

DETERMINATION OF EMPLOYEE STATUS

Following are the procedures to be followed to determine the status of each employee:

Archdiocesan Priests

Priests of the Archdiocese are considered employees for federal, state, and local tax purposes and should receive a W-2 at year-end. However, for social security tax purposes, priests are considered self-employed. This means they are responsible for paying both the employer's and employee's portion of social security tax (called SE Tax or Self-Employment Tax).

Unlike other employees, priests are not required to have federal, state, local or self-employment taxes deducted from each paycheck even though they are required to pay these taxes.

Priests have two options for reporting and paying their taxes:

1) **Voluntary Deduction:** Priests may voluntarily elect to withhold federal, state, and local taxes from their paycheck. Additionally, they may elect to have an "extra" amount withheld to cover the SE Tax. If the priest elects to have all of these deductions made with each paycheck, he will not need to complete quarterly estimated tax vouchers.

2) **No Deductions:** Priests may elect not to have deductions made from each paycheck for federal, state, local, or self-employed taxes. If the priest elects "no deductions," he is responsible for completing quarterly tax vouchers and paying quarterly estimated taxes (Federal Form 1040ES and Kentucky Form 740ES).

Table 1 outlines the types of payments a priest might receive and whether those payments should or should not be reported by the employer as wages.

Members of Religious Orders

There are no tax considerations for members of religious orders who are employed by the church and are subject to vows of poverty. Any specific questions regarding a particular religious order should be addressed directly with that order. Payment will be made directly to the religious order and not to the individual person.

Substitute Priests

Any fees paid to priest substitutes for temporary service to your parish or school should be reported on Form 1099 MISC if the total paid to any one priest equals or exceeds \$600 for the calendar year.

Lay Persons

For payroll tax purposes, lay persons employed by parishes or schools will generally fall under one of two categories -- employees or non-employees. The determination of an employee's status determines if:

- 1) taxes will be withheld from the employee's paycheck
- 2) the employee receives certain benefits
- 3) the employee receives a Form W-2 or 1099 MISC

If a lay person is your employee, then this employer/employee relationship subjects you to all of the payroll withholding and reporting rules in respect to this person and the parish or school will issue the employee a W-2. As an employee, the individual is also subject to Archdiocesan Personnel Policies and Procedures and may be eligible for fringe benefits.

If the person is not your employee and is instead, "self-employed", your obligation is to report amounts paid on Form 1099 MISC, unless the payments to the individual during the calendar year have not totaled \$600. If less than \$600, there is no requirement to report the amount paid.

For most persons rendering services to the parish or school for remuneration, the determination of employee or non-employee status will be relatively simple. However, for some, there may not be an easy answer to the question. Table 2 includes a list of brief questions that may be helpful. However, if there is disagreement, you should obtain an opinion from the Personnel Office at the Chancery. The determination should not be left up to the worker.

Principals

Principals should be paid according to their contracts. Principals can be hired for a 12-month or an 11-month contract. Their contracts should stipulate the period of employment.

Teachers

Teachers should be paid according to their contracts and to any stipulations outlined in the policy manual distributed from the Office of Lifelong Formation.

Substitute Teachers

Substitute teachers are considered temporary employees and, therefore, are not eligible for any employee benefits including the retirement program. Substitute teachers should be paid through the regular payroll system (with applicable payroll taxes withheld) and should be issued a W-2 at the end of the calendar year.

See TABLE 2: QUESTIONS TO DETERMINE EMPLOYEE/NON-EMPLOYEE STATUS

**TABLE 1
CLERGY PAYMENTS TABLE**

Type of Payments	Exempt from: Federal	Exempt from: State	Exempt from: Local	Show on: W-2
Salary	NO	NO	NO	YES
Mass Stipends	NO	NO	NO	YES
Auto Expense Reimbursement (accounts for mileage)	YES	YES	YES	NO
Auto Expense Allowance (does not account for mileage)	NO	NO	NO	YES
Housing provided (owned by parish or school)	YES	YES	YES	NO
Housing allowance (owned or rented by Priest)	YES	YES	YES	YES-Other
Medical Insurance	YES	YES	YES	NO
Meals furnished in rectory	YES	YES	YES	NO
Allowances for Personal Meals (living off property)	NO	NO	NO	YES
Reimbursement for expenses related to official parish or school activities	YES	YES	YES	NO
Reimbursement for continuing education or retreat fee	YES	YES	YES	NO

TABLE 2
QUESTIONS TO DETERMINE EMPLOYEE/NON-EMPLOYEE STATUS

Condition	Indicates person may be	
	Employee	Non-Employee
Who instructs as to when, where and how to work	You	Worker
Training provided by:	You	Worker
If services must be performed only by worker is there a presumption that you are highly interested in methods used to accomplish the work?	Yes	Slight
Who hires, supervises and pays assistants, if any?	You	Worker
Is work performed at frequently recurring, through irregular intervals?	Yes	No
Are set hours of work established?	Yes	No
Substantially full time?	Yes	No
Where is work performed?	Parish or School	Elsewhere
Who controls the order of sequence of the services?	You	Worker
Regular or written reports by worker required?	Yes	No
Payment by the hour, week, etc., rather than by the job?	Yes	No
Workers' travel and work-related expenses paid for by parish or school?	Yes	No
Parish or school provides tools, materials and equipment?	Yes	No
Worker has investment in items needed to perform services?	No	Yes
Worker can realize profit or loss on the services?	No	Yes
Worker performs services for more than one "customer" at a time?	No	Yes
Are worker's services available to general public on a regular and consistent basis?	No	Yes
Does parish or school have a right to discharge the worker without regard to honoring provisions of a contract?	Yes	No
Can worker terminate relationship at will without incurring liability?	Yes	No

NOTE: The degree of importance of each factor varies depending on the occupation and the factual context in which the services are performed.

IRS help. If you want the IRS to determine whether a worker is an employee, file Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholdings, with the IRS. Additional information is also provided in Publication 15-A, Employer's Supplemental Tax Guide or the Internal Revenue Service website, www.irs.gov.