

Volunteer Benefits, Stipends, and Taxes

Overview

Whether you're an old hand or a new staff member at your volunteer program, you've likely encountered the uncertainty surrounding volunteer benefits, stipends, and taxes. In this **FAQ Resource**, we'll try to untangle as many knots as we can, though our main question is:

Are the stipends and benefits I provide to my volunteers considered taxable income?

We have no blanket answer here, as the value of benefits received by volunteers varies with each program. These benefits can include *cash stipends, meals, lodging, transportation benefits, end-of-year education awards or bonuses, health insurance, gym memberships, and even cell phones* – to name a few. Generally speaking, it is wise to be conservative, and assume the government will desire its share of any compensation you provide volunteers.

The good news is that this tax responsibility is often less than imagined. Even with a generous stipend, for instance, most volunteers simply do not earn enough within a year to owe significant personal income tax (FICA contributions aside). The many tax exceptions applying to employees apply also to volunteers, allowing programs to provide essential benefits like meals, lodging, and health insurance tax-free. While not specific to taxes, it is also worth noting that our federal government historically recognizes the benefit of volunteerism and “does not seek to pose unnecessary obstacles to bona fide volunteer efforts for charitable and public purposes” (U.S. Dept. of Labor).

It is true that we still lack definitive IRS guidance regarding volunteers and taxes. However, many volunteer programs have successfully addressed similar concerns – and we will attempt the same now.

FAQs

Why do my volunteers need to worry about taxes?

Volunteers receive living allowances, meals, and lodgings, among other benefits. Unless these benefits fall under a certain exception in the IRS Tax Code, they are treated as taxable income.

Are my volunteers considered “employees” for purposes of the IRS Tax Code?

Attorney Lisa Gilden of the Catholic Health Association of the U.S. (former CVN Board Member) called this a grey area. “The majority would claim volunteers do meet the IRS test for being an employee, while the minority would hold volunteers as ‘independent contractors.’” (Gilden)

- If “Employee” – Issue **W-2** and employer must withhold applicable taxes and FICA contributions
- If “Independent Contractor” – Issue **Form 1099** and volunteer withholds taxes and FICA

What types of payments must be reported as taxable income (either on Form W-2 or 1099)?

CVN Position: “**Treat payments to volunteers the same as payments to employees...** absent an exception from federal or state tax laws, you must withhold income taxes and FICA (Social Security and Medicare) contributions from the compensation you pay your volunteers. Living allowances, stipends, post-service benefits, and in-kind benefits are usually treated like wages... In-kind benefits are taxable and must be assigned a dollar value (Amount a volunteer would pay for the item at a local store)” (CVN).

What tax exceptions do I need to know about?

1. Meal and Lodging Exception

- Meals provided **by the program, for its convenience, at the program premises** are tax-free. However, feeding volunteers at restaurants could turn into taxable income.
- Lodging when provided **as a necessity and requirement** for the program is tax-free. Housing must further goals of the program rather than merely provide shelter.

2. Health and Accident Insurance Exception

- Generally, health and accident insurance can be provided tax-free.

3. De Minimis Exception

- Generally, inexpensive items, such as holiday/birthday gifts, snacks, logo wear, etc. are tax-free. The more expensive the gift, the less likely it will be considered de minimis

Also, Child care is not subject to tax if it meets certain IRS guide.

Will issuing W-2s / 1099s convert my volunteers into “employees?”

Most stipends and benefits are nominal enough (or tax-excepted), that the line between volunteer and “employee” remains clear. The larger the benefits, the more likely your volunteers will be considered “employees” – which can open the door to other wage and hour issues and liabilities.

Will my volunteers owe federal taxes on stipends / living allowance?

CVN’s advice is to withhold federal income taxes and FICA (Social Security and Medicare) from stipends. *The 2017 Social Security tax rate is 6.2% each for the employee and employer. The 2017 Medicare tax rate is 1.45% each for the employee and employer.* Some programs calculate gross stipend amounts so that after withholding, the resulting amount is an even number, i.e. \$200 per volunteer, per month.

Will my volunteers receive a federal tax refund?

Each individual’s tax situation is different. However, after receiving W-2s and filing, volunteers often haven’t earned enough to owe income tax (see IRS Table 1.1) and may receive a federal tax refund. Volunteers receiving 1099s are responsible for filing if they earn over \$500 in a year, and are responsible for withholding their own FICA contributions. Make sure volunteers understand this responsibility!

Some programs share that their volunteers do recover tax money at the end of the year, usually when receiving stipends between \$100 and \$200 per month.

Are end of year bonuses / cash awards taxable?

Similar to stipends, you must withhold income taxes and FICA (Social Security and Medicare) contributions from any and all compensation you pay your volunteers, including larger awards.

Are scholarships taxable?

If the volunteer performs work/labor and receives a scholarship in compensations on behalf of the grant program or institution most likely the scholarship will be taxed (e.g. a graduate student who is required to teach in exchange for a scholarship is taxed). Scholarships that are given in addition to living allowances are less likely to be taxed. **The Internal Revenue Code exempts "qualified scholarships" from tax. Scholarships based exclusively on merit or need are "qualified."**

- "Qualified" scholarships are taxable unless used for permitted purposes. (Example: tuition, fees, books, supplies and equipment required for courses of instruction.)
- The IRS taxes part of "Qualified" scholarships that are used for living expenses and/or other non-qualifying purposes. (CVN)

Do volunteers serving internationally have to pay taxes on stipends and benefits?

We have been unable to locate clear guidelines on this issue. While anecdotal evidence suggests that some volunteers are not taxed, conservatively speaking, you must withhold taxes and FICA as if the volunteers were serving within the U.S.

Are reimbursements to volunteers taxable?

"Reimbursements to volunteers are taxable to the same extent as reimbursements to employees. Only if the expense qualifies as a tax deduction for an employee does it avoid tax. While reimbursements for ordinary living expenses like food, clothing and commuting to/from home are generally taxable income, an exception is allowed if an individual is traveling away from home on temporary assignment for the program (which is usually the case for Catholic Volunteer Network-affiliated programs) The IRS has consistently ruled assignments of one year or less to be temporary" (How Can I Help?).

What is the official IRS position on volunteers?

The IRS Publication 525 briefly addresses tax guidelines for members of federally-funded programs such as SCORE, Peace Corps, and VISTA. However, we have not located guidelines for members of private or faith-based service programs at this time, and recommend proceeding as if volunteers were employees.

Why are tax laws regarding volunteers and employees so unclear?

Most laws in our country agree that employees receive payment for their services, while volunteers do not. However, many laws do not necessarily distinguish between the two: "Under the Fair Labor

Standards Act (FLSA), the term ‘employee’ is defined as ‘any individual employed by an employer.’ The term ‘employ’ is then defined as ‘to suffer or permit to work.’ Would this cover a volunteer? (Gilden)”

To establish the difference within your program, The Nonprofit Risk Management Center advises “Volunteer roles should be defined in position descriptions or volunteer agreements that emphasize volunteer status and make it clear that no compensation will be provided.” (Herman)

Remember the Rule of Three: True Volunteers are those who: (1) work toward public service, religious, or humanitarian objectives; (2) do not expect or receive compensation for services; and (3) do not displace any genuine employees.

Thanks for reading!



The information included in this article is intended as a general overview of the law and does not constitute legal or financial advice or opinion. The information is not intended to address specific factual situations or individual problems or issues. You are encouraged to seek professional legal or financial advice before making any decision based on the topics discussed in this article.

Works Cited

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