

## DIOCESE OF MARQUETTE

### POLICY FOR REPORTING PRIESTS' COMPENSATION (CIVIL LAW)

Priests' compensation must be reported on Form W-2.

Priests are self-employed for social security purposes and the parish/institution cannot pay social security taxes for priests.

Priests' business expenses are to be reported to the parish/institution on a *Priest Expense Report* form. These expenses will be netted against income by the parish/institution when earnings are reported to the Internal Revenue Service on the quarterly Form 941 and on the annual Form W-2. This treatment eliminates the need for the priest to report these expenses on Schedule C of the federal income tax return. It is suggested that the priest submit the *Priest Expense Report* form to the parish/institution monthly, or at a minimum, quarterly. Contact the Administration and Finance Department at 800-562-9745 Ext. 108, or 906-227-9108 for a copy of the expense report.

Priests are reimbursed for business miles incurred in excess of 13,000 for the year at the current Internal Revenue Service mileage rate. The calculation of the miles over 13,000 is to be done on a fiscal year basis of July 1 through June 30. A sample form to be used for reporting the mileage to the parish/institution is included. Income received for this reimbursement and the related mileage expense do not have to be reported on the priest's income tax return. This is one of the principals of an Accountable Reimbursement Plan. Priests can have federal and state income taxes withheld (not social security) by the parish/institution, eliminating the need to file quarterly estimates with the government. The parish/institution needs to be informed of the amount of taxes to withhold. Taxes withheld would be paid to the government by the parish/institution and would be reported on Form W-2. This form of payment of tax is optional to the priest. If a priest elects not to have taxes withheld, he would still be obligated to file quarterly estimates.

Priests are eligible for Tax Sheltered Annuities (TSA's), and the Michigan Catholic Conference Flexible Benefit Plan through the parish/institution as employees receiving a W-2. The Flexible Benefit Plan allows the priest to pay out-of-pocket medical expenses as a payroll deduction from pre-tax earnings. Enrollment data and further information are sent annually in the fall, as the plan enrollment is only once a year.

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