

Diocese of East Carolina

Guide for Reporting Bonuses, Christmas, and Other Special-Occasion Gifts

Bonuses:

Treas. Reg. 1.61-2(a)(1): Bonuses paid to a minister or staff member for outstanding work or other achievement are income and must be included on Form W-2. Therefore, Christmas bonuses paid by an employer are taxable income for the recipient.

Christmas and Other Special-Occasion Gifts:

IRS Section 102(c): The definition of the term “gift” shall not include any amount transferred by or for an employer to, or for the benefit of, an employee.

Exceptions:

1. *IRS Section 274(j)*: Employee Achievement Awards – an item of tangible personal property (non-cash) which is transferred by an employer to an employee for length of service achievement or safety achievement, awarded as part of a meaningful presentation, and awarded under conditions and circumstances that do not create a significant likelihood of the payment of disguised compensation. The maximum amount allowable as an expense to the employer and that is not taxable to the employee is \$400.
2. *IRS Section 132(e)*: Employees (including ministers) are permitted to exclude from gross income (as a de minimis fringe benefit) the value of any gift received from an employer if the value is so insignificant that accounting for it would be unreasonable or administratively impracticable. Examples: a turkey, fruitcake, etc., not cash.

Conclusions:

1. ***Gifts from the general fund:*** Special-occasion gifts made to a minister or lay employee by the church out of the general fund should be reported as taxable compensation and included on the recipient’s Form W-2 or 1099-MISC (for supply priests).
2. ***Person-to-person gifts:*** Members are free to make personal gifts to ministers or lay employees, such as a card at Christmas accompanied by a check or cash. Such payments may be tax-free gifts to the recipient (though they are not deductible by the donor).
3. ***Gifts funded through members’ donations to the church:*** Many special-occasion gifts to ministers and lay church employees are funded through members’ contributions to the church (i.e., the contributions are entered or recorded in the church’s books as cash received, and the members are given charitable contribution credit). Such gifts should always be reported as taxable compensation and included on the recipient’s Form W-2 or 1099-MISC. Members who contribute to special-occasion offerings pre-approved by the church board ordinarily may deduct their contribution if they are able to itemize.

4. ***Gifts funded through personal checks to the recipient collected by the church:*** Some churches collect an offering for distribution to a minister or lay church employee on a special occasion and instruct donors that (1) cash and checks will be accepted, but checks must be made payable directly to the pastor or lay employee; and (2) no contribution will be receipted by the church as a charitable contribution. In other words, the church is merely collecting the individual gifts and then distributing them to the recipient. The offering is not recorded as income or as a receipt in the church's books of account.

Summary: Monies that are collected and are deposited into the church's checking account and then disbursed to clergy and lay employees must be treated as income to the recipients. The monies that are deposited by the church should be included in the individuals' statements of giving for the year the monies are received.