CHURCHBIZ

Payroll & Employee Setup Guide

For Our Church & Nonprofit Clients

When you hire a new employee, a few decisions made at the start protect your church from wage, tax, and compliance liability. This guide explains what ChurchBiz needs from you, how we classify employees, and what to expect throughout the payroll onboarding process.

01 Employee Classification: What It Means and Why It Matters

Every new employee must be classified under the **Fair Labor Standards Act (FLSA)**. This is a legal determination with real wage and overtime consequences. The three classifications relevant to our church clients are:

Classification	Overtime?	Min. Wage?	Key Requirement
Non-Exempt	Yes — 1.5x over 40 hrs/wk	Yes ($7.25/hr federal)	Default classification. Hourly or salaried; overtime always tracked.
Exempt	No	No (min. $684/wk salary)	Must pass all 3 DOL tests: salary basis, salary level, AND duties.
Ministerial	No	No	Role must convey the church's message and carry out its mission. Determined case by case.

The 3-Part DOL Test for Exempt Status

A salaried employee can only be classified as Exempt if all three tests are satisfied:

- **Salary Basis** — paid a fixed, predetermined salary not subject to reduction based on work quality or quantity.
- **Salary Level** — must earn at least $684/week ($35,568/year). Note: a 2024 attempt to raise this threshold was struck down by a federal court in November 2024. The current limit remains $35,568.
- **Duties Test** — primary duties must qualify as Executive, Administrative, or Professional. Meeting one of the three is sufficient.

Part-time status does not change FLSA classification. A part-time non-exempt employee still earns overtime for any hours exceeding 40 in a workweek.

NOTE

About the Ministerial Classification

Pastors, worship leaders, and Christian education directors typically qualify. The test is function, not title: does this person convey the church's message and carry out its mission?

Administrative assistants, custodians, and daycare workers generally do not qualify, even at a church. When in doubt, contact your ChurchBiz team before assuming ministerial status applies.

INFO

Independent Contractors: A Different Process

This payroll onboarding guide applies to **W-2 employees only**. Independent contractors do not go through this process.

Contractors should be set up as a **vendor in Bill.com**, the same way you would add any other vendor. Payments are tracked separately, and contractors paid $2000 or more in a calendar year will require a **1099-NEC** at year end. If you are unsure whether a worker should be classified as an employee or contractor, please contact us before engaging them.

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02 What We Need from You to Set Up Payroll

When a new employee starts, your ChurchBiz team will send you a **secure intake form (Jotform)**. Please complete it accurately before their first pay period. Here is what we collect:

Employee & Pay Info

- Employee name, email address, and start date
- FLSA classification (non-exempt / exempt / ministerial)
- Pay schedule (monthly, semi-monthly, etc.)
- Compensation type and amount (hourly rate or annual salary)
- Housing allowance amount (if applicable for ministers)

Benefits & Deductions

- Additional pay types (cell phone reimbursement, SS offset, medical allowance)
- Pre-tax deductions: medical, dental, vision, retirement, HSA
- Post-tax deductions: Roth retirement, voluntary life insurance
- Employer contributions: medical, dental, retirement, HSA

IMPORTANT

Non-Taxable Benefits Require a Formal Plan

Cell phone reimbursements are non-taxable only under an IRS-approved accountable plan. **Medical allowances** are non-taxable only through a qualifying arrangement such as an ICHRA or QSEHRA. Simply adding extra cash to a paycheck labeled as a benefit creates taxable wages. If you are unsure whether your plan qualifies, please ask us before we configure the setup.

03 Our Payroll Onboarding Process

Once we receive your completed intake form, here is what happens step by step:

1

Review & quality check

We review your submission for completeness and flag any classification questions or missing details before proceeding. If anything looks off, we will contact you before setting up payroll.

2

Employee setup in QuickBooks Online + Workforce Invite

Using your intake form as the source of truth, we configure the employee record in QBO Payroll — pay schedule, compensation, housing allowance, deductions, and employer contributions.

We then send the employee a **QBO Workforce invitation** to the email you provided. The employee receives a secure self-setup link that takes them directly into QuickBooks Workforce, where they enter the following themselves — without ChurchBiz ever handling this sensitive data:

- **Direct deposit** — routing and account numbers entered securely by the employee directly into QBO
- **W-4 withholding elections** — filing status, dependents, and additional withholding chosen by the employee
- Home address, emergency contact, and personal profile information

This self-service approach keeps sensitive banking and tax information out of email entirely. The employee controls their own data; ChurchBiz never sees routing numbers or withholding elections. W-4 responsibility stays where it legally belongs: with the employee.

3 **Post-onboarding tax verification**

After the employee completes their W-4, we return to QBO to verify all tax settings are correctly configured:

- **SUTA** (State Unemployment Tax) is confirmed as exempt for all employees.
- For **ministers receiving a housing allowance**, Social Security and Medicare are confirmed as checked.

If the Workforce invite expires or goes to spam, we can resend from the employee's payroll profile in QBO. Please let your employee know to expect it.

4 **First payroll confirmation**

We confirm the employee is correctly included in your next scheduled payroll run and that all amounts, deductions, and contributions match your intake form before any payment is processed.

04 Your Compliance Responsibilities

ChurchBiz manages payroll setup and processing — but several compliance items remain your legal responsibility as the employer:

- **I-9 Employment Eligibility Verification** — You must verify each new employee's eligibility to work in the U.S. within 3 business days of their start date. ChurchBiz does not collect or store I-9 forms. Contact your HR consultant or legal counsel for guidance.
- **Signed Offer Letters / Employment Agreements** — Keep a signed copy on file. These document the agreed terms and support your FLSA classification decisions.
- **Accountable Plan Documentation** — If you reimburse employees for business expenses (cell phone, mileage, etc.) as non-taxable, you must maintain a written accountable plan policy meeting IRS requirements.
- **Housing Allowance Board Resolution** — If a minister receives a housing allowance, the church board must formally designate the amount in advance through an annual board resolution — before the pay period in which the allowance is first paid.

REMINDER

When in Doubt, Ask Us First

Misclassifying an employee, failing to track overtime, or paying a benefit without a qualifying plan can result in back taxes, penalties, and legal exposure for your church.

Our team reviews every new employee setup — but we rely on the information you provide. If you are uncertain about any classification or benefit treatment, reach out to your ChurchBiz contact before the employee's first payroll run.

Questions about payroll setup? We are here to help.

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