

CHARITABLE CONTRIBUTIONS

The local church is a **tax-exempt 501(c)(3) organization** through its cooperation with the KNCSB and its group income tax exemption. When a mission is incorporated and constituted as a church, it must petition the KNCSB for approval at its annual meeting to become a cooperating Southern Baptist church. In addition the church must send a letter to the business office of the KNCSB requesting to be included under its group 501(c)(3) income tax exemption. The KNCSB files an annual report with the IRS listing all cooperating churches and other entities covered by the 501(c)(3) income tax exemption. Missions are protected by their relationship to the sponsoring church. It is very important that a mission have a sponsoring church in order to be covered by the 501(c)(3) income tax exemption.

The church is funded by charitable contributions; therefore, it is very important for church leaders, members and donors to understand that there are some basic **requirements** that charitable contributions must satisfy in order to be tax deductible:

1. The contribution must be **cash or property** and **not for personal services rendered**.

The value of personal services is **never** deductible as a charitable contribution.

The value of rent-free building space provided a church **cannot** be claimed as a charitable contribution.

2. The contribution must be claimed by the donor as a tax deduction **in the year it was made**.

Generally a contribution is made at the time of delivery.

A check that is mailed is considered delivered on the date it is mailed (postmarked).

3. The contribution must be **unconditional without any personal benefit** to the donor.

In a legal sense the donor must absolutely and irrevocably divest him/herself of title, dominion and control over the contribution.

4. The contribution must be made **to or for the use of a qualified tax-exempt charitable organization**.

Contributions made directly to individuals are not deductible.

Contributions made for individuals through the North American Mission Board and the International Mission Board are deductible, as they were given "for the use of" a qualified organization.

5. The contribution must be **within the allowable legal limits** as specified by the Internal Revenue Service.

Some contributions that exceed the limits **can be carried over** to future years.

6. The contribution must be **properly documented**.

It is equally important for church leaders, members and donors to understand the meaning of "Restricted" and "Designated" funds .

Restricted and Designated Funds

Restricted Funds:

Restricted funds are charitable contributions (as defined above) whose use is restricted by donors to churches. The church has no discretion in the management and disbursement of such funds. Examples of such restricted funds would be the offerings for North American Missions (Annie Armstrong), International Missions (Lottie Moon) and State/Associational Missions (Viola Webb).

Designated Funds:

Designated funds are charitable contributions (as defined above) with the stipulation (designation and/or action of setting aside) that they be used for a specified purpose (i.e., an approved project, program and/or ministry of the church). Examples of such funds would be any fund that is established by the church in an official business meeting.

Donors make contributions to a church designating how the contribution is to be spent. Such gifts can be for a church-approved building fund, missions fund, organ fund, etc. It is very important to note that restricted/designated contributions are held by the church "in trust" for the specific purpose outlined by the donor. **The church in an official business meeting should approve all such funds.**

Policy for Restricted/Designated Funds:

The church should not automatically accept restricted/designated funds as tax-deductible charitable contributions. The church should adopt a policy for receiving and disbursing restricted and designated funds. The policy is to insure that funds are truly tax-deductible charitable contributions and not received for purposes contrary to the ongoing ministries of the organization and ultimately become funds that are not useable. Such a policy should **avoid receiving funds for the same purpose as specific line items in the budget** (note below). The policy for restricted/designated funds should encompass the following steps:

1. Define procedures for the establishment of a specific Restricted/Designated fund.
 - a. Counters/tellers should observe the gift during the counting process, as it is a gift to a new restricted/designated fund.
 - b. The counters/tellers should record the gift on the count sheet in red or highlight the description and amount as a potentially new fund. It is important to note that the counters/tellers are not authorized to approve a gift to a new designated fund.
 - c. The treasurer should temporarily deposit the gift in a category entitled Miscellaneous Designated.
 - d. The treasurer should determine if the gift is a tax-deductible charitable contribution and is compatible with the mission of the church. In any event the treasurer should present the gift with a recommendation to the finance committee for a decision.
 - e. If the finance committee determines the gift is acceptable as designated, then they should present the request for a new designated fund to the church during the next regular and/or special business meeting for approval and activation to receive gifts from all of the church membership and others **over and above tithes and offerings.**
 - f. If not, the donor should be contacted and encouraged to redirect the gift to an existing fund or use within the budget. If that is not possible the gift should be returned.
2. Prepare a complete **description** of the fund.

The description should be written in such a manner as to clarify the use of the fund within the designation. The fund must be advertised and promoted for the same purpose to receive contributions as contained in the written description of the fund. In addition

provision needs to be made for the use of any funds left over following completion of the specified use.

The fund could be quite specific such as a “new sanctuary fund” and following the construction of the new sanctuary transfer remaining funds to the budget or a “building fund” which could be described in more detail as a new construction/remodeling/maintenance fund.

3. Determine the time for the funds to be used.

The time for certain projects needs to be established and provisions made for the use of funds after the specified time ends.

It is extremely important that church leadership exercise all possible care to keep the number of restricted and designated funds to a minimum. The presence of restricted and designated funds always poses the problem of drawing funds away from the unified budget of the church. This is due to the fact that many Christians newly involved in church life tend to give to what appeals or is important to them and not the ongoing less glamorous operation of the budget.

In addition the monthly financial reports to the church should keep the restricted and designated funds separate from the operating portion of the budget. It is important to help the membership and visitors understand that any dollar amounts held in trust (in restricted and/or designated funds) are not available to assist the church in meeting budget needs for the operations of the church.

Funds Held in Trust for Specific Purpose:

What if a donor contributed \$500 to a “new sanctuary fund” of the First Baptist Church and the church later decides not to build a new sanctuary as designed by the architect? Such contributions are specifically conditioned upon the church building a new sanctuary as designed. When the church later decides not to build the new sanctuary and instead builds new educational space, the condition has been changed and the gift is revocable at the option of the donor. Churches must provide donors with the options in order to avoid violating their legal responsibility to use “trust funds” only for the purposes specified when the funds were received. Some options are as follows:

- The contribution can be retained, as the church still plans to build a new sanctuary at some time in the future.
- If the donors can be identified, they should be asked if they would like to change the designation of their gift to be used for the new educational space or for another purpose.

The church should request the donor's decision in writing in order to avoid any misunderstandings.

A church may not be able to identify all of the donors who contributed to a specific fund. This can often be the case when some persons donated cash gifts without any identification and/or the gifts were made many years prior to the church abandoning the plans to build, etc. The donors may have moved, or records are too old or have been destroyed and therefore contact is not possible. In such an event the church should have an official business meeting to decide how such funds should be handled.

NOTE: This procedure is only appropriate for that portion of any fund that cannot be identified to specific donors.

Love Offerings

The meaning of a “love offering” is an offering that is given from the heart to someone that has ministered to that very heart and is not given simply because it is a tax-deductible charitable contribution. Love offerings are used quite frequently in a church to financially support people called to ministry as evangelists, musicians, other guest speakers, etc. The church must approve the revival or other event that is scheduled during which a “love offering” is taken as a means of legitimately compensating the person involved for his/her ministry.

The offering is made available to all church members and other attendees in which to participate as they feel led. The fund should be advertised and promoted to receive gifts over and above tithes and offerings and should last until the event has occurred or the specific need met. All cash and checks given during this offering must be in an envelope with the donor's name and purpose of the gift in order to receive a tax-deductible charitable contribution receipt. Just writing a check to someone you really like and appreciate their ministry and giving it through the church does not qualify the gift as a tax-deductible charitable contribution.

A one-time special "love offering" for a staff member can be made available to all church members and others, who wish to participate. If the "love offering" is received and designated for an individual for any occasion and the donor's are not given a tax-deductible charitable contribution receipt, then the gift to the minister (recipient) is not considered taxable income. The reverse is true if the donors are given a tax-deductible charitable contribution receipt. The gift must then be considered income to the recipient. If contributions are made for various staff members and the church has control as to the amount each staff receives then the gift is a contribution and is taxable compensation to the staff.

Gifts for Mission Trips

The mission trip, whether scheduled in the United States or to a foreign country, must be approved by the church in a regular or specially-called business meeting. The trip must be for a specific ministry purpose and not just a trip for entertainment and relaxation. Once the trip has been approved by the church (as a designated fund), offerings to fund the trip can be received from the membership and others as they feel led even though they may not be going on the trip. The fund should be advertised and promoted to receive gifts over and above tithes and offerings and should last until the event has occurred or the specific need met. The checks to support the mission trip need to be made payable to the church. Cash and checks given for the trip should be contained in an envelope with the donor's name and purpose of the gift in order to receive a tax-deductible charitable contribution receipt. Costs incurred by the individual going on the trip are deductible as a charitable contribution also. If any part of the mission trip is for entertainment that portion would not be deductible.

Gifts for Budgeted Items

The church should not accept gifts designated for any budgeted line item. Circumstances can develop where a church has needs for more funds than has been budgeted for any specific line item. One example is the need to send additional persons to special training events such as Glorieta and Ridgecrest, etc. It is suggested that the church approve the creation of a temporary designated fund to receive tax-deductible charitable contributions from all church members and others. The fund should be advertised and promoted to receive gifts over and above tithes and offerings and should last until the event has occurred or the specific need met. This experience should be specifically noted for the next budget preparation committee to consider. The procedures for establishing designated funds previously presented should be followed.

This procedure is not acceptable for gifts given to support a specific minister or staff member; as any contribution to a specific staff person is not considered a tax-deductible charitable contribution. The church budget should clearly reflect the total amount of remuneration (salary, housing allowance, etc.) to be paid to a specific minister or staff member, and special gifts received over and above such amount are not considered tax-deductible charitable contributions.

This procedure of setting up designated funds should not be considered a standard practice, as disgruntled churchgoers tend to give **to their special interests** rather than supporting the church budget. It is suggested that we educate and train church members and others to give to the unified budget – that has been properly approved by the church following adequate questions and discussion. All designated funds should be approved in a regular or specially-called business meeting of the church.

Bankruptcy of Donors

We have experienced some bankruptcy trustees asking churches to return contributions made by a bankrupt donor. Federal law gives bankruptcy trustees the **power to “set aside” transfers** by bankrupt debtors for less than fair value during the twelve months preceding the filing of a bankruptcy petition. Therefore contributions made by church members to their church within a year before filing a bankruptcy petition are now subject to recovery by a bankruptcy court.

Individual Cash Contributions of \$250 or More

Donors are **no longer permitted** to substantiate individual cash contributions of \$250 or more with canceled checks.

Substantiation rules deny a deduction for individual contributions of \$250 or more unless the donor "substantiates the contribution" by a written acknowledgment of the contribution from the donee organization." **We recommend that the church acknowledge all charitable contributions by written receipt.**

Please note that the standard five-part "record of contribution" form that many churches are using is acceptable. **Each check must be listed** and a statement must be included on the final record of contribution sent to the church members such as, "**Cash Contribution for Intangible Religious Benefits Only.**"

It is not necessary to list a donor's Social Security number on the written acknowledgment. Further, a church's written **acknowledgment must be issued only to the donors.**

The written acknowledgment must be **received by the donor** on or before the **earlier** of the following two dates:

- The date the donor files a tax return claiming a deduction for the contribution or
- The due date (including extension) for filing the return.

Since the churches do not know when donors will be filing their tax returns , we suggest issuing written acknowledgment of contributions to donors on or before January 15 of each year for contributions made during the preceding year. If the process will take longer, it is recommended that churches advise donors on or before January 15 of each year not to file their current year income tax returns until they have received a written acknowledgment of their contributions to the church to avoid jeopardizing the tax deductibility of charitable contributions. This communication should be in writing. To illustrate, the following statement could be placed in the church bulletin and/or newsletter for the last few weeks of the current year:

Important Notice: To ensure the deductibility of your church contributions, **please do not file your income tax return until you have received written acknowledgment of your contributions from the church.** Under existing rules you may **lose a deduction** for some contributions if you file your tax return before receiving written acknowledgment of your contributions.

Contributions of Property

Special rules apply for non-cash contributions of **\$250 or more**. When property valued at **\$250** or more is given to the church, the church must issue **written acknowledgment** for the non-cash contribution. Such receipt should contain the following information:

- **Date** property was received;
- Complete **description** of the property including model year, serial numbers;
- **Condition** of the property.

The church **should not** set the value of the property. It is suggested that an individual letter be prepared and sent to the donor for each contribution within five (5) working days upon receipt of the property.

If the non-cash value is **\$500 to \$1,000**, there are additional filing requirements.

If the non-cash value is **more than \$5,000**, the donor must obtain a qualified appraisal.

Quid Pro Quo Contributions

A *quid pro quo* contribution is a payment made to a church which is partly for a contribution and partly in exchange for goods and services. Any such contribution of insubstantial value does not require a written acknowledgment from the church setting forth the value given in exchange for a contribution.

Any contribution more than insubstantial value in exchange for goods and services requires a written acknowledgement to the donor providing a "**good faith estimate**," stating the amount of the goods and services given to the donor. Such acknowledgement must further inform the donor that the tax-deductible portion of the contribution is the excess of the value of such goods and services.

The rule does not apply if only small token items with a low cost (bookmarks, key chains, mugs, etc.) are provided to the donor.

The tax law defines what is an insubstantial value and a low cost item. These are indexed for inflation, and you should check with the Internal Revenue Service or your tax advisor for the current amounts.