



**Battershell Nichols & Blum
welcomes you**

**2025 IRS Compensation Reporting
for Ministries**

The presentation will begin shortly...

CPE needed?

Within one week, send an email requesting CPE, complete the course evaluation, and include the list of CPE codes provided during the presentation to:

info@BNB.cpa

(Only available for those attending live)

All CPE codes are provided in the presentation via polls.

Remote Accounting Services

- We provide bookkeeping services to churches and Christian nonprofits including:
 - Produce a monthly financial report for leadership
 - Process contributions and bills
 - Record all transactions in the general ledger
 - Reconcile bank accounts, credit cards, and close the books each month
 - Process payroll and file all quarterly and annual payroll forms
 - Provide budget and cash flow projection oversight
 - Give assistance with internal controls

Remote Accounting Services

- Why do we provide this service?
 - With online software solutions dramatically improving, outsourced bookkeeping has become a popular alternative to in-house bookkeeping
- Top reasons our clients use our remote accounting services:
 - Managing finances distracts the organization from its mission
 - Leadership and members have increased confidence in their finances
 - Tax and accounting regulations are complex and changing faster than ever
 - They want a trusted advisor to provide CPA oversight

DISCLAIMER:

- *The author is not engaged by this text or webinar in the rendering of tax, accounting, or similar professional services.*
- *While the tax and accounting issues discussed in this material have been reviewed with sources believed to be reliable, concepts discussed can be affected by changes in the law or in the interpretation of such laws since this text was printed. For that reason, the accuracy and completeness of this information and the opinions based thereon cannot be guaranteed.*
- *Before taking any action, all references and citations should be checked for accuracy and completeness, and updated accordingly.*

2025 IRS Compensation Reporting for Ministries

January 14, 2026

By: Rick Battershell, CPA

Form W-2 or 1099-NEC

Income Tax Classification

- IF employee:
 - Form W-2, can receive nontaxable fringe benefits
- IF independent contractor:
 - Form 1099-NEC
 - Income includes fringe benefits (e.g. medical insurance)
 - State tests – Labor and Industries coverage (WA L&I will generally still tax a minister's hours as a covered worker, similar to an "employee", even if compensation is reported on a 1099-NEC rather than a W-2)

(See more explanation in *Church and Clergy Tax Guide*, 2025 edition, Chapter 2, beginning p. 43)

Completing Form **W-2**

a Employee's social security number		Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile .	
b Employer identification number (EIN)		1 Wages, tips, other compensation	2 Federal income tax withheld
c Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld
		5 Medicare wages and tips	6 Medicare tax withheld
		7 Social security tips	8 Allocated tips
d Control number		9	10 Dependent care benefits
e Employee's first name and initial Last name Suff.		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee Retirement plan Third-party sick pay	12b
		14 Other	12c
f Employee's address and ZIP code			12d
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.
			19 Local income tax
			20 Locality name

Form W-2 Wage and Tax Statement 2025 Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

- **Filing Deadline-** February 2, 2026
 - Whether paper or electronic filing to the Social Security Administration (SSA)
- **Truncating Social Security Numbers –** Employers may (not required) truncate SSN on employee copies of W-2, but not on Copy A (goes to SSA)
 - XXX-XX-1234 or ***-**-1234
- **Penalties -** Failure to file forms by the due date (\$60 per Form W-2 - within 30 days, \$130 by Aug 1, 2026, \$330 after Aug 1, 2026)

What to include:

Form W-2 - Box 1

Wages, tips, other compensation

1. Wages paid during the year
 - **Ex:** Employee worked December 1 to 31, 2024 and was paid on 1/5/2025. Include those wages paid on 2025 Form W-2
2. Self-employment tax reimbursement or allowance (Rev Rul 68-507)
3. Forgiveness of debt owed to the church by an employee (e.g. home loan)
4. No/low interest loan - include based upon IRS published rates
5. Roth 403(b) or Roth 401(k) salary reduction employee contributions do not reduce box 1 wages

Form W-2 - Box 1

6. Reimbursed travel expenses of an accompanying spouse or dependent are included unless:
- Their presence serves a business purpose, and
 - They are properly substantiated under an accountable plan (discussed later)
 - See Church and Clergy Tax Guide, 2025, Chapter 7, p. 245



7. Taxable fringe benefits
- Cost of employer provided group term life insurance > \$50,000
 - Also show in box 12 with code "C"
 - School tuition paid for senior pastor's children if benefit is not provided for other employees & considered "highly compensated" (salary > \$155,000 for 2025, >\$160,000 for 2026)
 - Reimbursement of employee medical insurance, unless exception applies
 - Tuition reduction is excluded from taxable income for school employees, but included for church employees
 - See Church and Clergy Tax Guide, 2025, Chapter 5, p. 183

Form W-2 - Box 1

- 8. Automobile allowances (usually a set monthly amount)
- 9. Value of the personal use of an employer owned car
 - See Church and Clergy Tax Guide, 2025, Chapter 4, p. 142
- 10. Food allowances to buy groceries
- 11. Business expense reimbursements paid under a “nonqualified plan” (subject to Social Security, Medicare, and income taxes)
- 12. Moving expenses paid on behalf of or reimbursed to an employee
- 13. Employee HSA contributions are taxable unless made via a cafeteria plan.
- 14. Employer HSA contributions are nontaxable as long as it is reasonable to believe the amount would be excluded from the employee’s income.

Form W-2 - Box 1

15. Most Christmas gifts and love offerings - Treas. Reg. 1.61-2(a)(1)

- **Excluded** - traditional noncash gifts of very low (de minimus) value:
 - De minimis -The accumulated value is so small that accounting for it is unreasonable or impracticable - see Treas. Reg. 1.132-6(a)
 - Occasional theater or sporting event tickets
 - Coffee, donuts, soft drinks, etc.
 - Flowers, fruits, books, or similar items provided under special circumstances - see Treas. Reg. 1.132-6(e)(1)
 - Ex: illness, family crisis, outstanding performance
- **Included** (Treas. Reg. 1.132-6(e)):
 - Season tickets to theater or sporting events
 - Use of church owned lodge for the weekend
 - Cash fringe benefit
 - Gift certificate (or other cash equivalent fringe benefit) Treas. Reg. 1.132-6(c)



Form W-2 - Box 1

16. Paid Family Medical Leave (PFML) employer pickup contributions - (see Rev Rul 2025-4)

- If an employer voluntarily pays any part of the employee's required contribution (an "employer pick-up"), this amount is treated as additional compensation to the employee, included in the employee's gross income and wages
- Transition relief – Not required to report until 2026
- The following states currently have employee-specific PFML contribution rates where an employer might choose to cover the cost on behalf of their employees
 - Washington
 - Oregon
 - Colorado
 - Maine
 - Massachusetts
 - Minnesota

What to exclude:

Form W-2 - Box 1



1. Housing allowance paid to a qualified minister
2. Reimbursement of business expenses under an accountable reimbursement plan (discussed later)
3. 403(b) salary reductions
 - Maximum salary reduction is generally = \$23,500
 - Plus \$3,000 if you have 15 yrs service with a church or other qualified organization
 - Plus catch-up \$7,500 if > 50 years in 2025
 - Special catch-up for ages 60-63 = \$11,250 (replaces the standard age 50+ catch-up)
4. Qualified cell phone payments

Form W-2 - Box 1 – Excluded items

5. Group medical insurance – qualifying under Affordable Care Act
6. Reimbursements of employee “individual” medical insurance if:
 - Individual Coverage Health Reimbursement Arrangement (ICHRA)
 - Qualified Small Employer Health Reimbursement Arrangement
7. Disaster relief payments – IRC sec 139



Form W-2 - Box 1- Excluded items



8. Adoption benefits paid by an employer for qualified adoption expenses under an written qualified adoption assistance program.
 - Amounts paid by the employer are not reported in box 1 wages, but are subject to Social Security and Medicare taxes
 - \$17,280 per child limit in 2025 (the exclusion is subject to income limitations)
 - See box 12, Code T

What to include:

Form W-2 - Box 2

Federal income tax withheld

- ALL minister withholding-even if paid to cover self-employment tax

45-0029 Safe, accurate, FAST! Use **IRS e-file** Visit the IRS website at www.irs.gov/efile.

1 Wages, tips, other compensation	2 Federal income tax withheld
3 Social security wages	4 Social security tax withheld
5 Medicare wages and tips	6 Medicare tax withheld
7 Social security tips	8 Allocated tips
9	10 Dependent care benefits
11 Nonqualified plans	12a See instructions for box 12
13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
14 Other	12c
	12d
15 Federal income tax	18 Local wages, tips, etc.
	19 Local income tax
	20 Locality name

Safe, accurate,
FAST! Use **IRS e-file** Visit the IRS website at www.irs.gov/efile.

15-0008

1 Wages, tips, other compensation	2 Federal income tax withheld
3 Social security wages	4 Social security tax withheld
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7 Social security tips	8 Allocated tips
9	10 Dependent care benefits
11 Nonqualified plans	12a See instructions for box 12
13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐	12b
14 Other	12c
	12d

- Ministers leave blank
- For 2025, the maximum Social Security wages = \$176,100

What to include: Form W-2 - Box 3 & 5

Social Security & Medicare wages

- Usually the same as Box 1 for non-minister employees
 - Typical Exceptions: have 403(b) or tax deferred annuity
 - 403(b) salary reduction payments do not affect Social Security wages
 - Employer paid adoption benefits excluded in box 1 are included in Social Security wages for non-clergy employees

What to include:

Form W-2 - Box 4 & 6



Social Security & Medicare tax withheld

- DO NOT report employer's share
- Ministers leave blank

What to include:

Form W-2 - Box 10

Dependent care benefits

1. Total benefits paid to employees under a dependent care assistance program or cafeteria plan
2. Report all amounts paid or incurred, including those in excess of the \$5,000 exclusion (\$7500 in 2026 and later years)
 - Include any amounts over \$5,000 in boxes 1, 3, and 5
3. Include the fair market value of employer-provided or sponsored day-care facilities
 - Day care benefits paid to “highly compensated” employees can be excluded from taxable income only if all requirements are met
4. Organization must have a qualified dependent care assistance program in place that meets all IRS requirements

******For more info see IRS Pub 15-B

What to include:

Form W-2 - Box 11

Nonqualified plan

- The purpose of this box is for the Social Security Administration to determine if any of the amount in box 1, 3, or 5 was earned in a prior year
- May apply to “rabbi trusts” or other contractual arrangements to pay compensation in a future year



What to include:

Form W-2 - Box 12

Reporting Codes (most common for ministries)

- **Code C** - the value of group-term life insurance over \$50,000
- **Code E** - 403(b) elective deferrals
- **Code T** - Benefits paid by an employer for qualified adoption expenses not subject to federal income tax withholding or reporting up to \$17,280 (in 2025), but subject to FICA
- **Code W** - employer's contribution (plus employee contributions through Section 125 cafeteria plan) to an employee's HSA
- **Code BB** - Designated Roth contributions under section 403(b)
- **Code DD** - Cost of employer-sponsored health coverage - Applies to those who issued more than 250 Forms W-2 in the prior year
- **Code FF** - Qualified small employer health reimbursement arrangement (QSEHRA) permitted benefit amount. The tax law allows employers to pay employee medical expenses for an eligible employee up to \$6,350 in 2025 and \$12,800 if it provides reimbursements for family members (\$6450 and \$13,100 in 2026)

*Up to 4 codes allowed per paper Form W-2 (electronic filing can include all in each employee record)

What to include:

Form W-2 - Box 13

Retirement Plan

- Check this box if the employee was an active participant in your retirement plan during the year
- Example: Check the box if the ministry has a defined contribution 403(b) or 401(k) and either the employer or employee contributed. If neither the employee nor employer contributed, don't check the box, even if the employee is eligible to participate.
- “Retirement Plan Checkbox Decision Chart” in 2025 Form W-2 instructions

What to include:

Form W-2 - Box 14 - Other

- If the **leased value of an employer-provided vehicle** was included in the employee's income, you must report this amount here or on a separate statement
 - See 2025 Church and Clergy Tax Guide, page 142 for explanation of computation
- **Optional:** Rental value of minister's parsonage
- **Optional:** Housing and utility allowances



Earned Income Credit Notice

- Employers must notify employees who have no income tax withheld that they may be able to claim an income tax refund because of the EIC
- Options to providing EIC information to employees:
 - Printed on the back of the IRS official W-2, copy B
 - Provide your own statement with the same wording
 - Notice 797

2025 Earned Income Credit (EIC) Calculation Chart

Children or Relatives Claimed	Filing as Single, Head of Household, Married Filing Separately, or Widowed	Filing as Married Filing Jointly
None	\$19,104	\$26,214
One	\$50,434	\$57,554
Two	\$57,310	\$64,430
Three or more	\$61,555	\$68,675

The investment income limit for EIC eligibility in 2025 is \$11,950 or less.

The maximum EIC credit amounts for 2025 are:

- No qualifying children: \$649
- 1 qualifying child: \$4,328
- 2 qualifying children: \$7,152
- 3 or more qualifying children: \$8,046

Filing Form W-2

E-filing

- Add the number of information returns (includes Form 1099 series forms plus others listed in Form W-2 instructions) to the number of Forms W-2 you must file in the calendar year. If the total is at least 10 returns you must file them all electronically.
- <https://www.ssa.gov/employer>

Filing Form W-3

Anyone required to file Form W-2 must file Form W-3 to transmit copy A of Form W-2 to SSA.

Copies to employees

- Furnishing Copies B, C, and 2 to employees electronically may save time and effort.
 - See Pub. 15-A, Employer's Supplemental Tax Guide, Furnishing Form W-2 to employees electronically
- Terminated employees who request a W-2 before the due date must be given a W-2 within 30 days of the request or the final wage payment, whichever is later.
- Undeliverable Forms W-2 must be kept for 4 years. Electronic copies are acceptable.

Filing Form W-2

Common Errors

- Paper filing a downloaded copy of a Form W-2 or Form W-3 from IRS.gov with SSA – need original red copy
- Omitting the decimal point and cents **NOT** \$4500 **Correct** = 4500.00
- Making entries using ink that is too light (use only black ink)
- Making entries that are too small or too large, use 12 point font if possible
- Adding “\$” signs to the money amount boxes

Form W-2

IRS Resources

- Form W-2 and W-3 instructions
- Pub 15 (Circular E), Employer's Tax Guide
- Pub 15-A, Employer's Supplemental Tax Guide
- Pub 15-B, Employer's Tax Guide to Fringe Benefits
- Pub 15-T, Federal Income Tax Withholding Methods
- Order forms at www.IRS.gov/OrderForms



Nonemployee Compensation

Form 1099-NEC

- File with IRS by February 2, 2026
- Filing is required for payments totaling \$600 or more (\$2,000 for 2026 payments) for:
 - Services performed by a non-employee (including parts/materials)
 - Each non-employee from whom you withheld federal income tax (any amount)
 - Independent contractor or board of director fees
 - Attorney services (even if incorporated)

☐ CORRECTED (if checked)	
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.	
OMB No. 1545-0116	
Form 1099-NEC	
(Rev. April 2025)	
For calendar year	
PAYER'S TIN	RECIPIENT'S TIN
1 Nonemployee compensation	
\$	
2 Payer made direct sales totaling \$5,000 or more of consumer products to recipient for resale	
3 Excess golden parachute payments	
4 Federal income tax withheld	
5 State tax withheld	
6 State/Payer's state no.	
7 State income	
Form 1099-NEC (Rev. 4-2025) (keep for your records) www.irs.gov/Form1099NEC Department of the Treasury - Internal Revenue Service	

Box 1 - Nonemployee Compensation

- Payments are generally subject to self-employment tax
- Includes fees, commissions, prizes, and other compensation for services performed for the organization
- Exclude housing allowance and expenses reimbursed under a qualified plan
- Includes payments for personal services unless paid to a corporation:
 - Accountant or architect
 - Auto repair shop
 - Carpet installers
 - Lawn care
 - Painter
 - Subcontract work, etc

Exemptions from Reporting (1099-NEC)

1. Business expenses reimbursed under an accountable plan
2. Payments to corporations
 - Must report to attorneys
 - Must report to LLCs, sole proprietors, and other types of business
3. Payments for merchandise, telephone, freight, storage, and similar charges
4. Payments to tax-exempt organizations
5. Rent payments to real estate agents or property managers
 - The real estate agent must use Form 1099-MISC to report rent paid to the property owner
6. Payments made with a credit card and 3rd party network transactions (e.g. PayPal or Venmo)
 - Reported under Form 1099-K
7. Scholarship payments – even if taxable
 - See Form 1099-MISC instructions

No TIN or SSN - Backup Withholding

- Required to have Taxpayer ID number or Social Security number once a vendor is paid \$600 or more in a year.
- Withhold 24% - backup withholding (see Form W-9 and 1099 instructions)
 - If service provider fails to provide the tax ID or if the IRS notifies you to do so
- Use Form 945 to report withholding
 - Payments must be made electronically to the IRS
- 30% withholding applies to nonresident aliens unless a valid Form W-8BEN is provided
 - <https://www.irs.gov/pub/irs-pdf/fw8ben.pdf>

No TIN or SSN - Penalties

- Penalties for failure to provide a 1099-NEC:
 - \$60 if 30 days late
 - \$130 if 31 days late until August 1 of the filing year
 - \$340 after August 1 or if not filed
 - Intentional disregard of filing requirement penalty – greater of:
 - \$680 per form or 10% of the total required to be reported
- Penalties for failure to withhold taxes:
 - 100% of taxes not withheld plus interest (can be assessed personally against officers)

Washington State New Law:

Sales Tax on Live Presentations

- Question to Washington State Department of Revenue:
 - The church gives a visiting pastor a standard honorarium for speaking. If the church determines the amount of the honorarium, is sales tax owed? If so, would the pastor be responsible to charge and remit sales tax or would the church be responsible to pay the use tax?
- DOR Response:
 1. Generally, amounts paid for live presentations are subject to retail sales tax, there are no exemptions for religious entities
 - Live presentations include, but are not limited to, lectures, seminars, workshops, or courses where participants attend either in person or via the internet or telecommunications equipment that allows audience members and the presenter or instructor to give, receive, and discuss information with each other in real-time
 2. If the honorarium is strictly gratuitous, then the amount of the honorarium is not subject to sales tax.
 3. However, if this payment is negotiated/agreed to prior to the presentation, then the amount paid is subject to sales tax.

Other Items

- No new boxes or codes for “tips” or “overtime” to report in 2025
 - these will be added in 2026
- No change in federal income tax withholding tables in 2025
- Use Form W-9 (optional) to obtain TIN or to document corporate status
- Tax ID numbers - may truncate on recipient statements, not on IRS filing

Other information

Form W-4

- To claim withholding allowances - IRS estimator
<https://www.irs.gov/individuals/tax-withholding-estimator>

Form I-9

- Employment Eligibility Verification

New Hire Reporting

- Washington requires employers to report new hires within 20 days of the hire date
 - Call 1-800-562-0479 OR
 - <https://www.dshs.wa.gov/esa/division-child-support/new-hire-reporting>

Health Insurance Marketplace Coverage Notice

- Within 14 days employee starts work

Suggested Resources for Ministries

- Church & Clergy Tax Guide
 - <https://store.churchlawandtax.com>
- Evangelical Council for Financial Accountability:
 - www.ecfa.org
 - Donor Restricted Contributions
 - Standards and Best Practices for Churches
 - Compensation Data
 - Sample Financial Policies
- The Church Network (formerly National Association of Christian Business Admin)
 - <http://www.thechurchnetwork.com/>

WA and IRS Resources

- Washington State Department of Revenue
 - www.dor.wa.gov
- Washington State Department of Labor and Industries
 - www.lni.wa.gov
- Washington Unclaimed Property
 - <http://ucp.dor.wa.gov>
- IRS
 - www.irs.gov

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All CPE codes are provided in the presentation via polls.



Thank you for joining us!

Please reach out with any questions:

info@BNB.cpa

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