

Employee vs. Independent Contractor

To comply with U.S. Department of Labor laws, a hire must be classified as either an employee or an independent contractor. There are very specific rules governing each of these.

Church Cleaning Example. An independent contractor would be a person or business your church hires to clean the church--like a cleaning company. They provide the labor, the tools, and the cleaning supplies. The church pays them a negotiated amount. They submit an invoice or statement regularly for payment. They take care of paying their employees, filing payroll taxes, workers' comp and liability insurance. Per GCC policy, they must provide proof of \$1,000,000 in liability insurance before the church can hire them. At the end of the year the church files a 1099 with the IRS, stating the amount that has been paid to them for the year (if it is \$600 or more).

If your church board chooses to hire a member as an independent contractor, they would be paid a flat rate (there should be a bid or contract) and the individual must provide their tools and supplies, bill you with a monthly statement, take care of their own taxes and carry a \$1,000,000 liability insurance policy. If they don't, but just come to work, use the church's vacuum and supplies and then leave, they likely are an employee and should not be considered an independent contractor.

If you hire a church member as an employee, according to GCC Policy, you should sign up for "Local Payroll" through your local Conference. Contact your treasury department to find out who you can speak to about it.

Once the employee signup is complete, you just need to take 5 minutes every two weeks to:

- Log in and enter your employee's hours on the provided website.
(Your employee will need to keep track of their hours on a time sheet that the conference will provide).
- Enter the electronic check that will be deducted from the church's checking account into Jewel. (This check includes all payroll and social security taxes, etc. There is no processing charge).

The conference will take care of all the rest. The employee will receive their check, direct deposited into their checking account every two weeks and a W-2 in January. There will be no additional cost for liability insurance since they are covered by the policy that you already pay for. (Without "Local Payroll" you would be on your own to handle payroll, FICA, federal and state taxes, filing 941s, W2s and W3s and workers' comp).

Some churches may be tempted to hire a member to clean their church and just pay a flat rate without paying taxes or requiring liability insurance. But the church is risking large fines if either the IRS or the Department of Labor get involved (for example, if the "contractor" was audited). Also, if the "contractor" is injured on the job, they would be responsible for their own medical bills since independent contractors are not covered by the church's liability insurance.

Reasons for all independent contractors to carry liability insurance. In today's world, we can no longer afford to pretend that bad things will not happen in a church setting. If your church were to hire anyone from a custodian to a worship leader without requiring liability insurance, and it is discovered that the independent contractor assaulted someone or harmed a child while at your church, and a lawsuit ensues, the local church is at risk for paying for it! We all need to work together and follow the guidelines to protect our members, our children, and our facilities.

Corresponding video: 10.1 – Employee vs Independent Contractor. Find at <https://www.gccsda.com/auditing/10963>

For more tutorials on IRS AND LABOR DEPT RELATED POLICIES, see section 6500 on the gccsda.org auditor webpage.