

Taxation of Volunteers Tip Sheet

Revised 2017

General Tax Rules:

- Must withhold income taxes and FICA (Social Security and Medicare) contributions from the compensation paid to the volunteers.
- Living allowances, stipends, post-service benefits, and in-kind benefits are commonly treated similar to wages.
- The Internal Revenue Code contains a number of exceptions that allow some items not to be taxed.
- Some federally funded programs provide exceptions in their legislation.
- Some volunteers may not earn enough during the year of service to owe any income tax (FICA must still be paid).

2017 Social Security Tax

- 6.2% salary and wages will be withheld for Social Security Tax (unchanged from 2016)

2017 Medicare Tax

- 1.45% of every dollar of salary or wages the volunteer obtains.
- 1.45% on every dollar of every volunteer's salary or wages for the employer.
- Combined Medicare tax for 2017 remains at 2.9% on all volunteers' earnings

Allowances, Stipends and Other Payments during Service

- They are taxable under the Internal Revenue Code.
- They are subject to FICA withholdings.

Non-Cash Benefits

- Meals and lodging are exempt from taxes if they meet the following tests:
 - *Meals*: Provided for the convenience of the program and are served on the program premises (no restaurants).
 - *Lodging*: Provided to recipients who are required to accept the lodging as a condition of their service to enable them to better perform their duties.
- Child care is not subject to tax if it meets certain IRS guide.
- Inexpensive items may be excludable from income as *de minimis* fringe benefits.
- In-kind benefits are taxable and must be assigned a dollar value (Amount a volunteer would pay for the item at a local store).

Scholarships

- The Internal Revenue Code exempts "qualified scholarships" from tax.
- 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. (Example: 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.
- 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.
- Benefits will be taxed even though volunteers never receive any cash directly.
- Volunteers credited with the value of scholarship becomes liable for federal and state taxes on the scholarship.
- The grant program/instruction is ordinarily responsible for withholding the tax.
- Tax liability arises when a volunteer receives the benefit.
- Instruct volunteers to budget for the upcoming tax liability.

Reimbursement

- Reimbursements to volunteers are taxable to the same extent as reimbursements to employees.
- Expenses that qualify as a tax deduction for an employee avoid tax.
- 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.
- Always check your State taxes rules for additional information. This is because states may have different additional rules.

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.

Citation

"Archived: Managing Volunteers Within the Law: Taxation." *U.S. Department of Education*. Web. 01 July 2011. <<http://www2.ed.gov/inits/americanreads/resourcekit/ManageVolunteers/taxation.html>>.

Rypkema, Pam. "Managing Volunteer Liability." *Lay Missions Series*, . 4th ed. Vol. 2. Washington: Catholic Volunteer. Web.

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