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Q&A With the CPA

Improved church accounting | Tax credits for ministers

BY PAMELA M. SCHAVEY, J.D., CPA

Q: For years our small church hasn't had fiscal accountability. Now we are growing and need it. What should we do?

A: Several things can be done during your transition to help you adopt a more complex accounting structure. Here are a few:

Create a **Financial Accountability Committee (FAC)**. You may set up a FAC as a subcommittee of the church board to



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help oversee the finances, projects and budget, and to provide input on how funds are raised and spent. The FAC would report directly to the board in an advisory fashion and be made up of trusted individuals from business or finance.

Solicit the help of experienced church accountants. Have a person or firm perform a detailed review of your journal entries. Their review would be, obviously, to look for mistakes. It will have the added value of providing reassurance to your congregation that the church regards professional oversight.

Publish annual financial charts, graphs or reports. Some pastors like to publish a year-end pie chart or other summary that reviews income, expense, charitable giving and so on. Even an annual comparative report of the finances is helpful.

Have a third party review designated expenses. Have an outside accountant periodically perform special procedures, such as evaluating the details of designated offerings for buildings, missions, disaster relief and so on. Donors appreciate knowing that the church has made the effort to provide accountability for restricted dollars.

Q: As the April 15 tax deadline approaches, what tax credits or deductions for pastors should I know about?

A: The various stimulus bills passed lately created numerous tax deductions and credits you may be able to use. Here are some:

Theft-loss deductions. If you have been the victim of a bad investment or Ponzi scheme during the last year, you might qualify for a write-off. These new rules have been nicknamed the "Madoff" rule (for the Bernard Madoff scandal).

New credits. These range from hundreds of dollars in relief for workers to a retirement benefit. Here are six to watch for:

1. **Making Work Pay Credit:** Available to almost everybody, this one totals \$800 for married couples filing jointly and \$400 for singles. Look for it on your tax return this year.

2. **Refundable Child Tax Credit (CTC):** In 2009 and 2010, the CTC is refundable to the extent of certain limits. Also, you may qualify for a larger child-tax credit than ever before.

3. **Sales Tax Paid on Motor Vehicles:** Did you buy a new vehicle in 2009 between Feb. 17 and Dec. 31? If so, you may be eligible to deduct the sales tax. The deduction is limited to the taxes and fees paid on up to \$49,500 of the purchase price.

4. **New Hope Scholarship Credit:** It now is OK to spread this credit out to the full four years of college. Up to 40 percent of the credit is refundable in 2009 and 2010.

5. **Retirement Savings Contributions Credit:** If you put money into a 403(b)(9), a traditional or Roth IRA and your combined income is less than \$55,500 (\$27,750 for singles), you qualify. It's also called the "Saver's Credit."

6. **Your house:** Real estate taxes are now deductible even if you don't itemize. If you buy a new home before June 30, you may be eligible for a \$6,500 credit. There is even a new tax credit for home improvements—up to \$1,500!

As with all tax rules, there are many caveats. Be sure your tax adviser knows how these affect your ministerial benefits. ■

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+ Ministry Resource

Zondervan's 2010 version of the **Church and Nonprofit Tax and Financial Guide** once again offers thorough yet clear explanations on the most complex of tax concerns. Expert advice covers the topics of accountability, tax-exempt status, charitable gifts and more.

