

Clergy Discretionary Funds

Introduction

The Anglican Diocese of South Carolina has developed these guidelines for clergy, congregations, institutions, and any who have authority over the funds of the church. The purpose is to provide guidance in the proper use and reporting of restricted and designated funds known as clergy discretionary funds.

Clergy discretionary funds in the Anglican Church of North America originated as Almoner's funds in the Episcopal Church and were authorized by its Canons for "pious and charitable uses" and were overseen by the clergy in charge of the congregation. (For this reason, they should be more properly called "benevolence funds".) Almoner's funds, or discretionary funds have a long history in the church. Traditionally, the vestry of a congregation has made available a special fund for charitable purposes, the expenditure of which is under the authority of the cleric. Assistant clergy may also be given a separate discretionary fund.

Sources

The tradition has been for the loose offering of one Sunday per month to be designated for the discretionary fund. This is not always done, however, and other sources may be from the congregations' budget, or special gifts designated for this fund. In addition, some congregations may designate regular but infrequent sources of income such as fees for wedding, baptisms, etc. for the discretionary fund. Often the loose offering on the Sunday of a Bishop's visitation is designated for the Bishop's discretionary fund.

Records

It is not necessary for discretionary funds to be in a separate bank account. However, if a separate account is desired to maintain confidentiality, then all checking accounts for clergy discretionary funds must be approved by the Vestry and be opened using the congregation's federal ID number. The bank accounts must be in the name of the congregation and not that of the individual member of the clergy. These funds are subject to audit and included in financial reports following standard accounting procedures. Discretionary funds remain with the congregation when the cleric departs.

If the discretionary funds are part of the general operating account of the church, all income received is deposited in the operating account and all expenditures come from the operating account upon written request of the authorized member of the clergy or other appropriately authorized individual.

If the discretionary funds are in a separate checking account, all income from any source to the fund must be deposited to the congregation's general operating account, recorded on the

books of the church, and subsequently transferred to the separate checking account. No funds from any source are to be deposited directly into the separate checking account. The co-mingling of personal funds of any kind with discretionary funds is always improper. An example for the name of the separate account would be: "Christ our King Church, Rector's Discretionary Account".

Accountability

Clergy who have been authorized to maintain and manage a separate checking account must record in writing, with appropriate receipts attached, the purpose of every check drawn on the account and any cash disbursement made. They are the Trustees of the funds and are charged with maintaining adequate records.

For proper internal controls, monthly bank statements are to be mailed directly to a person of trust other than the cleric authorized to make disbursements. This may be the treasurer, bookkeeper, or other person authorized by the Vestry.

The person receiving the statements will verify that all deposits made into the account correspond to disbursements from the general operating account; reconcile the account, and review all backup invoices, letters, etc. The statement will be initialed and filed away with other financial records of the congregation.

It is preferable that checks be written directly to vendors, such as a utility company or property owner, rather than to individuals requesting assistance. Cash disbursements are discouraged and should only be made in a real emergency and a check cannot meet the needs. If cash is disbursed, full documentation must be maintained stating to whom the funds were given or a description of the person, such as a parishioner or a street person, the date given, amount, and explanation.

All discretionary funds are restricted or designated funds of the church and as such are subject to audit even if they are kept in a separate checking account. However, the individual responsible may be permitted to maintain confidentiality over the expenditures of the funds disbursed for the direct assistance of named individuals. The manner in which this is done must be determined and jointly agreed to by the responsible individual and the Vestry.

Uses

Uses are categorized as appropriate, inappropriate, and prohibited.

The appropriate and traditional use of clergy discretionary funds is to address needs among the congregation and community members. Payments for food, rent, utilities, medical bills and the like for persons in need are typical uses of these funds.

An inappropriate use is to meet expenses that normally should be covered by the operating budget. Vestries should budget for expenses that are necessary to carry out the cleric's ministry. However, if funds are not provided by a budgeted line item, a written policy

established by the Vestry and included in its minutes may authorize such expenditures. Examples of funds that may be authorized are attendance at conferences, purchases of books and journals, entertainment of individuals with a purpose directly related to the congregation's ministry, and professional membership in organizations related to the ministry. Discretionary funds should not be used to sustain the ongoing operations of the congregations because doing so hides the true expenses of the church. Authorized expenses must follow the guidelines of the Internal Revenue Service for appropriate business expenses. Any books, equipment, or other tangible business items purchased with discretionary funds are the property of the congregation and therefore, must stay with the congregation when the cleric leaves, unless the cleric pays the fair market value for the item to own it.

Prohibited uses of discretionary funds are payments for anything that personally benefits the authorized clergy. Therefore, neither personal clothing, food, books, rent, utilities, insurance premiums, medical expenses of the cleric, are appropriate expenditures by or through discretionary fund accounts. If any portion of a discretionary fund is used for personal use, that portion will be added to taxable income of the individual receiving the benefit. The individual misusing the funds may be exposed to civil and/or criminal liability.

Tax Consequences

Gifts to a properly established discretionary fund, which is fully accountable to the Vestry, are deductible by donors as charitable contributions. Donations must be made payable to the church, not the cleric, or they will NOT qualify as charitable contributions.

Contributions made to the discretionary fund for the direct benefit (pass through) of a named individual are not deductible contributions for income tax purposes and must not be accepted. However, if a donor wishes to pass a gift through the discretionary fund to another individual to maintain anonymity, that may be allowed, but it is still NOT deductible by the donor in any case. This is true for any fund of the church.

When discretionary funds are used to provide a gift to an employee, the value of the gift may need to be reported on the individual's W-2 form. For example, some priests may wish to write a Christmas bonus to the staff and use the discretionary fund (if approved by the Vestry), but if this is done, it must be reported on the employee's W-2 form.

For additional information, consult Richard Hammar's *Church and Clergy Tax Guide* or your tax professional.

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