UNRELATED BUSINESS INCOME

Many parishes have sources of income, other than offertory, that could be subject to Unrelated Business Income Tax (UBIT). One of the exemptions that can be used to exclude the income from taxation is when the income comes from an activity where substantially all the labor is performed by volunteers. When determining that the labor is performed by volunteers, you must consider the total amount of hours performed for the activity, not the amount of hours spent by an individual. The word “substantial” is defined as 85% or more.

It is permitted that a paid employee can assist with most income producing activities, but the employee cannot spend a substantial amount of time on it, in relation to the activity. For example, if the gift card program requires 10 hours per week labor, no more than 1.50 hours can be spent on the activity by the paid employee. Volunteers would have to perform the remaining 8.5 hours of time necessary for the activity. It is imperative that most labor be provided by volunteers in order to maintain the exemption allowed to exclude the income from federal tax.

GIFT CARD PROGRAMS

Many parishes and schools operate gift card programs. If maintained, the inventory of gift cards should appear on the balance sheet of the parish or school. The cards must be listed at fair market value of the cards, which generally is the face value of the cards. The gift cards represent CASH and should be recorded on the balance sheet. It is recommended an account be set up in the OTHER ASSET section of the chart of accounts (0105). Accordingly, if a separate bank account is utilized for certificate activity, that account should be recorded in the CASH IN BANK section of the balance sheet (0101). The certificate account is not to be reflected on Schedule L, which is reserved for listing the accounts of groups and organizations, not parish operating accounts (even if the certificate program is operated by an affiliated group or organization).

I-9 FORM EXPIRATION (8/31/2019)

The current version of Form I-9 expires on August 31, 2019. U.S. Citizenship and Immigration Services (USCIS) will update I-9 Central if there are any changes. Employers should continue to use the July 17, 2017 version of Form I-9 until an updated form is available. After 8/31/2019, it would be a best practice to mark newly completed I-9s that a new form was not yet available.

RECORDS RETENTION

We often receive questions regarding the retention of payroll records. We recommend that after each payroll has been processed by Paycor, that at a minimum, a hard copy of the payroll journal be printed, and maintained with the financial records. At the end of the quarter, after notification has been received from Paycor, the quarterly filing should be printed and maintained. At the end of the calendar year, once the year end processing has taken place, a record of the annual reconciliation and the employee W-2 forms should be printed and maintained with the parish or school financial records.

As a reminder, employee payroll records are permanent records and should not be discarded. It is permitted to electronically maintain the payroll record archive, however it must be securely maintained with limited access to it and the archive copy should be periodically tested to make sure it is intact and accessible. The Diocesan Information Technology Office or the Diocesan Archives can assist you with electronic backup process and procedures.

EXTENDED SOFTWARE SUPPORT END DATES

Windows 7 — January 2020
Microsoft Office 2010—October 2020
KEEP YOUR SYSTEMS SAFE
DO NOT USE OUTDATED SOFTWARE!
**FORM 1099**

Most parishes will have the need to issue Form 1099-Misc to a vendor or contractor who meets the criteria. Once a determination is made that the form needs to be issued, it is very important that the amount reported is placed in the correct box on the form. The most common boxes used are Box 3 and Box 7.

Amounts reported as compensation for services rendered should be reported in Box 7. Amounts in Box 7 are generally subject to self-employment tax. Examples of amounts reported in Box 7 are: professional services, attorney fees, payment for services, fees paid to non-employees, visiting priest income, and taxable fringe benefits for non-employees.

Amounts reported for non-compensation items are reported in Box 3. Amounts reported in Box 3 are generally not subject to self-employment tax. Examples of amounts reported in Box 3 would be prizes and awards to nonemployees (such as a sweepstakes without a wager) that are not for services performed. Most parishes would rarely need to report an amount in Box 3.

Gambling winnings (Bingo and Raffles) are NOT reportable on form 1099 Misc. The correct form for reporting would be W-2G.

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**FRAUD PREVENTION**

In the June newsletter, the FRAUD TRIANGLE was presented. There are three factors that are usually present at the same time for an ordinary person to commit fraud. The three factors are Pressure, Opportunity, and Rationalization. In the June issue we highlighted Pressure. In this issue we highlight Opportunity.

OPPORTUNITY to commit fraud is the circumstances that allow fraud to occur and is the only condition over which the parish has complete control. The person committing the fraud must see some way in which he or she can use (or abuse) their position of trust to solve his or her financial problem, with a perceived low risk of being caught. A critical matter in this analysis is the person committing the fraud must be able to solve the problem in secret. The person committing the fraud will spend a lot of time to learn the systems and controls of the parish, and look for a weakness in the procedures.

It is very important to maintain a good system of internal controls over transactions, and periodically test the controls to ensure they are effective. The Finance Council or other neutral party should periodically examine that all reimbursement requests are supported by a receipt and that the pastor (or designate) approved all of the requests. If it is found that all of the required conditions are not met, then that could be an OPPORTUNITY for a fraud to be committed. It is essential that an audit trail be maintained for all transactions. All books and records must be as open as possible and it is not advisable that one person only handle certain activities with no one else allowed to know how those same activities are handled or see the records of such transactions.

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**REMINDER**

Now is the time to check vendor files and collect any missing W-9 forms from individuals and companies paid during 2019. It is also a good time to think about ordering any IRS forms needed for year-end such as Form 1099 and 1096.

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**PAYCOR TIP**

Don’t forget to check the NEW HIRE report each pay in Paycor. If a new employee has been reported to the State of Ohio, it will be indicated on the report. However, if Paycor is unable to report the new employee, the report will indicate what information is missing, and that the employee has NOT been reported. All errors should be rectified as soon as possible.

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<tr>
<th>Dates to Remember</th>
<th>Description</th>
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<tr>
<td>October 1, 2019</td>
<td>Reconcile and remit designated collections received during the 1st quarter of the fiscal year</td>
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| October 15, 2019  | A) Unemployment report due to ACR  
|                  | B) Parish Finance Council review of financial statements and review of the budget year to date |
| October 31, 2019  | Quarterly report toolkit due to the Finance Office for the period July 1, 2019 through September 30, 2019 |
| November 1, 2019  | Unclaimed funds report due to the Ohio Department of Commerce; must file negative report if no funds meet criteria |
| November 15, 2019 | Parish must file Form 990-T if the parish has Unrelated Business Income that does not meet any stated exemption |