

New Legislation Resolves Three Important Issues for Ministries and their Employees

Congress has passed new legislation that repeals certain taxes and reduces costs for ministries and their employees. Thanks to the bipartisan support of legislators in both houses of Congress, the resources of America's religious communities can remain focused on their mission work rather than on these onerous taxes and costs. The Church Alliance (church-alliance.org), a coalition representing 38 denominational benefits organizations, urged legislators to fix three issues that negatively impacted the ministries and church workers they serve.

The legislation:

- Eliminates the 40% "Cadillac Tax" on health care coverage
- Repeals the "Parking Lot Tax" on churches and other tax-exempt organizations
- Clarifies church retirement plan eligibility for church-affiliated organizations and their employees

Below you will find a summary of all three provisions and how they impact ministries and their employees.

Issue: Repeal of Cadillac Tax on health care coverage

Impact: Ministries and their employees no longer will need to worry about or plan for this onerous tax, which would have driven up the cost of health care coverage. Congress' recent action eliminates this 40% tax.

Summary: The 40% Cadillac tax would have been imposed on health care coverage that exceeded certain government-imposed thresholds. The name "Cadillac" implied it only would have applied to extravagant coverage, but it would have affected modest plans covering working-class church workers and their families. The tax would have disproportionately affected the health care coverage of women, early retirees, those in rural communities, the sick, and the disabled. This tax was originally scheduled to begin in 2018 and had been delayed until 2022, but this legislation eliminates it from the Tax Code.

Issue: Repeal of the Parking Lot Tax

Impact: Tax-exempt organizations, including churches, no longer will be taxed on the costs of their parking lots and other transportation-related benefits provided to or used by their employees.

Summary: The legislation repeals a provision in the Tax Cuts and Jobs Act that went into effect January 1, 2018. That provision subjected tax-exempt organizations, including churches, to tax liability and reporting requirements on amounts spent to provide parking, public transit passes and other transportation benefits to employees. This tax was illogically imposed on expenses incurred by many ministries primarily to provide parking for those they serve, which only incidentally was used by employees. The legislation repeals the tax back to the tax's effective date. While not entirely clear yet, and likely dependent upon guidance from the IRS, ministries that have paid this tax for 2018 might be able to apply for a refund.

Issue: Clarified church retirement plan eligibility for church-affiliated organizations

Impact: A broad spectrum of church-affiliated organizations can continue to offer church retirement "403(b)(9)" plans to their employees.

Summary: This legislation reaffirms current law and clarifies that a broad scope of church-affiliated organizations remains eligible to participate in church retirement plans offered under section 403(b)(9) of the Tax Code. Recently, the IRS took a position that would have eliminated the eligibility of many church-related nursing homes, daycare centers, summer camps, colleges, universities, hospitals, and social service organizations to participate in these plans. The legislation has preserved access to the unique benefits of these church plans and eliminated significant costs that otherwise would have been incurred by these church-affiliated organizations and their employees.