

## **Discretionary Funds Guidelines for Administering Discretionary Funds<sup>1</sup>**

### **Introduction**

The subject of discretionary funds often raises questions from both clergy and lay persons. The answer to the questions can have significant consequence for both the clergy, the church and persons who contribute to the discretionary fund.

Since clergy can unknowingly run afoul of IRS tax regulations, the Bishop and Trustees of the Episcopal Diocese of Rochester believe that the diocese has a responsibility to suggest some guidelines for these funds which will encourage proper stewardship of monies intended for those in need, and have therefore asked that this memorandum be prepared to guide clergy and parish treasurers in managing discretionary funds.

### **The Canonical Basis for Discretionary Funds**

Discretionary funds are to be used for the poor and for other “charitable and pious purposes” according to the National Canon cited below. Obviously gifts to the poor are its primary purpose. Within “other charitable and pious purposes” would certainly be included gifts to any recognized charitable organization (the same ones to which an ordinary individual could make a deductible gift), to the church itself, and for certain items such as vestments, books, and other professional items which will remain the property of the church when the clergy leaves. (These are examples only, and not intended as an exclusive list. Furthermore, as suggested elsewhere, such items as vestments, books, and other professional items would be more appropriately paid for from a separate expense line item for Rector’s Professional Expenses.)

The Canons of the Church say nothing about Discretionary Funds by name. The origin of discretionary funds apparently lies in Title III, Canon 14(f) of the National Church, dating back to 1814, which states:

*“The Alms and Contributions, not otherwise specifically designated, at the Administration of the Holy Communion on one Sunday in each calendar month, and other offerings for the poor, shall be deposited with the Member of the Clergy in charge of the Congregation or such other Church officer as the Member of the Clergy in charge shall appoint to be applied to such pious and charitable uses as shall be thought fit by the Member of the Clergy. When a parish is without a Rector the Vestry shall appoint a responsible person to serve as Almoner.”*

While it is now often customary to supplement the discretionary fund with gifts from individuals and also from the church’s general operating funds, one item is of particular importance in the Canon. The words “alms,” “contributions” and “offerings” are used, which clearly mean that these are funds given to the church and which therefore belong to the church.

### **Suggested Guidelines**

1. The Discretionary Fund should be an account of the parish. Although the Rector may write the checks and maintain the confidential records of the fund, the fund itself should belong to the parish. The bank account should be in the name of the church (i.e., “Christ Church Rector’s Discretionary Fund”) with the church’s tax ID number on the account. To preserve confidentiality, the clergy can be the only signer.
2. An interpretation of the Canons suggests that monies expended from the fund should be for “charitable and pious purposes.” Hence, gifts to the poor, gifts to any recognized charitable organization and gifts to the church itself, are within the general intent of discretionary funds. Discretionary funds are not intended for the business expenses of the clergy. (A separate line item in

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<sup>1</sup>Adapted from the following two documents for use in the Diocese of Rochester by Bruce Rockwell, Assistant to the Bishop for Stewardship and Planned Giving: (1) Memorandum dated September, 1989, written by Michael P. Porter, Chancellor of the Diocese of Hawaii, and (2) Presentation notes of the Rev. William F. Geisler, Controller of the Diocese of California. Discretionary Funds.doc

the operating budget of the parish should be established for the business or professional expenses related to the rector's ministry.)

3. Because discretionary funds should be the property of the parish, gifts to them should be made to the church, rather than to the rector as an individual. A gift to the church is deductible to the donor whereas a gift to the clergy is not.
4. A gift to a clergy, not payable to the church, is not deductible by the donor. Further, if given in return for services rendered, such as for funerals, weddings, etc., it is taxable income to the clergy.
5. A gift to the discretionary fund may be unrestricted, or, if restricted, should be designated for one of the legitimate purposes of the church. In other words, one cannot "run money through" a discretionary fund to send one's children to school or to pay for Aunt Hattie's stay in the nursing home even though there may be a need. Such a gift would not be deductible to the donor.
6. Because discretionary funds should be the property of the church, they should remain at the church when the rector is called elsewhere.
7. A separate bank account may be set up for discretionary funds. All gifts intended for discretionary funds, whether delivered to the church or to the rector, should pass through this account. The majority of checks written from this fund may not be of a confidential nature. On the other hand, when money is to be used for financial aid to individuals in situations which should be kept confidential, then a check can be written to cash. The clergy should, however, keep a private record whenever this is done to record just what is done with the proceeds of such a check. This is a protection to the clergy in case of an IRS audit.
8. Since the discretionary fund is an account of the parish, it should be audited annually as part of the parish audit. Given the confidential nature of the transactions, arrangements should be made for someone to review the discretionary fund on a confidential basis.
9. The person administering discretionary funds is in a position very similar to that of a trustee, managing funds which belong to the church. She or he is handling funds which are not her or his own property. That person is therefore obligated to do so with a high degree of care, not to waste the funds, not to let them be commingled with personal funds, and finally to use them for the purposes for which they were entrusted to her or his care.

### **Clergy Business Expense Accounts**

Many of the expenditures which have heretofore been made from discretionary accounts are not specifically pastoral. These expenditures, such as those for continuing education, entertainment for business purposes, magazines and subscriptions, vestments, etc., are ordinary operating expenses of doing the clergy's job. Such expenditures are better handled by a budget line item called "Rector's Expenses." The amount budgeted should be worked out annually between the vestry and its rector. The discretionary fund is best saved for pastoral expenditures which must be kept discrete. This will give the parish the opportunity to understand what the expenses of its rector are, and to provide the necessary funds as other employers do.

### **Conclusion**

In conclusion, the discretionary fund is not now, nor was it ever, intended to be the personal property of the rector. These are monies which belong to the parish and are entrusted to the rector for proper distribution. With regard to taxes, money flowing from a church to the clergy for the clergy's personal use is generally taxable as income to the clergy. Money given in exchange for services is taxable as income. Gifts are deductible only if given to an exempt organization, such as the church, but not if given to an individual, either directly or indirectly.