



Charitable Contributions

alsbom.org/ccs. Administrator Resources

SUBSTANTIATION AND DESIGNATED CONTRIBUTION RULES

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Six requirements for charitable contributions

1. a gift of cash or property
2. claimed as a deduction in the year in which the contribution is made
3. the contribution is unconditional and without personal benefit to the donor



Six requirements for charitable contributions

4. the contribution is made “to or for the use of” a qualified charity
5. the contribution is within the allowable legal limits
6. the contribution is properly substantiated



#1 Gift of Cash or Property

1. **Cash gift** – cash, checks, bank transactions - recorded on Contribution Statement
2. **Property** – any non-cash. **Recorded separately from Cash Gifts.** Do not give gifts of property a value – Donor responsibility.
3. Time and Labor are not deductible
4. The use of something is not deductible



#3 & 4 Church Control

1. Unconditional. Any designated gift must be to a pre-approved fund
2. Cannot designate an individual.
3. Cannot be to a church staff member unless church establishes the love offering and controls the love offering. Church decides who gets what and the maximum.
4. Church policies set conditions for designated offerings



#3 & 4 Church Control

1. Love offering for benevolence?
2. The church must control through the benevolence team
3. Instruct the church to simply write “benevolence” in the “for” line
4. Instruct the church that if more is received than needed, they would help additional people.



Benevolence

1. IRS Publication 1828 requires the church to use the money exclusively for its purposes.
2. IRS Publication 1828 also warns about providing private benefit.
3. So if the church benevolence offering was \$2000 and the actual need was \$1000, the benevolence team would provide for the need and use the rest to help others.
4. To give the person the entire \$2000 would be an improper use of the church's money.



Contributions Not Deductible

1. **Contribution designated to a specific individual**
2. Contribution to a non-qualified organization
3. Part of contribution from which you receive personal benefit
4. Value of time or services
5. Contributions of the use of property

Page 48

A Mission Trip is Tax Deductible

page 49

- ▶ Camps, Retreats, etc are not – Personal Benefit
- ▶ Mission Trip – not personal benefit as long as there is “no significant element of personal pleasure or vacation
- ▶ Richard Hammar recommends at least a 6 hour work day or 80% of the itinerary devoted to the mission work.

Mission Trip Contribution

1. Adult paying for their own mission trip is tax deductible (non-refundable).
2. Church members not going may donate to the mission trip fund but cannot designate a particular person and that donation is tax deductible.
3. Adult paying for their own teenager to go is not tax deductible unless the funds are made in “trust” or in a legally enforceable arrangement for the benefit of the church.”

This means that we need to inform parents at the planning stage that they are donating to the church unconditionally and that they cannot get their money back. This should be in writing.

Foreign Activities - Concerns

1. Private Benefit/Inurement. Reasonable salaries for that location
 2. Political Activities
 3. Illegal Activities. In some countries, we are the illegal activity
 4. Homeland security is very concerned about money sent to other countries that cannot be accounted for.
- ▶ Organization with an “equivalency determination.” – Attorney can do this. Renew every 2 years
 - ▶ Reporting requirements
 - ▶ Keep receipts
 - ▶ Records of activities
 - ▶ Pictures

Foreign Activities

- ▶ Paying an American citizen direct doing overseas mission work
 - ▶ Volunteer or
 - ▶ Paid – 1099 or W-2
- ▶ Paying a Foreign National
 - ▶ In the US. May pay travel expenses, but additional is probably a violation of their travel visa – need a R-1 religious worker visa
 - ▶ Or use IRS form 1042 subject to backup withholding of 30%
 - ▶ In another country – no reporting but record keeping requirements

Check SDN List

Individuals

- ▶ Check Specially Designated Nationals list at www.treasury.gov
- ▶ Take a screen shot of the page showing the person is not on the list

Countries

- ▶ Check Sanctions list at www.treasury.gov



Repurposing Designated Money

- ▶ Repurposing designated money requires 2 steps – page 49
 1. A vote of the church
 2. Obtaining permission from the donors
 - You cannot borrow the funds either
 - “If you repurpose the funds without all the donor’s permission or the court’s permission, then in some states it is called fraud and in other states its called theft. The penalties are assessed against the individuals who wrongfully repurposed those funds.” – Frank Sommerville



Repurposing Designated Money

- ▶ Repurposing designated money that originated from church action is not a problem
- ▶ For example:
- ▶ The church contributes \$1000 each month to a contingency fund or emergency fund from the general fund.
- ▶ Those amounts could be changed or repurposed.



Designated Contribution Rules

1. All designated funds must be approved in advance of contribution.
 2. All designated funds are under the control of the church
 3. Have an exit strategy for some funds. Leftover funds from a project revert back to the general fund (suggestion)
 4. If a designation is not an approved fund, the church will not accept the gift.
- See page 51



Designated Contribution Rules

5. A designated offering may not be for a specific person (except mission trip). A person may suggest a need but must be willing to allow the benevolence committee or other appropriate committee to decide how to best use the money.
6. A mission trip is a tax deductible event as long as there is no significant amount of personal pleasure or vacation. Gifts given by persons going or even by family members are deductible.
7. Gifts given toward a mission trip will benefit others going or revert to the general fund if the participant does not go.

► See page 51



Designated Contribution Rules

8. Designated funds should be broad rather than narrow in focus. Building Fund rather than Family Life Center Fund; Music fund rather than choir robe fund, etc. (suggestion)
9. Staff love offerings are under church control.
10. Discuss a designated offering to a budget line. Does the church allow that? Does it increase the budget line? Or is it simply the first money spent and assuring that there are dollars available for that budget line if cash flow is tight? Does it carry over to next year? (Note: most churches allow this practice, but it can be a dangerous one.)

► See page 51



Substantiation

- **Contribution statements must be received before the return is filed by taxpayer**
- **Contemporaneous**
- “Recipient organizations typically send written acknowledgments to donors no later than January 31 of the year following the donation.”
- A recommendation, not a legal requirement.

Page 52

IRS Publication 1771, page 4



Substantiation - Requirements

1. name of organization
2. Date (each contribution itemized)
3. amount of cash contribution
4. description (but not the value) of non-cash contribution
5. statement that no goods or services were provided by the organization in return for the contribution, if that was the case

Page 52

IRS Publication 1771, page 3



Substantiation - Requirements

6. description and good faith estimate of the value of goods or services, if any, that an organization provided in return for the contribution
- ▶ Alternate Wording: statement that goods or services, if any, that an organization provided in return for the contribution consisted entirely of intangible religious benefits, if that was the case



Substantiation

- ▶ **Less than \$250 the IRS will accept:**
 - A canceled check.
 - A receipt **or** letter from church. It must have the church's name, the amount and the date
- ▶ **\$250 or more the IRS will only accept a receipt from church**
- ▶ **See page 52**



Substantiation - wording

- ▶ Must state **“No goods or services were provided to the donor in exchange for contribution.”**
 - ▶ or **“Only intangible religious benefits were provided to the donor in exchange for contribution.”**
- Financial Issues, page 52
 - IRS Publication 1771, page 3



Substantiation - wording

- **Examples of Written Acknowledgments**
- “Thank you for your cash contribution of \$300 that (organization’s name) received on December 12, 2021. No goods or services were provided in exchange for your contribution.”

See pages 56-58
IRS Publication 1771, page 9



Substantiation - Form

- There are no IRS forms for the acknowledgment. Letters, postcards, or computer-generated forms with the above information are acceptable.
- An organization can provide either a paper copy of the acknowledgment to the donor, or an organization can provide the acknowledgment **electronically, such as via an e-mail addressed to the donor.**



Substantiation – Non-cash

1. Includes crayons from Wal-Mart, jewelry, publicly traded stock, cars, real property, etc.
2. The church should not determine the value; that is the donor's responsibility
3. Do not include on the contribution statement (unless your software has a section for non-cash contributions)



Goods and Services

► Examples of fund raisers in which goods or services are received in exchange

1. Car Wash
2. Youth Spaghetti Dinner
3. Bake Sale
4. Golf Tournament



Quid Pro Quo – this for that

- **No receipt needed unless donation is more than \$75**
- **Must subtract the fair market value of the item even if it cost the church nothing. Example: Church receives donated food and labor for a fund raising dinner. Members “contribute” \$10. $\$10 \text{ minus } \$10 \text{ value} = \$0 \text{ donation}$**
- **$\$100 \text{ plate} - \$10 \text{ value} = \$90 \text{ contribution}$**

Non-Cash Gift checklist, page 56

Key Concepts

1. This is a gift of property, not cash. Do not post on the contribution statement (unless your computer software includes a section for non-cash contributions). Give a receipt or letter.
2. Do not give a value to the donation.

Checklist

1. Give a receipt or letter when received. (On church letterhead) “Thank you for your contribution of a _____ received by _____ Baptist Church on September 12, 2019. No goods or services were provided in exchange for your contribution.”
 - A. This must also include (1) a description of the property and (2) the location of the property if applicable.
 - B. If less than the donor’s entire interest in property is donated during current year, you must include an explanation of total amount claimed as a deduction in current year.
 - C. You must include the terms of any agreement between donor and church relating to use, sale, or disposition of property.

Non-Cash Gift checklist

2. If valued at more than \$500 donor must complete IRS form 8283 Section A, Part 1.

If the value exceeds \$500 donor must also include (1) a **detailed** description of the property, (2) the fair market value of the property at time of the contribution, including description of how the value was determined (3) Cost or other basis of property. Form 8283.

3. If valued at more than \$5000:

- a. Donor must obtain a qualified appraisal.
- b. Donor must complete IRS form 8283 Section A and Section B.
- c. Qualified appraiser must complete Part III Declaration of Appraiser.
- d. Church must complete Part IV Donee Acknowledgement.

4. If the church sells the property (valued more than \$500) within 3 years the church must complete IRS Form 8282 within 125 days of the sale.

See www.irs.gov for more information. IRS Publication 526

Car donation, page 57

► **Key Concepts**

- This is a gift of property, not cash. Do not post on the contribution statement. Give a receipt in the form of a letter or a 1098-C. (1098-C required if more than \$500).
- Do not give a value to the donation.
- A donation of a vehicle (car, boat, motorcycle, airplane, etc.) may not have the same tax advantages as a few years ago. In most cases, if the church sells the car within 3 years, the donor will only be able to deduct the amount of the sale price. A few churches will not accept an automobile due to the record keeping requirements.

Gift of Publicly Traded Stock, page 58

▶ **Key Concepts**

- ▶ This is a gift of property, not cash. Do not post on the contribution statement (unless your computer software includes a section for non-cash contributions). Give a receipt or letter.
- ▶ Do not give a value to the donation.
- ▶ A gift of publicly traded stock is a good way for the donor to give, receiving the full value of the stock as a deductible contribution, but not paying tax on the capital gain.
- ▶ The date should be the date stock certificate was received in church office or the date transferred into the church's brokerage account or if mailed the post mark date.


Resources

- ▶ 2021 Guide to Financial Issues, Baptist State Board of Missions
- ▶ 2021 Ultimate Legal & Tax Conference, Frank and Elaine Sommerville
- ▶ IRS: www.irs.gov
- ▶ IRS Publication 526: Charitable Contributions. www.irs.gov/pub/irs-pdf/p526.pdf
- ▶ IRS Publication 1771: Charitable Contributions Substantiation. www.irs.gov/pub/irs-pdf/p1771.pdf

Unique Tax Rules Minister Housing Allowance alsbom.org/ccs. Click on Administrator Resources

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Key Concepts

1. Dual Tax Status. The minister serving a church is an employee for federal purposes; self employed for Social Security Purposes
 2. The minister for tax purposes is entitled to a Housing Allowance
 3. The minister must pay his own Self Employment Tax
- 

Q&A about Minister's Housing Allowance


Lee Wright

Alabama Baptist State Board of Missions

800-264-1225 ext 241

GuideStone.org/compensationplanning


What is the Housing Allowance?

- ▶ Exclusion from income (exclusion, not a deduction)
 - ▶ Only church or church-related income (or denominational retirement income)
 - ▶ Excluded income for federal and state income tax
 - ▶ Subject to Self Employment tax
- 


Who is Eligible?

1. Ordained, licensed, commissioned
2. Conducts religious worship
3. Administers the ordinances
4. Management responsibilities
5. Considered to be a religious leader by the church
 - ▶ # 1 is required – the others are a balance test.


What is the Church's Responsibility?

1. Designate amount prior to paying minister
 2. Review annually
 3. Record it as set until changed by official decision
 4. Remember housing allowance limits
- 


Minister's Responsibilities?

1. Determine if they are eligible
 2. Understand the limits and the rules
 3. Present an estimate to the church
 4. Maintain records to substantiate every housing expense
 5. Report as income any excess
 6. Pay Self Employment tax
- 


Expenses eligible as housing

- ▶ See Compensation Planning Guide, page 14
 - ▶ Down payment
 - ▶ Payment including principle, interest, taxes, insurance
 - ▶ Utilities
 - ▶ Furnishings
 - ▶ Repairs and maintenance, remodeling
 - ▶ Homeowners association dues
- 

Expenses not eligible for housing

- ▶ Food and domestic help
 - ▶ Second home. Housing available only for principle residence
 - ▶ Home equity loan is eligible if used for repairs or improvements, not eligible if used for non-housing purposes
- 

How much can ministers exclude?

- ▶ Lowest of 3 values
 1. Housing allowance designated by the church
 2. Actual housing expenses
 3. Fair market rental value of the home, furnished, plus utilities
 - ▶ Is there a percentage limit or dollar limit? No
- 

Parsonage or Renting a home?

1. Amount designated by the church
2. Actual expenses
 - ▶ If in a parsonage, be sure to include the rental value of the parsonage in the calculation of Self Employment tax (in addition to salary)

Counted for SE Tax?

- ▶ Yes


Are Bivocational Ministers Eligible?

- ▶ Yes on their church income.


Deduct mortgage interest & taxes?

- ▶ Yes, mortgage interest and property taxes
- ▶ This is known as the “double deduction”, but 95% of Americans cannot itemize


Down payment eligible?

- ▶ Yes
 - ▶ Notice the example. Rev. Black made a \$50k down payment. Church designated \$55k. Other housing expenses of \$10k.
 - ▶ Rental value furnished plus utilities = \$25k, so he can only exclude \$25k.
- 

What about debt free home?

- ▶ Everything else on the chart on page 14. Compensation Planning Guide
 - ▶ With no mortgage payment, expenses most likely will be less
 - ▶ Some think they can exclude the fair market rental value but this is not true – it is the least of the 3 numbers
- 

When can churches designate?

- ▶ Should be done before the beginning of a year
 - ▶ Can be done any time
 - ▶ Always prospectively, never retroactively
 - ▶ Remember that the church, not the minister, must designate the housing allowance.
- 


What if church forgets?

- ▶ Then housing allowance is \$0.00
- ▶ However, church can designate at any time during the year

How to ensure minister has housing

- ▶ Use the safety net language: “for the current year and all future years until changed.”
- ▶ This safety net language should not be viewed as a substitute for designating a housing allowance

Is there a limit?

- ▶ No, even up to 100% of income
 - ▶ But remember the rules
 - ▶ Even if 100% is appropriate, the minister should have some as taxable so that he can participate in the Church Retirement Plan through GuideStone.
- 

What if designation exceeds expenses?

- ▶ Minister is responsible to report the excess as taxable income.

Report on W-2?

- ▶ Not required by the IRS
- ▶ *May* be reported in box 14 labeled “housing allowance”
- ▶ Never included in box 1

What about retired ministers?

- ▶ Church retirement plans such as GuideStone can designate a housing allowance
- ▶ Rules are the same as when working
- ▶ Retirement income is not subject to SE tax

Do Retired Ministers pay SECA?

- ▶ No, not on their retirement income
- ▶ Note discussion of what constitutes retirement.

Surviving spouse receive housing?

- ▶ No
- ▶ However, IMB missionaries are both commissioned, so spouse in that case could receive housing.

Reported for retired minister?

- ▶ Shown at bottom of Copy C of IRS Form 1099-R

Do not ordain for tax reasons!

Ordination is about calling


- ▶ Non ordained youth minister, married
- ▶ \$45,000
- ▶ Less \$25,000 Standard deduction
- ▶ Fed Tax on \$20=\$2k
- ▶ His portion of FICA =\$3442
- ▶ Total tax \$5442

Non Ordained

- ▶ Ordained youth minister, married
- ▶ \$45,000
- ▶ Requests \$15,000 housing allowance
- ▶ Less \$25000 Standard Deduction
- ▶ Fed Tax on \$5k =\$500
- ▶ SE Tax =\$6358
- ▶ Total Tax \$6858

Ordained

The Housing Allowance is not what it used to be

- ▶ 1. Doubled standard deduction prevents most ministers from the “double deduction.”
 - ▶ 2. Extremely Low interest rates – less to exclude
 - ▶ 3. Advantage of the housing allowance often overshadowed by the Self Employment tax.
- 

Accountable Reimbursement Plan

Church Tax Workshop
Financial Issues pages 33–37

Provide for Ministry-Related Expenses

- ▶ *(Page 7) Compensation Planning Guide*
- ▶ **Address these expenses with an Accountable Reimbursement Plan (ARP)**
 - Vehicle use for business purposes
 - Meetings, workshops and conferences
 - Books, periodicals, software, etc.
 - Continuing education opportunities
 - Provisions for ministry-related hospitality

Provide for Ministry-Related Expenses

- ▶ *(Page 7)*
- ▶ **Requirements for an ARP**
 - Expenses must have a business purpose
 - Document amount, date, place and purpose
 - Expenses substantiated within 60 days
 - Excess advances returned within 120 days



Provide for Ministry-Related Expenses

- ▶ *(Page 7)*
- ▶ **Requirements for an ARP**
 - IRS-approved standard rate for transportation (mileage rate), meals and lodging
 - Unused ARP money should **not** be given as a bonus or additional income
 - (See pg. 15 of workbook for sample ARP)


Provide for Ministry-Related Expenses

- ▶ (Page 8)
- ▶ Create an ARP in three easy steps
 1. Determine covered expenses and create a plan
 2. Require expense reports to be submitted within 60 days of incurring expenses
 3. Reimburse approved expenses at least once a month


Sample: Expense Report

Employee name: <i>Rev. John Smith</i>			
For the month of: <i>January</i> Year: <i>2011</i>			
Date	Description of Expense	Business Purpose	Amount
January 17-18	Mileage to conference	Mileage (457x.51)	\$ 233.07
January 17	Meals at conference	Meals	\$ 53.25
January 17-18	Hotel	Lodging	\$ 12.00
January 17	Sunday school teacher's guide	Ministry expense/books	\$ 53.00
		Subtotal	\$ 351.32
		Minus advance	\$ 200.00
		Total reimbursement due	\$ 151.32

Who can have reimbursed expenses?

- ▶ Minister
 - ▶ Secretary who goes to bank, store or post office for the church
 - ▶ Custodian who goes to buy cleaning supplies
 - ▶ Any employee who incurs expenses for the church
 - ▶ Another example: you may reimburse an evangelist for travel and expenses
- 

What is a non-accountable plan?

1. Car allowance with no accounting to the church
 2. Reimbursements with improper documentation. Example: sticky note: “I drove 535 miles this month.”
Example: “I drove 5280 miles this past year.”
 3. Reimbursements from salary reduction. Notice Compensation Planning Guide, page 8, “Caution!”
- 


What happens? non-accountable plan?

- ▶ Taxable, Added to box 1 of the W-2
 - Not in box 14
 - Not on a 1099 (unless not an employee)
- Then the employee would not be able to write it off on Schedule A, Itemized deductions. Employee unreimbursed business expenses are no longer allowed on Schedule A.


What about an Accountable Plan?

- ▶ Church keeps the records on file
- ▶ Not added to the W-2
- ▶ Employee does not pay tax on this money at all – not federal or state income tax, not social security or Medicare tax

What are the basic rules?

1. Must be properly documented with date, place, purpose and number of miles.
 2. Include receipt if a purchase
 3. Must be properly documented within 60 days – most will turn in reports monthly
 4. May give an advance, but must be settled within 120 days with documentation, receipts and return any left-over money
 5. Cannot be from salary reduction
 6. Cannot give excess to employee as a bonus
- 

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- 

Occasional
Business
for church

Minister's
home

Member or
Prospect's
home



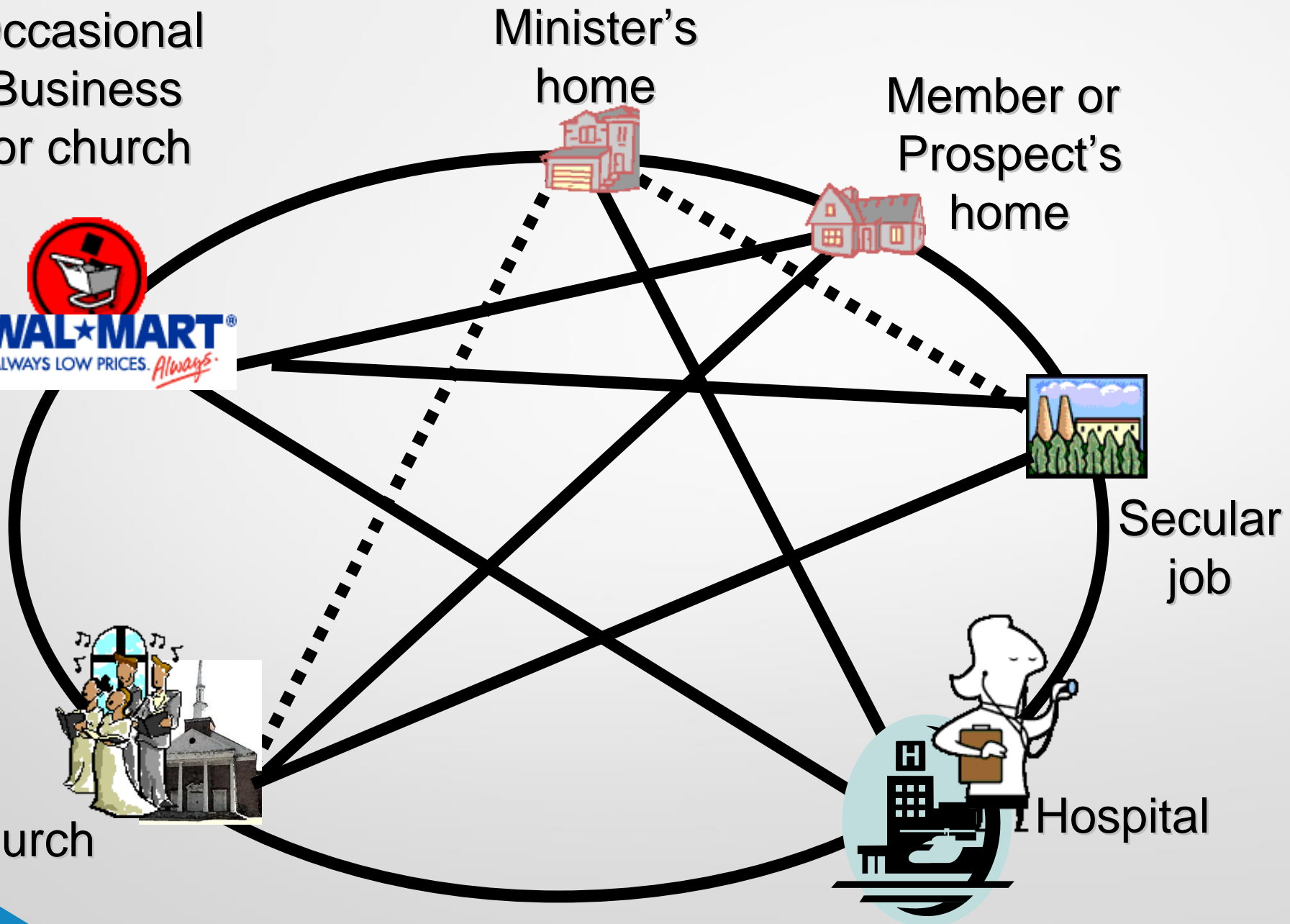
Secular
job



Church



Hospital



Transportation vs. Travel

- ▶ Local
- ▶ Reimburse mileage, tolls, parking, etc.
- ▶ Meals not allowed unless entertaining a client (hospitality)
- ▶ Meal may be permitted under “de minimus” rule to keep employee on the job (overtime)
- ▶ Out of town, overnight
- ▶ Reimbursement of meals permitted
- ▶ Reimbursement of hotel, mileage, meals and other expenses
- ▶ May use IRS per diem rates

Transportation

Travel

Meals

- ▶ Staff meeting going to lunch as a business expense is generally not permitted
- ▶ Meals generally are not permitted unless overnight travel or if meets criteria below:
 1. Church may provide a meal to celebrate birthdays, anniversaries, accomplishments, etc on an occasional basis under the “de minimus” rules
 2. Church may provide a meal under “de minimus” rule to keep employee on the job (such as working overtime)
 3. Meal may be reimbursed if hospitality