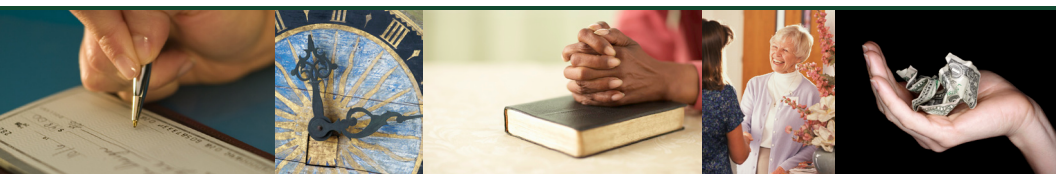

Developing a Church Financial Benevolence Ministry that Meets or Exceeds IRS Guidelines



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● Purpose:

Church benevolence policies are tools to help the church comply with increasing federal and state government guidelines in operating nonprofit organizations. Financial policies can help churches avoid church conflicts by providing well-written and understandable church policies on financial matters. Also, church financial policies help establish a clear Biblical basis in handling the financial resources God has provided a congregation.

● Adoption and Amendments:

Church benevolence policies should not be included in the church's constitution or by-laws. The church financial benevolence policies should be adopted by a simple majority vote at any regularly scheduled church business conference. Likewise, the benevolence policies can be amended, deleted, or added by a simple majority vote at any regularly scheduled business conference. The church should empower the finance committee or another appropriate committee to adopt or revise its benevolence policies. Of course, the committee needs to inform the church body if any changes are made to the designated funds.



● Writing Guidelines:

Financial benevolence policies should be written clearly and concisely. The policies should be direct and to the point. A copy of the benevolence policies should be kept in the church office. The church treasurer and appropriate committees should also be given a copy.

● Disclaimer:

This educational document is intended to provide churches and church financial leaders with current and accurate educational information about the subjects covered. However, such information is not intended to be sufficient for dealing with a particular legal problem, and the authors and distributors do not warrant or represent its suitability for such purpose. The reader should not rely upon this document as a substitute for independent legal consultation or tax advice.



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Step One

The church decides on the Biblical basis of the church financial benevolence ministry. Why is your church going to be involved in providing financial assistance for the poor and needy? (Acts 2:44-47; Acts 4:32-35; Philippians 4:10-16; II Thessalonians 3:4-5; I Timothy 5:3-16; James 2:15-26)

Step Two

The church decides who they are going to help. If the church is going to be involved in a financial benevolence ministry, the IRS requires a church to help an indefinite charitable class of individuals. The benevolence ministry must go beyond helping church members only. The benevolence ministry should help church members and others alike. The IRS does not allow churches to help only individuals in a defined group like church members only. The indefinite charitable class must be “hard” to count. The church can restrict their financial assistance to a community, county, or state. The IRS does allow churches to discriminate based on religion. The church could limit who is eligible for financial assistance by requiring the individual to be a Christian. Likewise, the church could limit financial assistance to only Baptists or other faith groups. Another acceptable limiting tool is to require all individuals seeking financial assistance to be referred to the financial benevolence ministry by church members. If a church member is not willing to refer an individual for financial assistance consideration, then the church is not required to consider the individual for assistance.

Step Three

The church needs to decide how they will help the needy with financial assistance. Churches are limited by available funding. While some churches regularly budget money for benevolence needs, many churches collect or receive special offerings for needy individuals and families. The IRS is clear that churches cannot collect benevolence offerings for specific individuals or families. If the donors want to help a particular individual, then the donor should not involve the church in the gift giving process. The donor should send the financial assistance directly to the needy individual and not involve the church in the transaction. If the financial need is larger than one donor can meet, then the donor might want to contact a local bank to establish a bank fund for this specific individual. While the money given to the local bank fund in the name of the needy individual is not taxable income to the individual, the donor will not receive a contribution credit either.



Besides the church budgeting money for benevolence needs, the church can collect special offerings and restricted gifts for a designated benevolence fund.* If handled properly, a donor who gives to the designated benevolence fund would receive a contribution credit. Also, the financial assistance the needy individual received would not be taxable income to him. If the church obtains the proper documentation, the church should not issue a 1099-MISC to an individual who is receiving financial assistance.

The administrators of the benevolence designated fund named by the church in the written fund policy should be at least two or more disinterested church leaders, a committee, or team. The administrators of the fund must be more than one church member.

* See Page 6 for a sample Benevolence Designated Fund.

Church benevolence funds should be distributed equally and fairly. The church should never assist one individual with a significant amount of financial assistance over another individual for the same type of need. For instance, if the church assisted church members with \$1,000 annually for rental assistance while only helping non-church members with \$150 annually with rental assistance, the difference might cause the IRS to question the church's practices. The rule of thumb is fairness.



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Sample Benevolence Designated Fund

The church, in exercise of its religious purposes, has established the benevolence fund to assist persons in financial need. The church welcomes contributions to the fund. The administration of the fund, including all disbursements, is subject to the control and discretion of the benevolence committee or church. The committee may consider recommendations from anyone, but in no event is the committee bound in any way to honor the recommendations. Donors will not be permitted to recover a contribution on the grounds that the committee failed to honor the donor's recommendation.

The church recognizes that planning for future needs is a practice of good stewardship and has established this fund as an ongoing fund. Should at any time in the future the church vote to close this fund, all money in the fund at that time will go in the general budget of the church.

Also, the benevolence committee or church should record the required Internal Revenue Service documentation for benevolence requests. The following documentation for benevolence requests should be recorded for accurate record-keeping:

1. A complete description of the assistance.
2. The purpose for which the aid was given.
3. The church or benevolence committee's objective criteria for disbursing assistance under the benevolence fund.
4. How the recipients were selected.
5. The name, address, and amount distributed to each recipient.
6. Any relationship between a recipient and officers, directors, or key employees or substantial contributors to the Church.

Step Four

The church needs to decide what type of financial needs the benevolence ministry will try to address. The church cannot meet all the financial requests it receives. Common areas of financial assistance might include medical bills, housing needs, transportation, clothing, food, or utilities. However, it would be almost impossible to meet all these needs. The church needs to develop a list of needs and the financial assistance limits to meet these needs. For instance, the church might decide to pay electric and water bills up to \$200 annually. Once an individual has met his annual limit of financial assistance, he is not eligible until next year for additional assistance. Also, the church needs to include a statement in their policy that financial assistance is always based on availability of benevolence funds.



Step Five

The church needs to establish some type of information gathering process to help screen the needy individuals and families. Personal information gathered should include, but not be limited to; name, address, phone number, identity verification, church relationship, employment, family, and financial need verification of the applicant. This information should be kept confidential and stored securely.

Step Six

The church needs to clearly spell out how the assistance may be provided to needy individuals. The church should strive not to provide cash or gift cards to individuals. The IRS requires

documentation for all financial assistance. Cash and gift cards alone do not provide the required documentation. Financial assistance is best served when the church is paying a bill to a third-party provider that can furnish the church a receipt. The IRS requires receipts for all expenditures over \$75.00. The best financial practice should be for the church to go beyond the IRS requirement and require a receipt for all benevolence financial assistance. Receipts are not required for clothing or food pantry ministry distributions.

Step Seven

The church needs to complete the required IRS documentation** for each individual or family receiving financial assistance from the church. The Benevolence Financial Assistance Documentation form is a tool the church can use to help fulfill this IRS record-keeping requirement. The form should be filled out each time the church helps a person or family financially. This confidential form should be kept with the church’s financial records.

NOTES:

Benevolence Financial Assistance Documentation

Today's Date _____

Completed by _____

Name of Applicant¹: _____

Street Address: _____

City: _____ State: _____ Zip: _____

Phone Number: _____

Brief description of assistance provided by the church²: _____

Reason the assistance was granted³: _____

Cost of the assistance⁴: _____

Relationship to church members or church leaders⁵: _____

If the applicant was related, did the applicant receive special treatment?⁶ _____

Benevolence Ministry Members⁷: _____

Applicants for financial assistance are awarded financial assistance based on financial need. Applicants are not granted financial assistance based on relationships between the applicant and church leaders or significant church contributors. The church does not discriminate applicants based upon race, color, sex, national origin, age, or disability. However, the church reserves the right to discriminate based on religion.

The church may provide short-term (emergency) assistance and longer-term aid to ensure that applicants have the basic necessities such as food, clothing, housing, transportation, and medical assistance (including psychological counseling). The preferred method of providing assistance will be to pay the applicant's needs directly to a business provider. The type of aid that is appropriate depends on the individual's needs and available resources.

Notes to the Benevolence Financial Assistance Documentation Form

- ¹ The church needs to try to verify the individual's identity. While a church does not need to require all the following information, the church should consider at least some of these proofs of identity: a) The church can require photo or non-photos IDs of everyone applying for financial assistance. b) The church can require proof of marriage. c) The church can require proof of ownership of the vehicle driven. d) The church can require the name and contact information of someone the church can contact locally to confirm the individual's need. e) The church can require a criminal background check. f) The church can require the individual to sign a statement confirming his identity.
- ² A short description of the financial assistance provided by the church is needed in this section. For instance, the church helped him pay his water bill with Upper State Water Company, 100 New Hope Road, Any Town, State.
- ³ State the reason the church helped this individual or family. The selection process should be based on the objective standard established by the church. For instance, Joe Smith has been unemployed for the past 12 months. Recently, his wife has been laid off her job. They have three children on free lunches at school. He was three months behind on their water bill. The city was getting ready to turn the water off.
- ⁴ Simply list the cost of the financial assistance. For instance, the \$75.00 church financial assistance was under the \$100 limit established by the church. (The church is proving to the IRS that they are fair and reasonable by stating the church's standard.)
- ⁵ It is okay to answer yes, but remember the principle of indefinite charitable class of needy individuals. The church should not be only helping church members, but an indefinite charitable class of individuals.
- ⁶ List the names of the individuals that approved the request for financial assistance. It is critically important more than one name is listed in this section.



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