

Church Financial Hot Topic

Employee or Self-Employed

W-2 or Form 1099-MISC?* – Church employees should receive a W-2 for taxable wages. Self-employed workers not incorporated should receive a Form 1099-MISC if they received compensation over \$600 annually from the church. As a general rule, the following church workers should receive a W-2: Pastors, Ordained/Non-ordained Ministers, paid Department Directors, Secretaries, Ministry Assistants, Preschool Workers, Church Custodians, Organists, Pianists, and any other Support Staff. As a general rule, the following self-employed workers not incorporated should receive a Form 1099-MISC if they received compensation over \$600 annually: Lawn Maintenance Companies, Cleaning Service Companies, Supply Preachers, and Guest Evangelists. There are four recognized tests to assist in classifying a worker as an employee or self-employed. The IRS “Twenty Factor” test is a general indication of the IRS viewpoint of this issue. (Revenue Ruling 87-41) If most of the following factors apply, then the worker is considered an employee and should receive a W-2: (If in doubt, the IRS suggests the church treat the worker as an employee.)

- The worker is required to follow an employer’s instruction regarding when, where, and how to work
- The worker receives “on-the-job” training from an experienced worker
- The worker is expected to perform the services personally, and not use a substitute
- The employer, rather than the worker, hires and pays any assistants
- The worker has a continuing working relationship with the employer
- The employer establishes set hours of work
- The worker is expected to work full-time (More than 20 hours a week)
- The work is done on the employer’s premises
- The worker must submit regular oral or written reports to the employer
- The worker’s business expenses are reimbursed by the employer
- The employer furnishes the worker’s tools, supplies, and equipment
- The worker does not work for other employers
- The worker does not advertise his or her services to the general public*
- The worker is generally paid by the hour, week, or month; not by the job
- The worker’s service is integrated in the church’s operation
- The worker must perform services in an order or sequence set by the church
- The employer furnishes all the necessary facilities (Equipment and premises)
- Workers are not in a position to realize a profit or loss as a result of their services
- The employer has a right to discharge the worker rather than discharging the contract
- The worker has the right to end the relationship with the employer at any time he or she wishes

*Important factor. Most self-employed workers offer their services to the general public. On the other hand, employees only work for one employer.

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