Charitable Contributions

Overview

Charitable contributions are the unconditional transfer of cash or property to and for the use of a church to be used under church control to accomplish a church's tax exempt purpose, with no personal benefit to a donor. If payments to a church also involve some benefit to the donor other than nontangible religious benefits, that transaction more likely should be considered a purchase rather than a gift.

Donor-restricted gifts (often referred to as designated gifts), may be given for a specific purpose of the church. If the gifts are in support of a church's tax exempt purposes and not designated or restricted for an individual, they are generally tax-deductible. If gifts are earmarked for a particular individual, the IRS would consider those gifts to the individual and not deductible. In IRS Publication 526 there is section entitled: "Contributions You Can Deduct". In that section it states very clearly, "The contributions must be made to a qualified organization and not set aside for use by a specific person."

Designating a contribution to a church benevolence fund and merely "suggesting" a recipient might still qualify as a tax-deductible contribution. According to the IRS, "t*he test in each case is whether the organization has full control of the donated funds, and discretion as to their use, so as to insure that they will be used to carry out its functions and purposes." (Rev. Ruling 62-113)*

Key Points Regarding Charitable Donations:

1. Charitable contributions are deductible the year RECEIVED (or mailed).
   Contributions by text message are deductible in the year the text message is sent.
   Contributions charged on a credit card are deductible in the year the charge is made.
   Electronic (by phone or computer) contributions are considered delivered on the date the financial institution pays the amount.
   A promise to contribute is not deductible until the payment is actually made.
   If someone borrows funds to make a contribution, it is deductible the year the contribution is made, regardless of when the loan is repaid.

2. If the DONOR specifies a particular recipient, no deduction is allowed.
   (If a donor makes a suggestion about the recipient, it may still be deductible if a church exercises proper control. The suggestion must only be advisory, and the church may accept or reject the suggestion.)

3. NON-CASH property should be acknowledged with a description of property given.
   No value should be stated on the receipt. It is up to the donor to establish the value. A person cannot generally take a deduction for a charitable contribution for less than the entire interest in property. Special rules apply for items valued at over $ 500 requiring the donor to file IRS form 8283. Gifts of property valued at more than $ 5,000 will require additional paper work from the church and may require a qualified appraisal. The IRS also has specific rules regarding the donation of cars and stock.

4. EXPENSES someone incurs in performing services on behalf of a church or other charity may be deducted by the individual. This includes mileage for church-related work which can be claimed as a charitable contribution at 14 cents per mile. (as of 2015) (*Unlike mileage for business expenses or moving expenses that changes with inflation, the rate for charitable mileage is set by congress and changes are rare.)*

5. NO deduction is allowed for TIME or SERVICES rendered, or for rent-free building space made available to a church.

6. A church is NOT REQUIRED to provide written substantiation of contributions. However, for CASH contributions to be deductible, a donor must now have cancelled check, bank record, or written communication from the charity with the amount and date of the contribution. Generally, cancelled checks are adequate for smaller donations, however in audits the IRS has been known to require more proof. For larger contributions, special rules apply. (See # 7)

7. Individual contributions of $ 250 or more are deductible only if the donor receives a WRITTEN acknowledgement from the church or charity that satisfies the following requirements:

   a. Receipt must be in writing and identify donor by name. (Social Security number is not required.)

   b. Each contribution of $ 250.00 or more should be itemized separately.

   c. If no goods or services were given in exchange, the receipt must include a statement to that effect, stating that the donor received only "*intangible religious benefit*".
   Sample: "*Any value received in exchange for this contribution is purely intangible religious benefit.*"

   d. If goods or services were provided by the church in exchange for the contribution, the receipt must include an estimate of their value. "Token" goods or services are exempt. (Generally, up to the lessor of 2% of the amount contributed or $ 10.20.) Only the amount in excess of the value of the goods or services provided is to be included as a charitable contribution.

   e. The written acknowledgment must be received by the donor on or before the earlier of:

   -- the date the donor files a tax return claiming a deduction for the contributions
   -- due date (including extensions) for filing the return (normally April 15)

   f. These rules do not apply to regular weekly cash contributions of less than $ 250.00 even though the yearly total may be substantial. (However, if goods or services were provided and the contribution is $ 75 or more, the same rules apply as those for donations of $ 250.00 or more.)

Other Selected Charitable Contribution Issues

The following topics are addressed specifically due to the large volume of questions that occur regarding these issues.

Love Offerings

Love offerings are frequently used in a church to financially support people called to minister as evangelists, musicians, other guest speakers, etc. These are often incorrectly considered non-taxable gifts. Even though they may be referred to as a "love offering", if the payment is made through the church because of services rendered, they are to be reported as taxable compensation. For a church employee they would be included on their W-2 form. If for a non-employee (like an evangelist), a 1099 should be issued and is required if the payments during the year for work by a non-employee total more than $ 600.

Sometimes a special occasion love offering is collected by a church for an employee. If these gifts do not flow through the church accounts, the contributions are not tax deductible and the gifts are generally non-taxable to the employee. If these gifts are acknowledged as a tax-deductible contribution to a previously church approved love offering for the employee, they are to be reported as taxable compensation to the employee.

There will be frequent questions in this area. Churches should keep two basic principles in mind. First, if the contributions toward a gift is tax deductible to the donor, then it should be reported as taxable compensation when given to an employee. If it is given as a non-deductible gift not going through the church accounts, then it may generally be given tax free. The second guiding principle is that a tax-deductible contribution may not specify an individual person as the recipient. The church must be in control of that determination. Combining these two principles will answer most questions about love offerings.

Designated & Restricted Gifts

This is one area of church finance that generates numerous questions. This is partially due to the differing meanings of the terms. Churches often use the term “designated” for all funds outside of the general budget. Most of the time the church understands the use of the term and there are no problems. But when there are sticky questions that require guidance from financial professionals it becomes more difficult. Some financial professionals would say there is no such thing as “designated” - they must be restricted or unrestricted. With churches, accountants and lawyers not having a universal application of the terminology used it makes addressing these questions a challenge.

One church accounting source uses three categories:

1. **Unrestricted** – referring to the general budget
2. **Temporary Restricted** – referring to funds for a specific purpose or time period.
3. **Permanently Restricted** - - referring to funds given for a designated purpose that will never expire.

Another source describes designated and restricted like this:

1. **Designated funds** are monies set aside from the general fund for a specific purpose. For example, the church could decide to set aside a percentage of the general fund for property improvements, these funds become designated funds.
2. **Restricted funds** are monies given, collected or donated for a specific purpose. A big difference between designated funds and restricted funds is that a church can transfer designated funds back into a general fund. Restricted funds must be used for the purpose in which they were given or raised.

Finally, another source describes designated and restricted this way:

1. **Restricted Funds** are charitable contributions to churches whose use is restricted by donors. The church has no discretion in management and disbursement of such funds. Examples funds would be offerings for North American Missions, International Missions, State or Associational Missions.
2. **Designated Funds** are charitable contributions 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 would be any fund that is established by the church in an official business meeting. Donors could then make contributions to a church for one of the pre-approved designated funds.

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 should approve all such funds**.

Should “Designated/Restricted” Funds Be Returned if the Purpose No Longer Exists?

A frequent question about designated or restricted funds is how to handle funds when the purpose for which they were designated no longer exists. An example would be a fund for a new church building to which church members have contributed. What happens if the church decides they are not going to build a new building? This question is complicated by two seemingly conflicting principles: First, the funds are held in trust for the specific purpose and using those funds for anything else would seem to be violating that trust. Second, to be a qualified tax deductible contribution the donor must give up control of those funds to the church’s control.

Tax professionals address this issue in different ways but many agree that when the purpose for the designated money no longer exists, the contributions are revocable at the option of the donor. Churches should provide donors with this option to avoid violating their responsibility to use “trust funds” only for the specified purposes. If a donor wants the funds returned, they should be made aware of the probable need to file amended tax returns if they claimed those deductions as tax-deductible in previous years. They can also be given the option to re-designate the funds to some other church approved fund or to the general budget. For various reasons, the church may not be able to identify and locate all donors who contributed to a specific fund. For those donations, the church should have an official business meeting to decide how those funds should be handled. This procedure is only appropriate for that portion of any fund that cannot be identified to a specific donor.

Mission Trips

For contributions to be tax deductible, the mission trip should be one that has been approved by the church. The trip should be for a specific ministry purpose, not for entertainment and relation. Members then make contributions to the fund established for the purpose of supporting that mission trip. As long as the church is in control over the project, the contributions will be tax deductible and covered mission trip expenses will not be taxable income to those going on the mission trip.

Note that if individuals participate in the mission trip either totally or partially at their own expense, those costs are deductible as a charitable contribution. If any part of the mission trip is for entertainment that portion would not be deductible.

For More Information

The following IRS publications can be very useful for rules regarding charitable contribution issues. Simply go to www.IRS.gov and in the search box, enter "Publication ####" *(see the publication numbers below.)*

Publication 1771 – "Charitable Contributions-Substantiation & Disclosure Requirements"
This is an easy to read guide to the basic rules and is especially helpful when there are questions about contributions where some goods or services were provided to a donor. The information in this brochure is especially useful for churches since it is written more from the perspective of the charity (church) and less from the perspective of the donor.

Publication 526 – "Charitable Contributions"
This document is updated annually and is a primary source covering all the basic IRS rules regarding the deductibility of charitable donations.

Publication 561 – "Determining the Value of Donated Property"

Publication 4302 – "A Charity's Guide to Vehicle Donations"

Publication 4303 – "A Donor's Guide to Vehicle Donations"