

Reimbursing Cell Phones for Ministers

Q: Can our church reimburse our youth minister for his monthly cell phone bill? We can't afford to hire him, so he volunteers his time.

A: Although the youth minister is not an employee, the church can reimburse him for the business use of a personal cell phone under an accountable plan with proper substantiation. If the church reimburses the entire monthly bill, or does not require substantiation of the business use of the cell phone, the reimbursement will likely result in taxable income for the youth minister.

In this particular case, the youth minister is not an employee. However, in order to make a thorough conclusion, we have to begin with the IRS rules for providing cell phones to employees, and then look at rules for reimbursing cell phone use for non-employees.

Cell Phones for Employees

Employers are allowed to provide cell phones to employees as a working condition fringe benefit. Since 2010, if the phone has a **substantial business need**, the employee doesn't have to substantiate the business use of the phone. Further, any personal use of the cell phone will be considered a de minimis fringe benefit and will not be added to the employee's taxable income.

According to the IRS, a **substantial business need** includes the following:

- An employer needs to contact the employee at all times for work-related emergencies.
- An employee must be available to speak with clients when away from the office.

Employers are also allowed to reimburse employees for the business use of a personal cell phone if the employer requires employees to maintain and use their personal cell phones for business purposes. However, employees will still need to substantiate the business use for reimbursement (as with any business expense reimbursement under an accountable reimbursement plan).

When reimbursing personal cell phones, the IRS states:

- The employee must maintain the type of cell phone coverage that is reasonably related to the needs of the employer's business.
- The reimbursement must be reasonably calculated.
- The reimbursement cannot exceed the actual expenses incurred.

However, providing a cell phone to an employee will result in taxable income if the cell phone is provided to promote good will, to attract a prospective employee, or as a means of providing additional compensation to an employee. Additionally, if the employer provides reimbursement for a personal cell phone that does not have a substantial business need, it will result in taxable income for the employee.

Cell Phones for Non-employees

In this particular case, the youth minister volunteers his time and service. He is not an employee, so let's look at the rules that govern non-employees and independent contractors.

Independent contractors can be reimbursed for business expenses. If the reimbursements

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are made under an accountable plan, the reimbursements would not constitute taxable income for the contractor. If the reimbursements are made under a non-accountable plan, the reimbursements would constitute taxable income and be reported to the contractor at year-end on a 1099-misc.

Since working condition fringe benefits are reserved for employees, some of the relaxed substantiation rules discussed earlier do not apply. In order to reimburse a contractor for any business expense, the contractor will have to substantiate the expense by providing a receipt or invoice. When reimbursing the business use of a personal cell phone, the contractor should provide an itemized listing of cell phone charges and note the business connection of each charge.

Word of Warning

However, the church should think carefully before they reimburse the entire cell phone bill for a non-employee. Consider the following:

1. In this particular case, the church has admitted they can't afford to hire the youth minister, so it could be concluded

that they are reimbursing the cell phone "as a means to provide additional compensation" to the youth minister, which would result in taxable income.

2. If the youth minister is not an employee, I don't know if the church can reasonably support the "substantial business need" requirements of an employer-employee relationship:

- Does the church need to contact the contractor/youth minister at all times for work-related emergencies?
- Must the contractor/youth minister be available to speak with clients when not on church property?

If the church is going to place those requirements on a volunteer youth minister, they may actually be creating an employer-employee relationship, which would necessitate a discussion of compensation, benefits, etc.

3. If the church decides to pay the entire monthly phone bill and can't justify the "substantial business need," the reimbursements should be considered taxable income and reported on a 1099-misc at year-end.