 (c) (3). Contributions to them are tax deductible by the donors for federal income tax purposes.
3. Unrelated business activities are subject to normal business taxes.
4. Churches and related activities are exempt from real estate property taxes. However, property, which is not used, vacant or used for unrelated business purposes, may not be exempt from taxes.
5. Churches are not exempt from the payment of various licenses, permits and fees, i.e. bingo license, automobile license plates, inspection fees, building permits, etc.
6. The IRS recognizes the Catholic Church, Diocese of Joliet, as organized for religious purposes. Consequently, sales of any kind to this organization are exempt from the Retailers Occupation Tax, the Service Occupation Tax (both state and local), the Use Tax and Service Use Tax in Illinois.

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7. Although the Illinois Sales Tax Act authorizes churches to purchase tangible personal property for church use and consumption without the application of sales tax, there is not exemption allowed when tangible personal property is purchased for resale purposes unless the purchaser is licensed as a retailer for the purpose of paying tax on the receipts derived from the subsequent *resale*. (See E-7.1 for sales tax exemptions)
8. The Diocese of Joliet has been assigned a tax identification number. This number must be provided to suppliers when purchasing tangible personal property for organizational use. This exemption may not be used by individual members to make personal purchases. Refer to Parish Finances of the Diocesan website for the current state tax exempt letter.
9. Payroll taxes: Lay employees are required to have Federal, State, and Social Security taxes withheld on their total earnings in accordance with the rates and limits set by the Federal and States government. Total earnings must include benefits paid to an individual that are not a diocesan or non-discriminatory benefit plan.

For Priests and Religious withholdings, see section E-4 in this manual.

- a. Social Security taxes must be withheld on each employee's earnings in accordance with the rates and limits set by the Federal government. The employer must match the amount withheld from the employees and both must be remitted to the Federal government.
- b. Parishes must issue W-2's and file the appropriate reports on a timely basis for employee compensation, withholdings and Social Security taxes. Government brochures generally provide the filing dates. Normally, no other reports need to be filed. State and local income tax reporting is generally patterned after the Federal income tax laws.
- c. Parishes must also report compensation of \$600 or more paid during the calendar year to all persons, who are considered self-employed for income tax purposes. A Form 1099 must be issued at year end by the parish. (See Policy O-1) When an independent contractor is initially engaged, form W-9 should be signed and kept on file.
- d. Failure to comply or pay proper tax liability can result in sever penalties.

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- e. All payments, including cash gifts and bonuses, to parish/school staff must be issued through the parish payroll with the appropriate tax deductions. The following applies to all gifts and bonuses:
- i) Cash gifts include gift cards and gift certificates. The IRS considers gift cards as a "cash equivalent" and therefore must be reported through the parish's payroll system, regardless of the amount.
 - ii) Parish organizations exist under the umbrella of the parish and are responsible for the same reporting requirements. Other than reimbursements, any parish organizational payments to parish employees should be issued through the parish account. (See F-2 #9)
 - iii) Some *non-cash* gifts of nominal value may be excluded from the reporting requirements if the value of the award is so small that accounting for it would be difficult. The Internal Revenue Service has not set a specific dollar maximum at which an item becomes taxable. The diocese has set the de minimis value of these items at under \$25.
- f. Timesheets are required for all hourly employees or those employees/independent contractors paid by event, i.e., musicians, substitute teachers. There are no exceptions. Employees must complete and sign the timesheet before submitting it to the supervisor for payroll processing.