

Mt. Pisgah United Methodist Church **Restricted Gifts Policy**

1. Purpose: To establish simple guidelines and processes for the acceptance and use of donor-restricted gifts.
2. Scope: Restricted gifts have a purpose that is more specific than the overall operations of our ministry. This policy applies only to gifts where the donor states a restriction, or responds to an appeal for a specific purpose. It does not apply to: unrestricted gifts (those given to support the broad program of ministries of the church) nor to funds that have been “designated” for a particular purpose by church leadership.
3. Summary: Mt Pisgah UMC will ensure that all restricted gifts accepted by the church are: (a) consistent with ministries and programs of the church, (b) assigned to a branch or unit of the church that exercises discretion and control over their use, (c) utilized for their restricted purpose, and (d) comply with relevant tax laws.

A. RESTRICTED GIFTS MUST BE CONSISTENT WITH MINISTRIES AND PROGRAMS OF OUR CHURCH, AND MUST BE ASSIGNED TO A BRANCH OR UNIT THAT RETAINS DISCRETION AND CONTROL OVER THEIR USE

Our church is active in many areas of ministry. In order to be effective, however, our leadership must exercise judgment as to which ministerial activities to prioritize. Restricted gifts offered to the church can only be accepted when we have the appropriate resources and commitment to act upon them. Therefore:

- Restricted gifts can only be accepted for programs or initiatives that are sponsored or controlled by a branch or staff of the church.
- The controlling branch must retain discretion and control over how the program or initiative is executed.

B. RESTRICTED GIFTS MUST BE USED IN A TIMELY MANNER

Our church will not accept gifts for programs or initiatives that cannot be implemented in a timely manner. Accordingly:

- The controlling branch must have a plan and timeline for use of funds that are restricted for a specific program/activity.
 - If a branch undertakes fundraising for a program of significant cost, and there is uncertainty as to how or when sufficient funds will be raised, the branch is encouraged to take only pledges until such time it is certain that sufficient funds will be raised.
- Gifts that are restricted to “general” use by a particular branch, but not restricted to a specific program/activity are considered timely used if the controlling branch regularly uses such funds for its ministries or expenses and is not accumulating increasing balances over time.
- The Finance Branch will monitor fund use and regularly review Restricted Funds with branch stewards.

C. GIFT RESTRICTIONS WILL BE HONORED

The church has a moral and legal obligation to utilize gifts in accordance with donors' restrictions. The church will not accept gifts with restrictions it cannot or will not honor.

In most cases, gifts to the church are driven by a specific appeal for a program or initiative. A particular area of concern arises when the church receives more donated funds than can be applied to the specific program. To avoid this circumstance, branches organizing fundraising appeals will follow these guidelines:

- Avoid making an appeal to fund specific items within a program. Unnecessary specificity creates a tracking dilemma and risks over-funding one element of a program at the expense of another, equally-important element.
- As part of the solicitation, communicate a disclaimer that excess funds collected will be applied to another purpose, using language such as: "In the unlikely event that this project becomes overfunded (i.e. all fund cannot be used in this project), your gift will be applied to a similar project" or ".....applied where needed most".

D. UNSPENT GIFTS WILL BE REDIRECTED OR REFUNDED IN ACCORDANCE WITH DONORS' WISHES

If the church follows the guidelines established in this policy, instances of unspent restricted gifts should be rare. The Finance branch will identify restricted gifts that are unlikely to be used in accordance with their restrictions. The sponsoring branch must address them in the following manner:

- When specific donors can be identified, seek donors' written authorization (e.g. e-mail) to redirect the unused gifts to another program, or to be used "where needed most".
 - Seek permission from major donors first. If the sum of donations permissibly redirected exceeds the balance of unfulfilled gifts, the branch has complied with this request.
- If a sufficient amount of donations are not redirected, refunds will be required.

In cases where gifts remain unspent, and it is impossible or impractical to identify the original donors, the Finance Branch will make a recommendation to Church Council as to how unspent gifts should be redirected.

E. GIFTS WILL COMPLY WITH RELEVANT TAX LAWS

To be deductible, gifts to Mt. Pisgah UMC must be "to or for the use of" our church. They cannot be restricted to benefit a particular individual or family, no matter how deserving or needy. This limitation is guided by two tests the IRS applies to determine if a gift is nondeductible:

1. Does the church have discretion and control over the contribution?

2. Does the donor intend to benefit the church or a designated individual?

Based on this guidance, Mt. Pisgah has established the following guidelines for acceptance of such gifts:

Gifts that can be accepted:

- Gifts to the Pastors' Benevolence Fund--The pastors will use established guidelines for the disbursement of these funds and have full discretion in choosing beneficiaries.
- Gifts to benefit church staff as a group--The Staff-Parish Branch exercises discretion and control over how these are distributed.
- Gifts to sponsor individuals on a church-sponsored mission trip--The church retains discretion and control over the use of all mission-trip donations. If a sponsored participant is unable to participate in the trip, funds donated on their behalf will be applied to other elements of the trip. (*See Mt. Pisgah UMC's Policy on Short-term Mission Trips*).
- Church-initiated gifts to support our missionaries--The IRS provides an exclusion to the two above rules if the church initiates and controls an offering taken up for a specific missionary. We will forward all missionary gifts through the Conference.
- "Love offerings" to recognize a milestone event for an individual staff member, if preauthorized by Church Council:--If Church Council preauthorizes a love offering or other special offering, the gifts made may be accepted as deductible charitable contributions.¹
- Gifts to be forwarded to UMC agencies or established 501(c)(3) non-profit organizations that provide assistance to individuals. Such organizations are presumed to have the resources and controls to manage their operations in an IRS-compliant manner.

Gifts that cannot be accepted:

- Gifts restricted for the benefit of a specific individual or family--As Christians, we are called to help each other in times of need, and sometimes we want to provide financial assistance anonymously. IRS guidance is clear, however, that gifts intended to benefit a specific individual (family) are not tax deductible. Mt. Pisgah UMC will not accept payments that are intended as pass-through gifts. Donations to the Pastors' Benevolence Fund are encouraged.
- Gifts to benefit "indefinite groups", except under programs approved by Church Council—The church will not allow branches or individuals to establish a fund the purpose of which is to provide financial assistance to an indefinite group of individuals. Examples of indefinite groups are "families suffering from job elimination" or "returning veterans". Improperly managed, such initiatives carry the risk that only a single person or perhaps a small number of persons might actually benefit, and could be construed as pass-through gifts.

¹ This topic is somewhat controversial. This policy may need to be amended as further IRS guidance becomes available.

This policy will not preclude Church Council from establishing a ministry program that benefits an indefinite group of individuals. IRS guidelines for such programs require the group of beneficiaries to be sufficiently large and impose significant administrative responsibilities. Accordingly, these programs would need to be properly vetted and resourced prior to approval by Church Council.

Appendix A: ADMINISTRATIVE GUIDELINES FOR CHURCH FINANCE STAFF

- 1) Church finance staff must be alert to identify and resolve issues of non-compliance. Non-compliant gifts must be returned to the donor as quickly as possible.
- 2) When gifts are returned to the donor, special tax rules may apply:
 - a) Do not provide tax receipts for gifts that are returned.
 - b) If a tax receipt has already been provided, the donor must be advised that the tax receipt is invalid.
 - c) If the refund occurs in a subsequent tax year, the donor is possibly subject to tax consequences. The donor should be encouraged to consult with a tax professional.
- 3) The policy allows for us to collect gifts for use by our missionaries. All gifts collected for missionaries must be sent to the Conference for disbursement.
- 4) The policy allows for accepting gifts for staff bonuses or love offerings. Any such gifts paid to members of staff are taxable wages and must be included in the W-2 of the employee.
- 5) Regarding “love offerings” to recognize an individual milestone: This topic is somewhat controversial and our policy may need to be amended as further guidance becomes available. The ECFA (Evangelical Council for Financial Accountability) has published a request to the IRS, noting *“The religious community would benefit greatly from a higher degree of clarity in the guidance surrounding payments commonly referred to as “love offerings” We recommend that the IRS and/or the Treasury Department provide clear and authoritative guidance to religious organizations, their leaders, and their donors regarding the tax treatment of payments made directly by individuals to leaders of religious organizations and the tax treatment of payments by individuals that benefit leaders of religious organizations in circumstances where religious organizations facilitate the payments. The guidance would be most helpful if it addressed both deductibility by donors and taxability to religious organization leaders.”*
- 6) In cases where a donor requests a refund of a gift for an over-funded project, it is permissible to make a proportionate refund, calculated as follows:

$$\text{(Total unspent donations / Total restricted donations)} \times \text{Amount donated by the individual requesting a refund}$$
- 7) The book “Donor-Restricted Gifts Simplified” by Don Busby, published by the ECFA was a primary resource in the development of this policy. Finance staff should refer to this resource to further understand the guidelines of this policy. In no case should guidance from the book be used in substitution for the policy.