

# Protocols & Guidelines

# Financial Protocols

The goal with these financial protocols is to hold to Team Expansion's Core Value of Accountability and to be good stewards of the resources God has given us.

Ultimately, God has provided all funds and resources. As a result, we are all accountable to Him for how we use those provisions. We are also accountable to Team Expansion and to donors for use of these funds.

When it comes to fundraising, Team Expansion deputizes individual workers to raise funds for the organization, which then pays its workers and fuels its outreaches. The money raised for Team Expansion, whether through churches, relatives, friends, or even your own savings, belongs to the organization, not to any one individual. The organization depends on us to manage those funds wisely to further the organization's purposes, pay salaries, benefits, and ministry expenses.

For the first four decades of Team Expansion's existence, the organization utilized a model based on volunteer forwarding agents who managed separate bank accounts for each missionary family or unit. Each unit contributed a flat fee (\$100/month) toward operational expenses for the home office which represented the whole organization. This model served the organization well until 2017 when our leadership determined that we needed to transition to the **Collaborative Model**. This new model unites all of our finances in the home office in Louisville, KY, with each missionary unit contributing a percentage (10%) rather than a flat fee. As of July 1, 2017, all new workers upgraded to Recruit status automatically participate in the Collaborative Model.

(Note: Workers who affiliated prior to July 1, 2017, have until July 1, 2024 to transition to the new model. These workers may continue to give the flat fee and route funds through Forwarding Agents until they have transitioned to the new model. This 7-year time span is designed to permit one or two Home Service assignments, allowing ample time to raise any additional funding that will be needed to make the transition. To clarify, at the moment these workers begin functioning under the Collaborative Model, our office will work with them to close the Team Expansion account(s) (both checking and/or savings) they have been managing.)

## Why was it necessary to change the financial approach?

There are many benefits to this new model, all of which will help our organization grow and be more prepared for future roles among the unreached throughout the globe. The number of unreached peoples haunts us. We've been searching for some time for a way to propel Team Expansion into a future that would be able to make a very significant impact in telling the Jesus story to these peoples. The Collaborative Model empowers us to do just that by providing a steady stream of funding for future growth in every way. The vision for this growth is long-term. In a way, we're imagining the capabilities of our org once we reach a point 7 years into the future because it will take that long for the model to reach fulfillment. At that time, we hope and trust that our Collaborative fund will empower ...

### 1) Exponential Great Commission Growth

- Field Coordinators to make field visits
- Mobilizers to visit and recruit workers for teams who still long for teammates and for new fields as well
- Top-notch training for our existing and future workers
- The costs of providing member care field visits in crisis situations will no longer be an issue
- ...and more

In addition, there are still other reasons that go beyond propelling our org into the future. There are some very important "here and now" situations that have prompted us to make this shift right now.

## **2) Proper Accounting**

- Better quality for the org in accounting
- All our finances will be managed by fully-trained and qualified workers. Many of our forwarding agents call our office with questions and, sometimes, with true confessions that they are lost in Quickbooks and with our financial protocols. This makes it tough for us to ensure that all our corporate finances (which are being managed now by scores of volunteers in multiple sites) are keeping up with government and generally acceptable accounting practices.
- The Collaborative Model unifies us as an organization and also unifies the impression given to donors when they receive clear receipts and thank-you's.

## **3) Saves time org-wide for new Team Expansion workers**

- It can take months to select, vet and train a new Forwarding Agent in accounting principles, the software we use, and the protocols we have to follow due to government and ministry regulations. This needlessly delays our new personnel from starting fundraising immediately after they have been upgraded to recruit status. By contrast, imagine being able to leave Launch, wait maybe a week to get the official upgrade to recruit, and then be able to immediately start raising support under the care of a trained office finance worker who already has the system set up and knows what to do.
- Opening a new bank account for each new worker will no longer be necessary. This has become incredibly difficult in recent years due to increasing scrutiny for all organizations working internationally in light of legislation to prevent terrorism and money laundering. In addition, the growing interconnectivity between same bank chain accounts has led to increasing confusion between sister Team Expansion accounts. (For example, last November, a branch manager at a small town bank in the Midwest made a unilateral decision to close a Team Expansion account at his bank. The corporate headquarters picked up on his decision and mirrored it to 18 other accounts across the country in that same bank chain. As it turned out, all he needed was a list of our board of directors. If he had asked our home office, we would have gladly supplied that list. It's not clear whom he asked, but what we know is — on the final day before the closings were to take place, we finally got to the bottom of the issue and called him. He was happy to take our list and reverse the decision. But 19 of our team members came dangerously close to a major upheaval in their respective situations. We don't want to face this prospect again.)

## **4) Saves time org-wide for existing workers and forwarding agents**

- Record-keeping will be consolidated and streamlined, overseen by a team of trained people all under one roof. This has a positive advantage that might not be immediately obvious to the untrained eye: It alleviates multiple duplicate entries across our Quickbooks records and makes all of our accounting much more reliable and efficient, especially at year's end — not only for the organization-wide reports, but also for each worker's individual W-2.
- Donors will receive one complete donation receipt from Team Expansion for their total giving to our org, regardless of the number of Team Expansion works they support. Simple and clear. Currently, we receive tons of emails and calls each year from donors who say they have not received tax-deductible receipts. Unfortunately, we have to refer them to individual forwarding agents rather than simply answering their request. No longer will donors receive receipts from multiple forwarding agents for donations given to multiple accounts within a given year.

## **5) No more forwarding agent transition hassle**

- Many of our workers have experienced forward agent transitions and accompanying address changes over the years. These shifts impact our workers in a negative way not only because of the potential loss or delay in receiving checks, but also in the time lost in finding and training a new forwarding agent.

## **6) Saves money for everyone in the org**

- The Collaborative Model simplifies finances under one roof, saving hundreds, if not thousands, of mission dollars per year for copies of separate Quickbooks programs, transaction fees as mission share funds are passed back and forth across the miles, or via checks, or across banking systems.
- Once finances are unified, we will finally be able to join the Evangelical Council for Financial Accountability, which will unlock the potential for numerous grants and large donations for fields and projects throughout the globe. One of the reasons we haven't been able to join the ECFA and other similar groups previously was because our distributed financial model increased the cost of a prospective audit exponential. With fewer financial bases, it will be much less expensive to do an audit, which will enable membership and certification by these groups.

# **Raising Funds**

Upon affiliating as a full-time Recruit with Team Expansion, workers will be assigned an account number. Workers will ask donors to make checks payable to "Team Expansion" and then write these account numbers on the outside

of the envelope containing the donation or on the check itself. Due to IRS regulations, workers should advise donors not to write the name of the worker on the check itself. It is possible that the IRS might disallow a donation as tax-deductible for the donor if an individual's name appears on the check, even just the memo line. For example, if a particular missionary's account is #1000, donors can address envelopes as follows:

Team Expansion  
Attn: Account #1000  
4112 Old Routt Rd  
Louisville, KY 40299

Once processed, these funds are then tracked in a completely separate class/fund. However, as we've said above, workers need to understand that all Team Expansion workers are using Team Expansion funds to carry out the overall mission of the organization. These funds are not "my funds" or "your funds." The funds are all God's funds for the organization to use in carrying out His Great Commission.

There are four main ways for people to donate:

- Write a check made payable to "Team Expansion" and send to the office as described above
- Set up an automatic bill pay through the bank and send to the address described above
- Direct deposit from their bank account to Team Expansion's account in Louisville. (Contact our financial team for directions on how to do this. Email them at [financial@teamexpansion.org](mailto:financial@teamexpansion.org))
- Donate online through the worker's donor page at the Team Expansion website. (Contact the Communications team to set this page up for you if it has not been done yet. Email them at [communications@teamexpansion.org](mailto:communications@teamexpansion.org).) Note that when donors use this approach, workers receive immediate notification of the gift. Funds will be available for use approximately one week later.

Our software will automatically send two informational reports at the end of each week: a donation report and a fund balance report.

## **Mission Share**

The mission share will be 10% of all donations, with few exceptions. This will be calculated and transferred out of each worker's individual class/fund on a monthly basis. For example, if the worker receives \$4,000 of donations in February, that worker's February mission share will be \$400, and that amount will be transferred out of his/her class or fund at the end of that month. Note: The 10% mission share will not be calculated on funds given to specific approved projects, such as regional or national disasters and other approved special projects. (To request that a particular project be considered under this exception, team members should send a proposal email to [financial@teamexpansion.org](mailto:financial@teamexpansion.org).)

## **Budgets**

The best source for information about financial needs in a particular field is the team already serving there, if one is available. Missionaries in the field work as a team to design and agree upon a proposed budget for workers who are yet to arrive. Field Coordinators are entrusted with the role of approving these proposals.

In the past, we have observed cases in which some supporters promise that they will give, but are never able. This has created pressure not only for the missionary him/herself, but also for other team members who feel obligated or expected to share their own support with those who are short. Therefore we ask that all missionaries wait until monthly receipts have reached 100% of their budget before departing for the field (as demonstrated by actual gifts, rather than by promises for future support).

## **Accessing Funds**

The default method for accessing donated funds is through a reimbursement model. In this model, the team member uses personal funds already in hand to pay for expenses up front and then submits those expenses through our expense tracking app Expensify to be reimbursed via direct deposit back to their personal bank account. Currently it takes 3-5 business days for a reimbursement over \$100 to process, but as we add more people to the system, that amount will be increased. Reimbursements under \$100 have next-day processing.

## Setting up Expensify

- After funds start coming in, you will receive an invitation email to join Expensify. Follow the instructions to click the link and create your login. We are using one login per family unit.
- Go to the website, [www.Expensify.com](http://www.Expensify.com) and click "Sign in" (create a bookmark in your browser if you'd like to return here in one click), using your Team Expansion account. You are now automatically added to our plan and the monthly costs associated with your subscription will be covered by Collaborative funds.
- Please read the instructions at <https://docs.expensify.com/setup-for-submitters/day-1-with-expensify-submitters>. Note that in these instructions, it might say something about a limit of 10 smartscans, but because you're part of Team Expansion's "company" subscription, this limitation doesn't apply to you.) Watch the training videos -- but please note that there are a couple of "Additional details" you'll need to add to each Smartscan. (See below.)

## Submitting Expenses in Expensify

- When you make a purchase for which you'd like to be reimbursed, simply open the Expensify app on your smartphone and click the "add expense" button (the green circle with a camera in it, bottom right). As soon as you click a picture of the receipt, click the line that appears at the bottom of the screen, "Add details." In the "Class" drop-down, click the number corresponding to your Account Code (given to you by our Financial team). In the Category drop-down, go ahead and categorize the expense according to our expense recap chart accounting codes or categories (for example, 810). In the "Comment" line, type anything that will help you (and our Financial team) remember the nature of this expense, such as "NACC trip," or "parts for the well drilling machine," or whatever.
- If you choose to use the "Receipts@expensify.com" email address (to which you can forward emailed receipts) or if you edit receipts at the website (which you've scanned on your phone), make sure you go back to the website and log on, or use your smartphone (click "Expenses" to see those scans once they've had a few minutes to process) to add those same details to each forwarded receipt. At the website, click on the little picture of a receipt cash register tape to bring up the dialogue box that lets you edit the dropdown fields and such.
- When an expense is entered, it is added to a report. This report remains "open" at that time, and you can continue to add expenses to that report throughout the month. Reports are set to automatically submit at the end of every month, so if you want something counted for a certain month, be sure to enter it before the last day of the month.
- Note: You CAN force submit any report at any time during the month. You do NOT have to wait until the end of the month. To do this, login to the website, go to the reports section, and click on the current "open" report that contains your recent expenses. In the top left corner, click the green "Submit" button to force submit the report. This alerts our financial team that you are requesting an earlier reimbursement.
- Whenever a report is submitted, our financial team will review the report, confirm that there are enough funds currently to cover it, and then tell the system to reimburse. You will need to have your personal bank account information entered into Expensify in order for the direct deposit to work.

## Using Expensify for Salary/Benefits

- As part of the support-raising process, you will have created a monthly budget for your work. This will include benefits amounts such as salary, taxes, retirement, etc. Because of the simplicity of Expensify and the fact that it will already be connected to your personal bank account, we are using Expensify for benefits as well even though they are not really "expenses" in the normal use of the word.
- So at some point during every month, you will enter an "expense" for your lump budgeted amount of salary. You will do the same for the tax amount, retirement, etc. Once submitted and reviewed, these amounts will be sent to your personal bank account in the same way that other expenses are reimbursed.

## Keeping Receipt Records in Expensify

- It is very important for both Team Expansion as an organization and your own personal accounting that adequate records are kept in the event that you or Team Expansion are ever audited. During an audit, the IRS may ask for specific records of expenses, such as receipts or bills, to be produced as proof of the expense, so it is imperative that we keep complete records. We must keep records for at least 3 years, but the IRS can ask for records for up to 7 years, so it is advisable to keep them the full 7 years.
- In Expensify, every expense must have a receipt (except for benefits such as salary). You may use the paper receipt you receive at the time of purchase, an email receipt, or an invoice or bill. If you use a credit card for the purchase, you can use the credit card statement as proof as well.

- We understand that many times overseas you will not receive a paper receipt. In those cases, you should create your own receipt as proof. The important information on any receipt is vendor name, date, amount, and a short description of the purpose. You may write down that information on a piece of paper and take a picture of that paper for that expense. Doing this creates a real-time record of the important information of that purchase.
- You do NOT need to make a receipt for salary.

For personal records for your personal tax return, remember that you must keep the same type of records/receipts for any items that you claim on your return, such as itemized deductions.

We have found that using Expensify for reimbursement has been a clean and easy way to access funds on the field. If you have questions or concerns about your ability to use the reimbursement model, contact the financial department to discuss potential other options.

## Tracking Expenses and Reporting

Missionary record-keeping and reporting began all the way back in Acts 14:27, where Paul and Barnabas had returned from their missionary journey and reported to Christians at Antioch about what God had done. All Team Expansion missionaries agree to send out regular monthly reports (see the 7 Core Values).

We want Team Expansion to hold a high reputation for financial accountability and a good relationship with governments at home and abroad. Consistent accounting practices can be an important aid to accomplishing this objective.

The first new “language” you will need to learn is our expense code list. The Expense Recap Form below explains each expense account code and also indicates which lines are taxable for income tax and social security tax. These codes are set; **do not add to this list**. If needed, there is the miscellaneous code 990, but it really shouldn't have more than \$1,000 for the year because you should be able to find a more descriptive code that works for your expense.

### Expense Recap Form

Acct #	Category	Account	Explanation of Team Expansion Expense	Income Tax	Social Security
100	Benefits	Salary	Personal items, clothing, groceries, savings, entertainment and debts	Yes	Yes
110	Benefits	Medical Insurance	See Finance Dept. for current list of recommended companies.	Yes	Yes
112	Benefits	Workers Comp Ins	This account is used for workers comp insurance		
115	Benefits	HSA Contribution	Team Expansion funds paid directly to an HSA. Notify the office to make the payments directly.	No	No
120	Benefits	Life Insurance	This account is to be used only for term life insurance of \$50,000 or less. Notify the office to make the payments directly.	No	No
121	Benefits	Investment Life Insur.	This account is to be used for all other life insurance besides term of \$50,000 or less.	Yes	Yes
130	Benefits	Social Security	Approximately 15.3% of the sum of lines 100, 121, 135, 141, 150, 151, 160 & 180 (Line 170? - see below)	Yes	Yes
135	Benefits	Disability Insurance	This is a taxable expense.	Yes	Yes
140	Benefits	Retirement	Any recognized retirement plan. Notify the office to make the payments directly.	No	No
141	Benefits	Retirement (Roth IRA)	Contributions made to a ROTH IRA	Yes	Yes

Acct #	Category	Account	Explanation of Team Expansion Expense	Income Tax	Social Security
150	Benefits	Housing Allowance	In addition to rent & house payment, cleaning supplies, light bulbs, furniture, etc. with a cap of \$68,000 per year.	No	Yes
151	Benefits	Housing Allow - Insurance	Not available in many countries. Living by faith is required.	No	Yes
160	Benefits	Utilities	Electricity, gas, phone line, water, sewage, trash pickup, security system/guard for personal residence,	No	Yes
170	Benefits	Education for Children K-12 - Overseas	Expenses paid for children to attend school while overseas. This does not include college savings.	No	No
171	Benefits	Education for Children K-12 - USA	Expenses paid for children to attend school in the USA, <b>including during home service</b> . This does not include college savings.	Yes	Yes
175	Benefits	Dependent Care Assistance	Expenses paid for childcare to allow the parent(s) to work for the organization. Excludable from income up to \$5,000 (\$2,500 if married filing separate). Not intended for babysitting for recreational activities. The amount will appear in box 10 of your W-2.	No	No
180	Benefits	Contributions	Alternative place to report your tithe/donations. Most simply report tithe/donations as part of salary (line 100).	Yes	Yes
200	Education	Books/Periodicals	Ministry or personal enrichment.		
210	Education	Language Acquisition	Language classes, materials, tapes, tutors, etc.		
220	Education	Conferences/Classes	Any class or conference that enriches your life or ministry.		
230	Education	Team Building	Any activity that is intended to help your team bond, and work together better. Retreats, conferences, special night outs, etc.		
240	Education	Equipping Missionaries	Any activity that is intended to help or encourage a missionary.		
250	Education	Training of Nationals	Classes, materials, tapes, for national co-workers		
300	Chr. Ed.	Printed Material	Material that is mainly intended for enriching Christians.		
310	Chr. Ed.	Slides, Filmstrips, etc.	Material that is mainly intended for enriching Christians.		
320	Chr. Ed.	Hospitality	Expenses in entertaining mainly Christians.		
330	Chr. Ed.	Other			
400	Evangelism	Printed Material	Material that is mainly intended for evangelizing non-Christians.		

Acct #	Category	Account	Explanation of Team Expansion Expense	Income Tax	Social Security
410	Evangelism	Slides, Filmstrips, etc.	Material that is mainly intended for evangelizing non-Christians.		
420	Evangelism	Hospitality	Expenses in entertaining mainly non-Christians.		
430	Evangelism	New Field Research	Expenses incurred in launching or researching a new work.		
435	Evangelism	Short-term Projects	Activities intended for evangelizing non-Christians.		
440	Evangelism	Bibles			
450	Evangelism	Compassion Projects			
460	Evangelism	Facilities/Utilities	Purchase/rent of church/outreach facility, etc. and utilities.		
470	Evangelism	Joint Team Projects			
480	Evangelism	Translation	Both translators and translation work.		
490	Evangelism	National Co-Workers			
495	Evangelism	Church Planting	Costs involved with new church planting		
500	Postage	In the field			
550	Postage	In the states			
600	Office	Supplies in the field			
630	Office	Equipment	Purchase/maintenance		
640	Office	Facilities/Utilities	Purchase/rent of office facility & utilities.		
650	Office	Supplies in the states			
660	Office	Mission Phone	Both office phone and mission related long-distance charges.		
661	Office	Internet/Web	Web-related expenses		
670	Office	Secretaries/ Assistants			
700	Promo./Rep	For more support			
710	Promo./Rep	For more recruits	Conventions, churches, correspondence, etc.		
720	Promo./Rep	Newsletters			
730	Promo./Rep	Reporting to Supporters	Travel expenses incurred while reporting to supporters, phone calls, brochures, etc		

Acct #	Category	Account	Explanation of Team Expansion Expense	Income Tax	Social Security
740	Promo./Rep	Representation	For Int'l Services – Mission Share		
750	Promo./Rep	Miscellaneous			
800	Travel	Car/ Transportation	Gasoline, bus & train fares, taxis, mileage reimbursement (if car is owned by missionary and not by mission).		
805	Travel	Vehicle Purchase - Field*	This account is used if the vehicle is being purchased by the mission and not by the missionary.		
806	Travel	Vehicle Maintenance	This account is used if the vehicle is being purchased by the mission and not by the missionary.		
810	Travel	Meals (traveling)			
820	Travel	Fees/Tolls	Taxes, surcharges, etc.		
830	Travel	Housing (traveling)			
840	Travel	Legal (travel fees)	Passports, visas, etc.		
850	Travel	Shipping			
860	Travel	Air fare			
870	Travel	Misc. Expenses			
880	Travel	Home Service Fund	Only use this code for actual expenses relating to Home Service. Do NOT use it to report money you are saving/accumulating for home service. Only use this code when the money is actually spent. You may also choose to record expenses in the other more specific categories rather than lumping them under this code.		
900	Misc.	Unspecified Equip.	Equipment that does not fit under 630 – office equipment		
910	Misc.	Legal (in residence)			
920	Misc.	Banking Fees	Fees for overdrafts, checking accounts, wire transfers, etc.		
930	Misc.	Mission House**	Purchase/ building of house belonging to mission. Setup expenses provided by mission. Security guard for mission property.		
990	Misc.	Other	In case you can't find a better place for the expense!		

\*Vehicles purchased with line 805 belong to Team Expansion. When sold, the proceeds are to be returned to the Team Expansion account you manage.

\*\*Items purchased with line 930 belong to Team Expansion. When sold, the proceeds are to be returned to the Team Expansion account you manage.

## Monthly Reporting

**Executive Summary:** "Team Expansion missionaries report monthly on their activities, finances, and prayer needs."

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### The Details:

- All Team Expansion workers who are raising funds (full-time, part-time, and Quest) are required to report monthly.
- If the worker has an account open at the home office but doesn't have monthly income, they agree to do a monthly report as well, though, that report might be extremely simple for the months for which there is no activity.
- If the worker has no Team Expansion account open at the home office (e.g., a volunteer at Em. Hills), then the report is optional.
- We expect every worker to submit their expense report no later than the 15th of the following month and have their newsletter done no later than 4 weeks from the end of the month. For example, the June expense report would be submitted no later than July 15th, and the June newsletter completed no later than July 31st.

### A monthly report contains:

- A letter, or series of articles and pictures, sharing activities, finances, and prayer needs and clearly labeled as the "report for \_\_\_\_ (month)." This could include ministry progress, prayer requests, praises and rejoicing, personal and family updates (if applicable).
- Team Expansion should be clearly referenced in the heading/letterhead as the name of the missionary's organization.
- The correct logo should be featured prominently.
- The field address and e-mail for corresponding with you and sending packages
- The office address with instructions on how to make checks out and where to send them **including your account code**.
- A financial summary of the month for which the report is named, again, with the words Team Expansion somewhere on the page, including
  - A list of the donors and their respective gift amounts for at least the churches . (Individuals can be grouped and/or left anonymous if they prefer.)
  - Expenses (using the account numbers & categories from the Team Expansion Expense Recap form)
  - Summary of balance at the beginning of the month, and remaining balance at the end of the month
- Prayer requests/praises, and answered prayers
- A paragraph written by Team Expansion's President, thanking/informing supporters from the point of view of the "big picture."
- Optional: A return/reply envelope, pre-addressed to the proper destination for gifts. This can include a bar code to help the Post Office with sorting the envelope efficiently.

### Options for producing reports

This is one area that we hope to be able to expand over time, but with our current level of staffing, workers may choose one of the following options:

- The office produces the monthly financial report only and sends it to the missionary or their advocate to be included with the newsletter that they create and send out themselves
- The office produces both the financial report as well as the official monthly newsletter and sends them to a set list of supporters.

Note: At this time, we can only offer a pre-set, basic template for the newsletter and report, so the missionary will still need to keep their supporters involved through personal prayer updates.

### Who should receive your monthly reports?

- All of your financial and prayer supporters.
- International Services. You can email it directly to newsletters@teamexpansion.org as a PDF attachment (Note: If you'd like to learn how to produce an Adobe PDF document, contact IT@TeamExpansion.org for more information.), or postal mail it to:
  - Newsletters
  - Team Expansion
  - 4112 Old Routt Road
  - Louisville, KY 40299-5002
- Your on-field teammates.
- Your Representative Elders and all the Representative Elders of your on-field teammates.
- Your Field Coordinator

- PACE Church(es) (if applicable) involved with your project.

### **Newsletter Compliance Policy**

Accountability, including monthly reporting on ministry and finances, is one of Team Expansion's core values. In fact, we have promised all members of Team Expansion and all of our supporters and partnering churches that we will send out a report each month. We need to keep our word. Therefore, the following policy on newsletter compliance is in place that Team Expansion may diligently and decisively maintain this commitment and see that everyone's integrity is upheld. We pray that this policy is a motivator to comply with what we've seen to be an extremely effective tool for maintaining great relations with supporters and great accountability before the Lord.

- The Field Coordinator and/or newsletter tracker will remind a person who is getting behind in reporting (this will be done graciously but also firmly).
- If they fall behind 3 months, they will then be given 1 month to catch up (this would include at least 1 newsletter covering the missed months as well as all missed financial reports).
- A note with wording to this effect would be sent: "I, <missionary name>, recognize that I've fallen behind on monthly reporting. I realize that monthly reporting is a core value of Team Expansion and one to which I agreed when becoming a member. I also recognize that I'm being given grace. I understand and agree with the plan that has been laid out in association with my supervisor -- that I complete a financial report for each of the last 3 missed months, as well as at least one ministry report covering these same 3 months within 30 days of today. I also agree that if I fail to follow through with this plan, it is tantamount to my immediate resignation from Team Expansion, to be taken immediately without severance and without paid home service." The missionary would be asked to sign this and send us the PDF with their signature. The Field Coordinator will save a digital copy and print a hard copy and put it in their file.
- If after that month they have not caught up, that would be considered their resignation/separation from Team Expansion.
- If they do catch up in the time given, they'll go on to a period of probation for 1 year. During the probation they must be consistent and timely with their newsletters. If during the probation they are overdue more than 45 days on a newsletter that would be considered their resignation/separation from Team Expansion. (The Field Coordinator would have discretion to consider "extenuating circumstances" such as a medical emergency, death in the family, etc in the termination of the missionary.)

### **Notes:**

- The worker can send out other notes or prayer requests as desired, but these do not constitute a monthly report. The monthly report is defined above.
- If the missionary says in the general newsletter, "Financial report available upon request," he/she should be sure still to package the financial report with the letter and send it to all supporters anyway. In other words, supporters should never have to request a financial report. Prayer partners and others don't have to get the financial report.
- The above are minimum expectations. Your report can consist of more than the 5 parts we listed and it can be sent to more than the 6 groups we listed.

## **Review of Financial Services Provided**

In the Collaborative Model, our financial team will...

- Receive all funds and track them according to account numbers on the checks
- Send, via email, receipts to all donors for whom email addresses are provided. (This is obviously the preferred approach for many reasons, not the least of which is saving time and money for our staff and for postage, handling, paper products and the environment.) First time donors will receive a thank-you designed specifically for first time givers, then electronic receipts for every gift afterwards.
- Send, via postal mail, printed paper receipts to all donors who specifically request them. Upon receiving a check from a first time donor, our staff will send a custom letter and form allowing them to reply via email or paper mail as to their wishes for future receipting. If they request paper receipts and reply envelopes on a monthly basis, we will send these materials. We hope that many of these donors will choose to send our staff an email address for future correspondence, but we will gladly comply with their preferred form of communication.
- Send a weekly report detailing donations and fund balances. We encourage all our workers to stay abreast of monthly donors by reading the report that is sent each week. Although our office will be handling all normal monthly reporting and communications, workers may choose to involve former Forwarding Agents and other volunteers to provide additional personalized services as they wish. These additional services could mean a lot to certain donors. Our staff is willing to brainstorm with those who need ideas on how to maximize these donor relationships to ensure continuity for current giving and future growth.
- Maintain on an ongoing basis the account for each field worker. This includes services such as...

- Monitor, approve, and reimburse the **mission-related** payments which field workers make to vendors and service providers in the USA and abroad. (Note that field workers may choose to pay **personal** expenses, both in the field and in the homeland, using modern banking tools such as bill-pay and online banking — OR — workers may choose to empower a **personal financial assistant** or **advocate** in the USA to process payments on their behalf from their personal accounts. This person could also be empowered as "Power of Attorney" to take care of other necessary personal actions. We are no longer referring to these helpers as "Forwarding Agents" because they do not, as such, deal with mission funds directly at all. They are only acting as a personal assistant to pay personal bills. In this role, they can help the field worker by acting as his or her agent to file income tax returns, pay quarterly estimates, personal insurance bills (including medical insurance under the new ACA era policies which cannot be employer-provided), as well as any other bill which would normally be paid directly from the worker's **personal** account.
- Directly pay the bills that, by definition, have to be invoiced to the company headquarters (including such policies as an employer-provided, tax-excluded term-life, HSA and/or employer-provided IRA).
- Produce the monthly financial report according to the option chosen above.
- Prepare W-2's in a timely fashion according to IRS guidelines then send the W-2 to the address provided to us (on file) by the employee.
- Prepare and send annual end-of-year giving statements which summarize a donor's giving throughout the year.
- All start-up training costs would still be covered by the funds that each worker raises for his or her ministry. (Note: The worker might have to pay for a start-up training with personal funds in the beginning, then be reimbursed for those once ministry funds become available later.) **At some future point, when all workers have transitioned to the Collaborative model**, we dream of a day when we can offer reduced or zero registration costs for internal trainings such as Jonathan Training, Kairos, DMM trainings, etc. In other words, **at that time**, our dream is that once the trainee has arrived at the venue where the training will occur, the trainee will incur reduced or zero additional costs during the time period of the training. All housing, food, and program fees at the venue will be provided. Certain costs charged by outside networks or organizations might be passed along to trainees in certain cases.

Note: Like any other employer, the office is not responsible for personal affairs such as...

- Filing personal income tax returns
- Paying quarterly self-employment tax estimates
- Paying personal insurance policies that are not employer-provided
  - Receiving ongoing personal mail, catalogs, magazines, packages, etc., unless by prior arrangement in special cases. In other words, we regret that the office can't act as a USA personal address for workers posted overseas.

Again, these are great roles for a personal financial assistant or advocate.

## Quest

The Quest program allows interested prospective field workers a chance to put their "toe in the water" a bit longer than a summer Pathways internship, yet shorter than a lifetime commitment. Quest workers normally serve anywhere from one semester to 24 months in all. When it comes to finances, Quest workers function pretty much like full-timers. They have a different budget, of course, because their time commitment, but on a relative scale, they will still participate with 10% of all finances given going to a Collaborative Plan mission share.

## Other Financial Protocols

### Start-Up Expenses

#### Housing Costs

Line 930, Misc., Mission House & Property can be used to report mission approved, employer paid, and one-time start-up expenses for housing. Each team leader should consult with the Director of Prayer, Operations, and Personnel to determine a fair amount for his field. Examples of approved expenses are:

Expenses associated with locating housing, first month's rent, deposit, an agency commission, utility hook-up fees, and staple household items.

If the missionary is relocating to a new field the expense of moving is allocated to line 930 – Mission House and the employer (Team Expansion) pays for it. If they are replacing furniture that they sold in previous field and it's of the same quality then it is still considered line 930 – Mission House. If it's something that they are upgrading and buying new not based on their move then it should be reported as 150 – Housing Allowance.

Remember that items purchased with line 930 belong to the mission. When sold the proceeds are returned to the Team Expansion account and stay with the mission not the missionary.

### **Car Purchase**

Line 805 – Vehicle Purchase – Field may be used to purchase a mission vehicle on the field. Please note, however, that any vehicle purchased using Team Expansion funds and this code is Team Expansion's. When the vehicle is sold, the proceeds are returned to the Team Expansion account and stay with the mission not the missionary.

Please see the Accountable Reimbursement Plan and Mileage Reimbursement sections below for information on tracking miles.

### **Loans**

Because we are a non-profit incorporation, our budgeting process is highly affected by the level of donations from those who support us. Since this is subject to change, we are very uncomfortable with a high debt load. Therefore, it is strongly suggested that Team Expansion missionaries seek to raise funds in advance of a purchase, rather than retroactively, so that as a mission, we might remain as debt-free as possible. However, in certain cases where payback income is certain, our missionaries have taken out loans for purchases that are too good to pass up.

By contrast, credit card debt is almost always a bad idea. The interest rates are unfairly inflated and it's just too easy to let it get out of hand. In general, our expectation is that we will use credit cards only for the amount that we can afford to pay off in full when the credit card invoice is due. If cash flow would not allow us to pay off the item, we will either be patient and wait for cash streams to pick up, or we'll find another, lower-interest form of loan which we **can** afford to pay back.

### **Retirement**

Some missionaries have finished their careers with little or no preparation for retirement. As a result, some of their supporting churches have felt obliged to continue their support even through retirement. Each missionary should prepare for retirement in advance by putting together adequate retirement pension plans.

### **Insurance**

Some missionaries have failed to adequately insure themselves (and/or their families) for times of medical or accidental crisis. We understand that there are indeed extenuating circumstances for all of us at certain points in our lives. But we also believe we need to be as prepared as possible for as many situations as possible.

**Team Expansion requires that each missionary family carry adequate health/medical insurance.** (See the Director of Prayer, Operations and Personnel for a list of sources.) Furthermore, **each worker needs to be covered at all times.** So if a Team Expansion worker elects to depend on a policy provided by a company or government program in the host country, the worker should verify that this policy would cover the worker during Home Service visits. (In most cases, foreign-based policies would **not** provide USA coverage.) If the policy does not cover the worker while he or she is in the USA, the worker or family should continue to carry some kind of "catastrophic" coverage in the USA. (By catastrophic, we mean coverage that would at least cover major sicknesses such as cancer or other life-threatening diseases.) The Director of Prayer, Operations and Personnel will verify this coverage prior to departure, but it is important that it not be canceled once a foreign policy is in place.

Also, should one of our workers ever lose his/her life in the field, he/she would probably need to be brought back to the USA for burial. Such transportation costs, together with the expenses of funeral arrangements, can easily range up to \$25,000 or more. Therefore, **we require each Team Expansion missionary and family member carry at least \$25,000 in life insurance per person.** In the past, we have noted that some insurance carriers seem reluctant to initiate policies for those headed immediately overseas. As a result, we recommend purchasing life insurance just

as soon as possible in the deputation trail, preferably at least 12 months prior to departure. (Certain carriers will insure workers regardless of their location, but certainly, those with the luxury of more lead-time prior to departure will find more options.)

In the event that a Team Expansion worker should ever become disabled in the process of mission work, we would want the worker to be free of any financial concerns during future years. Those covered by Social Security would probably receive at least minimal care, though many argue that Social Security in and of itself would not be totally sufficient, especially in the case of the breadwinner of the family. In light of this, we ask that each Team Expansion missionary carry a disability insurance policy sufficient to underwrite his/her needs (and, in the case of the breadwinner of a family, the entire needs of his/her family) in the unlikely case of disability while in mission service.

As mentioned above, see the Director of Prayer, Operations and Personnel for a list of sources, which can supply retirement, medical insurance, life insurance, and disability.

## **ARP (Accountable Reimbursement Plan)**

The IRS requires each nonprofit organization to publish a responsible accountable reimbursement plan (ARP). Team Expansion as an organization will reimburse its employees for mission miles driven on their personal vehicles at the published IRS rate or the full air fare if air travel is advised. In addition, Team Expansion will reimburse for any meals, tolls, housing costs along the way when traveling on behalf of the organization.

If a missionary is traveling at the request of Int'l Services to present the mission at a college, church or other program, the missionary is entitled to have his or her expenses covered (as noted in the above paragraph). However, it is up to the individual missionary to assure that the payment by the sponsoring church or campus will be sufficient. International Services does not have the funds at this time to pay for this travel without help from the sponsoring body. If Int'l Services was the source of the speaking invitation and if the inviting church or college pays an honorarium that goes beyond the actual expenses incurred, the missionary may keep up to 50% of those excess funds. Any remaining amount beyond the 50% should be sent to Int'l Services. For example, if a church in Ohio calls Int'l Services asking for a speaker at a senior week of camp during the coming summer, Int'l Services will seek out a missionary for that camp. If the camp pays \$1100 and the expenses for the missionary total \$500, the missionary may keep \$300 of the remaining \$600 overage. The other \$300 should be sent to Int'l Services.

Anytime a missionary performs a service on behalf of Team Expansion or receives an honorarium for speaking the funds should be given to the Team Expansion account that their Forwarding Agent manages. If the funds are given to the missionary personally, the missionary would be responsible to report those funds on a schedule c when filing their taxes.

## **Mileage Reimbursement**

For the current IRS-approved mileage reimbursement rate, go to the IRS website at <http://www.irs.gov/> and, using the search blank in the upper left, type in "standard mileage rates". Usually the article containing news about the standard approved rates for the current year will appear first. If you own your vehicle, you should keep track of ministry miles driven (does not include personal miles or commuting miles). This is the amount you are allowed to reimburse yourself-using line 800 Travel Car/Transportation of the Team Expansion expense categories.

If the ministry purchases the vehicle, then line 805 Vehicle Purchase Field may be used to report the expense. If that is the case, you must keep track of personal and commuting miles driven-and then report to the Finance Dept. by January 15<sup>th</sup> of the following year how many personal and commuting miles were driven in the previous year. International Services will add the value of these miles to your W-2 wages.

## **Paying of Bribes**

Whenever our workers feel obligated to pay a special "gift" in order to expedite a particular process, we suggest that they ask these questions:

- Will my actions help transform this culture for the better...or allow it to continue to go downhill?
- Am I trying to use money to fix something quickly when I really need to spend more time on my knees...possibly patiently wait for God's timing...or for Him to do something? The Apostle Paul refused to give a bribe even though it meant that the remained stuck in jail (Acts 24:26). "Waiting" can be tough for Americans who live in an "instant" society. But I also know some amazing things can happen when a group of

- believers are mobilized to fast and pray for a specific problem on the field.
- Will my actions make it tougher for the next American who comes along? (Every time I give in to the system it makes it tougher for the next guy.)
- Am I breaking a law for which I or my co-workers could be legally prosecuted?
- Am I establishing a precedent which will require a lot more maintenance in the future? (Their addiction may grow...and now they might be able to blackmail.)
- Am I setting the right example for the nationals that I work with?
- What kind of a witness am I presenting to this official? Can they see that I march to the beat of a different drummer?
- Will this be good stewardship of the resources given by Christians and churches?

One wise and experienced field worker wrote this discussion about the topic: "I make a distinction between paying someone to do what they should not do and paying someone to do what they are supposed to do. The former is what is usually considered a bribe and what the Bible refers to as a bribe.

## **Foreign Nationals Working in the USA**

Social security numbers or ITINs (Individual Taxpayer Identification Number) are needed for everyone in the family. If you do not have ITINs you may need to file form 4868 to obtain them. Resident aliens generally get the same tax benefits (ex. joint filing) that U.S. citizens have, but to be a resident alien you must have 183 days of presence in the U.S. or a green card. We would highly recommend that if at all possible, when foreign nationals come to the U.S. to work for Team Expansion, that they arrive and begin working by July 1 of that tax year to establish at least 183 days of living in the U.S. Additionally, social security numbers or ITINs for those family members that can't work in the U.S. should be obtained for all family members.

## **ECFA Position**

The Evangelical Council for Financial Accountability (ECFA) provides accreditation to Christian non-profit organizations that demonstrate compliance with established standards for financial accountability ([www.ecfa.org](http://www.ecfa.org)). We are often asked why Team Expansion is not accredited by them. The members of our Board of Directors have studied this issue on several occasions. In order to comply with ECFA standards, we would be required to do an outside audit every year which would cost upwards of \$20,000 or even \$30,000. When our Leadership Task Force has weighed the cost versus the return of those kinds of dollars, on every occasion, they've decided against hiring an outside audit, and therefore, against applying to the ECFA. We are not at all against joining the ECFA if a donor or church would be willing to support the cost to do so, but at this time we do not think it is the best stewardship of our funds since we have accountability protocols in place already for all of our workers.

If you ever have a donor question this, please contact Team Expansion for a more detailed list of reasons. Team Expansion would be happy to speak with any donor on this topic.

## **State Registration and Sales Tax Exemption**

More and more states are requiring us to register in their state and apply for sales tax exemption. We request that each Team Expansion entity first check with International Services to see if we are already registered in that state. Then we ask the Team Expansion worker to initiate and take action by researching and acquiring the appropriate applications. Proceed by filling out as much of the information as possible and before you submit the application please send it to International Services for approval. We will be happy to provide you with any supporting information you might need for the application.

## **Taxes**

Taxes! This 5-letter word often strikes terror in our hearts. But don't worry. It will probably take less time than you think! One of the secrets to wise tax planning is something Team Expansion missionaries are already doing – monthly reporting. This makes the end of the year job of filing taxes quite simple. By completing accurate monthly financial reports you are making sure throughout the year that all of your ministry/business related expenses are accounted for in the non-taxable ministry areas (lines 200-900 in the Team Expansion Expense Recap Form and in the Expense Summary of QuickBooks). This way your salary and other taxable expenses are as low as possible.

## Accountability in Filing Taxes

*It is vital that all Team Expansion missionaries are correctly following the IRS tax code in a systematic way, and at the same time, that they be taking advantage of all the benefits they are entitled to as ordained ministers and/or missionaries. The Biblical principles of good stewardship certainly apply, as well as the principle of taking care of one's obligations to the government.*

### The "Dual Status" Minister/Missionary

The IRS has chosen to treat ordained ministers/missionaries with Dual Status. This means that you are considered an employee of Team Expansion for your income tax obligation, and considered self-employed for your Social Security obligation. After we receive your year-end financial report in January of each year, we will send you a W-2 in February that you will use to calculate your taxes and to file your return.

### Ordained - To Be or Not to Be?

As a mission, we are made up of interdependent missionaries who are cooperating together under the "7 core values." Each missionary is responsible for his or her own Social Security responsibility as a "self-employed" missionary. As a result, it is necessary that all Team Expansion missionaries be ordained or commissioned (according to the IRS). However, if you are employed by an integral agency of a church and are performing ministerial services, you are considered to be "the equivalent of" ordained at the time you begin your employment. (BJ Worth, Income Tax Guide for Ministers and Religious Workers)

In some cases, a mission recruit has not been ordained. If that is the case, we recommend that they at least be "commissioned" by a church (perhaps their sending church) for the ministry they are about to perform in the foreign culture. The IRS makes no distinction between ordained or commissioned ministers/missionaries.

The U.S. government treats missionaries as members of the "clergy" (or ministry), thereby placing them in a special tax situation. In addition, certain overseas governments place ordained clergy in a special bracket as well. Just as importantly, the role to which our workers have been called is a very difficult one; it deserves serious thought and careful commitment by the worker, as well as his/her home church. With this in mind, it is necessary that each full-time Team Expansion missionary be ordained or commissioned prior to departing for the field. Int'l Services can provide more details about this concept.

All that follows assumes that you or your spouse have/has been ordained by a church and have an ordination certificate, or you have been commissioned by a church and likewise, have received a certificate noting your commission. There are certain tax advantages that one is able to enjoy as an ordained/commissioned missionary. These advantages will be noted below. Note that when choosing a church to ordain you (usually your home church), make sure the church has already received from the IRS a Federal Employer Identification Number (FEIN) as a church. If not, the IRS could challenge your ordination. If your chosen church has no such designation, it might mean that they need to apply for that status before they ordain you. Also, be sure to ask the church for a copy of the "approval letter" from the IRS granting the FEIN. It can come in handy years later if you are serving overseas and are called upon to prove your ordaining church's status. With that letter, keep copies of your ordination certificate and any other forms you filed showing you are ordained.

### Social Security - To Opt Out or Not

One of the benefits that ordained ministers/missionaries have is a choice to opt out of paying Social Security tax, and receiving Social Security benefits. However, please read carefully the wording from the necessary application form (Form 4361) and from BJ Worth's interpretation.

Form 4361 includes a statement that, because of your religious principles, you are conscientiously opposed to accepting, for services performed as a member of the clergy, any public insurance. Your conscientious objection must be based on YOUR INDIVIDUAL religious considerations. Opposition based on the general conscience will not satisfy this requirement. You may not be exempt for economic reasons. See Income Tax Guide for Ministers & Religious Workers, 1992 edition, BJ Worth.

If you decide to opt out, it must be for conscientious reasons only. There can be no financial consideration to your decision.

For what it's worth, note that at least one Team Expansion worker has opted out due to the fact that he is religiously opposed to the administration of the public insurance. For example, he is opposed to some of the federal government's uses for Social Security funds (aid for multiple children born out of wedlock, aid for women seeking

abortions in federally sponsored abortion clinics, etc.). In his case, the IRS allowed the opting out under this conscientious objection. You can always write additional sentences on your form, clarifying the exact nature of your conscientious objections. If the IRS chooses to grant your exemption, it will have been their legal right to review your thoughts and to decide whether they are consistent with federal law.

But in any case, please realize that — as far as income from religious work — you are opting out of receiving any Social Security benefits, death benefits that your family would receive in the event of your death, pension benefits at your retirement, as well as Medicare when you are of retirement age. As a result, if you do choose to opt out, you need a suitable replacement for disability insurance, retirement income as well as Medicare when you are of retirement age. Obtaining health insurance coverage when you are of retirement age - without the Medicare benefit - could be a real challenge.

## How to Opt Out of Social Security

If you decide that you meet the above requirements for opting out of Social Security, you do so by filing Form 4361 (Application for Exemption from Self-Employment Tax). This form must be filed by the due date (including extensions), for the second tax year in which you had net Self-Employment earnings of \$400 or more from services as an ordained or commissioned minister/missionary. Be sure to save a copy of your application (Form 4361), as well as the approval once it arrives. (It will simply be your original Form 4361 stamped “approved”.) This is your only proof of acceptance for opting out. If you are challenged later in an audit, the burden of proof is on you, not the IRS Processing Center, to provide the proof of exemption. If you cannot produce a copy of an approved Form 4361, you could be liable for years of back social security tax — not fun! Make sure you save multiple copies in several very secure locations.

After you have filed Form 4361 and have received approval in writing from the IRS, you simply need to write “Form 4361 on file in Louisville” (replace Louisville, if necessary, with the service center which approved your own Form 4361) on the “Self-Employment Tax” line on page 2 of Form 1040 when you file your income taxes each year, or alternatively, attach a copy of form 4361 to your file (especially your first couple of years of 1040s following approval).

We cannot tell you what to do about your Social Security decision; it is a personal decision based on your conscientious objection to receiving public insurance for ministry performed. The instructions that follow are assuming that you have decided to not opt out. If you have opted out, simply ignore the instructions concerning paying Social Security/Self-Employment Tax.

## The Tax Process: An Overview

The tax process includes two major areas. The first area is to estimate what you will owe in the upcoming year and divide that amount by four. These are your quarterly payments you will need to make throughout the year.

The second area is figuring out what you actually owe on the past year (using the W-2 Team Expansion sends) after subtracting what you have already pre-paid (in estimated tax).

The four quarterly payments are due (approximately - see form 1040-ES for actual dates each year) April 15, June 15, September 15 and January 15. This means on April 15 you have two tax bills to pay. The first bill is any tax due from the previous year, this includes both Federal income tax and Social Security (see Part I below). The second bill due on April 15 is the first quarterly payment for the New Year (see Part II below). Please note that all tax payments should be written on personal checks and not Team Expansion checks. Money used to pay income and social security taxes are to be personal and not ministry funds.

Question: Why do ministers and missionaries have to pre-pay taxes (make estimated tax payments)?

Answer: Actually, all businesses have to make quarterly payments throughout the year of their employee's withholdings. This way the Federal government gets its share of the money throughout the year and can earn interest on it. If you worked for McDonalds, they would withhold some of your tax money from each of your paychecks, then each quarter send that money to the Federal government. Since self-employed people (including ministers and missionaries) don't have any tax withheld from their paychecks they have to set aside money each month for taxes then send it in quarterly. If they fail to do this the IRS can penalize by charging interest and penalties.

Question: What about paying State and Local income tax?

Answer: Missionaries do not pay any State or Local taxes as long as they are living out of the country

## How to Determine Taxable Income

Please refer to the "Expense Recap Form" earlier in this document. *Note that Line items 200 through 999 are all ministry expenses and are not considered income.* Let's look at line items 100 through 180.

**Line 100 - Salary** - This is your base salary and is taxable for both income tax and social security.

**Line 110 - Medical Insurance** - insurance premiums are taxable for both income and social security. You may use this line to distinguish premium costs or you may include the premiums in line 100.

**Line 115 - HSA Contribution** - Team Expansion funds paid directly to an HSA. Notify the office to make the payments directly.

**Line 120 - Life Insurance** - The IRS allows up to \$50,000 term life insurance as a fringe benefit. The premiums paid toward any other type of life insurance or any thing above \$50,000 term is to be considered salary (line 100). Starting in 1995, we would prefer that Line 120 be used only to show premiums paid for Term Life policies \$50,000 and under (this line could include policy premiums paid for both spouses, however).

**Line 121** - This line is used to report on premiums paid for other policies such as investment or life insurance policies. Income reported on this new line will be added to the W-2 income statement.

**Line 130** - In the case of ministers, Social Security payments may not be paid by the employer, so we will add the amount of this line to your salary base when we calculate your W-2. Showing them separately here is only for your convenience.

**Line 135 - Disability Insurance** - This is a taxable expense

**Line 140 - Retirement** - Not taxable for income tax purposes or for Social Security tax. Enjoy the fringe benefit!

**Line 141 - Retirement (Roth IRA)** - This is taxable when you pay into the IRA and will be added to the W-2 income statement. Every fall, the IRS announces the contribution and income limits for the next calendar year, so please see the current posted amounts on the IRS website.

**Line 150-160 - Housing Allowance & Utilities.** One of the benefits of being ordained or commissioned is a housing allowance. This allowance (lines 150-160) is not taxable for income tax, and will not appear as income on your W-2 box 1 (Wages, Tips, Compensation). However, it is taxable for Social Security, and you will use it to calculate your Self-Employment tax, and it will appear on your W-2 as Housing Allowance in box 14.

**Line 170 - Education for Children K-12 - Overseas** - As long as you are a foreign missionary, and there are no fit, English-speaking public schools, then the IRS considers this expense as non-taxable income because it is "a condition of your employment" that requires you to send your children to a non-public school. This does not include college savings.

**Line 171 - Education for Children K-12 - USA** - Expenses paid for children to attend school in the USA, **including during home service.** This does not include college savings.

**Line 175 - Dependent Care Assistance** - Expenses paid for childcare to allow the parent(s) to work for the organization. Excludable from income up to \$5,000 (\$2,500 if married filing separate). Not intended for babysitting for recreational activities. The amount will appear in box 10 of your W-2.

**Line 180 - Contributions** - This is an alternative place for missionaries to report their tithes and contributions. Most simply report these expenses as part of line 100 - Salary. If line 180 is used to report these expenses, it will be treated as "wages" on the W-2.

Thus, International Services will compile your W-2 wages from the following line items off of your year-end report.

Line 100 – Salary

Line 110 – Medical Insurance

Line 121 - Additional Life Insurance Premiums

Line 130 - Social Security Payments

Line 135 – Disability Insurance

Line 141 – Retirement (Roth IRA)

Line 171 – Education for Children K-12 - USA

Line 180 - Contributions

When you are filling out your taxes, you will use the following figures to come up with your Self-Employment (Social Security) income:

W-2 Wages

Line 150 – Housing

Line 151 – Housing Allowance - Insurance

Line 160 – Utilities

### Schedule C income\*

\*Schedule C income is money that you were given personally, (not to Team Expansion) as a result of some service you performed as a minister, e.g. weddings, funerals, etc.

Contributions to the mission work made payable to the missionary instead of Team Expansion and deposited into the missionary's personal account would be reported with honorariums on Schedule C.

## The Foreign Income Tax Exclusion

The IRS does not require US citizens living and working abroad to pay federal income tax (under certain conditions). The first condition is: as of 2006, it is valid only for the first \$82,400 of salary (shouldn't be a problem for any of us!). The second condition is: you must be physically present in a foreign country or countries for a total of at least 330 days during any period of 12 consecutive months before this exclusion takes effect or meet very specific criteria for establishing that you have become a "permanent resident" of the foreign country.

\*\*\* IMPORTANT: First-time missionaries in your first year – File Form 2350 for an extension on filing your 1040 and 2555. Within a month after you meet the 2555 residence requirement, you then file your 1040, 2555 with the approved 2350 and take care of your tax situation then.

## How to Choose the Foreign Income Tax Exclusion

To take advantage of this tax break, you must file Form 2555 with your income tax return each year that you qualify.

Even though you may not owe any income tax because of this exclusion, you must still file a return each year. US citizens living abroad on Apr. 15 are allowed a two-month extension on filing income tax returns. Your forms will not need to be posted until June 15. You need not file any special forms for this automatic extension.

## “Report of Foreign Bank and Financial Accounts”

Form TD F 90-22.1

If the total of your foreign bank accounts exceeds \$10,000 at any time, must file  
Due June 30th - instructions on form

## Instructions

### The forms you will need from the IRS:

Go to [www.irs.gov](http://www.irs.gov) and search for these Forms.

- Form 1040
- Schedule SE
- Form 1040-ES (Estimated Tax for Individuals).

*Note:* the following instructions were written for missionaries who have not opted out of Social Security. If you have opted out of Social Security note the instructions in *Step 21* and disregard *Steps 7-12* and all references to Schedule SE.

### Steps for Filing Form 1040 for Income Tax and Social Security

*Step 1:* Fill out the Label information at the top of 1040. Use the pre-printed label if possible.

*Step 2:* Put an X on the appropriate line 1 or 2 or 3 for your filing status.

*Step 3:* Put an X on the appropriate line 6a, b and children's information and total the number of exemptions on line 6d.

*Step 4:* From your Team Expansion W-2 (plus any other W-2s you may receive from other employers) fill in line 7 with the amount of Salary indicated in the Wages box of your W-2.

*Step 5:* Add any taxable interest you may have received on personal savings on line 8a or 8b if tax exempt interest. Your bank or Savings and Loan will issue you a statement. Ordinary dividends from mutual funds are reported on line 9a or 9b Qualified Dividends of Form 1040. Capital Gain distributions are reported on line 13 if applicable of Form 1040 (you'll receive a 1099-DIV from your investment company for either of these).

*Step 6:* Add lines 7, through 21 and place the amount on line 22.

*Step 7:* Now go to Schedule SE and on Section B - Long Schedule SE write the following in the space between lines 2 and 3: "W-2 Salary Plus Housing Allowance".

*Step 8:* Total the amount of salary on your W-2 plus the amount of Housing Allowance in the Other Box of the W-2 and write this amount on line 2 of Schedule SE, and again on line 3.

*Step 9:* Follow the instructions on line 4: Multiply line 3 by .9235 and write the amount on line 4a and again on line 4c. If line 4c is less than \$400, do not file this schedule.

*Step 10:* Subtract line 8d from line 7. If zero or less, enter 0 here and on line 10 and go to line 11.

*Step 11:* Multiply smaller of line 6 or line 9 by 12.4% then multiple line 6 by 2.9% then add lines 10 and 11 and write it on line 12 and on line 57 of form 1040.

*Step 11:* On line 3 enter the result of line 12 multiplied by .50,

*Step 12:* Now, going back to Form 1040, write on line 27 the amount of line 13 of Schedule SE (Long-Form). Then add lines 23-35 and write that amount on line 36

*Step 13:* Subtract line 36 from 22 and write the amount on line 37. This is your adjusted gross income. Write the amount again on line 38. Check appropriate boxes in 39a or b if they apply.

*Step 14:* On line 40 enter the amount of your Standard Deduction or itemized deductions from Schedule A.

*Step 15:* Subtract line 40 from line 38 and write the total on line 41.

*Step 16:* On line 42, write the amount of your personal exemptions. Note: multiply \$3,950 by the total number of exemptions claimed on line 6d.

*Step 17:* Subtract line 42 from line 41 and write the amount on line 43. If line 42 is more than line 41, enter 0 on line 43.

*Step 18:* (Many of our missionaries tend to have little or no Taxable Income. If you do have taxable income still, and if you have lived overseas for 330 days in the previous tax year - or if you have established residency in a foreign country, you simply need to claim the Foreign Earned Income Exclusion. For instructions on taking this exclusion see the instructions on Form 2555. Again, many Team Expansion missionaries do not make enough in taxable income to even have to bother with this form. If you have taxable income and you do not qualify for the exclusion you will need to figure your income tax from the tax table. However, if you have spent a portion of your year in a foreign country, you can still receive a pro-rated Foreign Earned Income Exclusion based on the amount of time you were out of the country. See Form 2555 for details.

**IMPORTANT:** First-time missionaries in your first year – File Form 2350 for an extension on filing your 1040 and 2555. Within a month after you meet the 2555 residence requirement, you then file your 1040, 2555 with the approved 2350 and take care of your tax situation then.)

Write the amount of income tax you owe, using the tax tables in the Form 1040 booklet, on line 44. If it is nothing, write "0."

*Step 19:* You may qualify for a Foreign Tax Credit if you paid taxes to a foreign government. See instructions for Line 48 as well as Form 1116.

*Step 20:* You might be able to take the Child Tax Credit (line 52) if you owe tax on line 44 and qualify. To see if you qualify fill out the worksheet in the 1040 booklet. Write the total of lines 48 thru 54 on line 55. Subtract line 55 from line 47 and write the total on line 56.

*Step 21:* On line 57 write the amount of Self-Employment tax from Section B – Long Schedule SE, line 12. If you are exempt from Social Security and have an approved Form 4361, write: "Exempt - Form 4361" on this line.

*Step 22:* Add lines 56 thru 62 and write the total on line 63. This is your total tax.

*Step 23:* On line 64 write any income tax withheld as shown on your W-2. If your only W-2 is from Team Expansion, there will be no tax withheld.

*Step 24:* On line 65 write the total amount of Estimated Tax payments you made throughout the tax year (due in April, June, September, and January).

*Step 25:* If you lived in the US for 6 months or more you might be able to benefit from taking the Earned Income Credit on line 66a (see instructions in the 1040 booklet and be careful to follow the

instructions for clergy). If you lived outside of the US for 6 months or more you are not allowed to take this credit. Also, if you file Form 2555 (Foreign Earned Income Exclusion) you are not allowed to take the credit. If you do return from the field and plan to spend over 6 months in the USA and are hoping to take this credit - make sure you establish your residence in the USA by officially notifying the IRS of your change of address. You will need to use a special form # 8822 for this procedure provided by the IRS.

*Step 26:* You may be eligible for Additional Child Tax Credit on line 67 (see instructions in the 1040 booklet).

*Step 27:* Total lines 64 thru 73 and write on line 74.

*Step 28:* Subtract line 63 from line 74 to determine the amount of tax you either overpaid or owe and write the amount on either line 75 or 78 accordingly. If you paid in too much you will be entitled to a refund. That amount goes on line 76a. You can apply that amount to your first quarterly payment on line 77. If you underpaid you would put the total owed on line 78.

Note that those living outside of the US should send tax payments to a special PO Box noted in the Form 1040 booklet.

Congratulations! You just finished filling out Form 1040.

### **Steps for Form 1040-ES (Estimated tax for the upcoming year)**

On the Team Expansion website there is an Estimated Tax worksheet that may be downloaded into Excel. If you would rather use the following instructions to compute your tax obligation for the year, divide the annual amount by 4 to determine what your quarterly payment should be in order to pre-pay enough taxes to avoid penalties and interest. The 1040-ES from IRS also comes with 4 payment vouchers you will send with your four quarterly payment checks. You can download the form at: <http://www.irs.gov/pub/irs-pdf/f1040es.pdf> After you have done this the first year the IRS should send you a 1040-ES towards the end of February along with pre-printed payment vouchers.

On the worksheet, lines 1 - 10 deal with determining Income tax. Self-Employment tax begins on line 11.

*Step 1:* On a scrap sheet of paper estimate how much you think you will spend in the following Team Expansion account categories for the year (Jan 1 - Dec 31).

- Line 100 - Salary
- Line 110 - Medical Insurance
- Line 121 - Investment Life Insurance
- Line 130 - Social Security Payments
- Line 135 - Disability Insurance
- Line 141 - Retirement (Roth IRA)
- Line 171 - Education for Children K-12 - USA
- Line 180 - Contributions (Tithe)

Write this total on Line 1 of the Estimated Tax Worksheet (found in Form 1040-ES).

*Step 2:* Write in your Standard Deduction or estimated Itemized Deduction on line 2 then subtract from line 1 and write it on line 3.

*Step 3:* Multiply \$4,050 by the number of your exemptions and write on line 4. Then subtract line 4 from line 3 and write the total on line 5. This is the amount of taxable income you expect to have subject to Income tax. If it is a negative number write "0" on line 5 and again on line 6. If it is greater than 0 then you use the Tax rate schedule on the next page to determine how much you expect to pay in Income tax in the upcoming year. Please refer to the discussion on *Step 18* of Steps for filing Form 1040 above on the Foreign Earned Income exclusion. If line 5 is greater than "0" and you qualify for this exclusion you can write "0" on line 5 and again on line 6.

*Step 4:* Write the amount of line 6 on line 11 if you do not qualify for any other credits.

*Step 5:* We are now ready to determine Self-Employment tax. Go to page 6 of Form 1040-ES.

Enter your expected income on line 1a

Enter it again on line 2

Multiply line 2 by .9235 and enter it on line 3

Multiply line 3 by .029 and enter it on line 4.

Your expected income will more than likely be under \$118,500 so you will enter your expected income again on line 8.

Multiply line 8 by .124

Add line 4 and 9 and enter it on line 10 on your 2015 Estimated Tax Worksheet.

*Step 6:* If you will qualify for the Earned Income Credit (see *Step 23* in Steps for filing Form 1040 above) then write your estimated credit on line 13b.

*Step 7:* Subtract line 13b from 13a and write on 13c - this is your total estimated tax for the upcoming year.

*Step 8:* Multiply the amount on line 13c by .90 and write the amount on line 14a and 14c. The reason for this step: the IRS requires that you pre-pay at least 90% of the tax you owe by the last quarterly payment date (January 15th). If you pay less than 90% you might be penalized.

**\*Note: If your prior year's Adjusted Gross Income was \$150,00 or less, then you can avoid a penalty if you pay either 90% of this year's tax liability OR 100% of your previous year's tax liability. Some find it easier to just divide last year's tax into the four quarterly payments rather than trying to estimate every year. If your prior year's Adjusted Gross Income was greater than \$150,000, then you must pay either 90% of this year's liability or 110% of last year's liability.**

*Step 9:* Divide line 14c by 4 - this amount is your minimum quarterly payment. Pay this amount, using the 4 quarterly payment vouchers that came with your Form 1040-ES. Note that those living outside of the US should send tax payment to a special PO Box noted on form 1040-ES.

*Step 10:* Or divide line 14c by 12 - this is the amount you should set aside each month for your taxes.

We recommend that you show the amount in *Step 10* going out each month on your Team Expansion report on line 130 (Social Security). This is considered personal money and is to be set aside in your personal checking account. If you do that, you will not show the quarterly payments on your Report because you are showing it going out each month. **Use this pool of money that collects throughout the year to pay your tax bills by writing a check from your personal account. Tax payments should not be submitted to the government with Team Expansion checks**

