Gifts to Help Ministry Participants

Often, people want to help an individual, child or student, and at the same time, want a tax deductible contribution. One of the tensions created by the tax law is the difference between a tax deductible gift to an organization and a non-deductible gift for an individual. There are situations where the difference may not always be clear, and the good motives behind such gifts sometimes add confusion. This article describes the established tax law principles, and some recurring patterns where the application of the rules is clear.

The principle was first stated clearly over 40 years ago (Revenue Ruling 62-113):

> If contributions to the fund are earmarked by the donor for a particular individual, they are treated, in effect, as being gifts to the designated individual and are not deductible. However, a deduction will be allowable where it is established that a gift is intended by a donor for the use of the organization and not as a gift to an individual.
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> The 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.

“Missionary support” is a common example in the evangelical community, which may at times look like a ‘gift’ to the missionary. Tax deductible missionary support, however, requires that the organization exercise control over the contributions. As a part of the mission’s control, the missionary only receives funds as they are paid to perform services for the organization or have expenses associated with their ministry reimbursed. The missionary does not receive a gift or benefit as a result of the contribution.

The occasional confusion in court cases, IRS actions (and some Christians’ minds) regarding missionary support illustrates the importance of distinguishing between gifts to organizations and pass-through of gifts. Establishing clear evidence of organizational control will generally be less expensive and trouble than arguing with the IRS about control. Control is demonstrated though solicitation materials, receipts to donors, policies and the procedures used to handle contributions, determination of staffing and ministry activities and the process for approving and making payments.

Many cases and rulings have established that “passing” gifts through an organization to an individual, no matter how worthy the ultimate recipient or cause, will not make the contribution deductible. The gift must be to the organization and under its control.

In several recurring situations, courts or the IRS have provided more detailed guidance:

Tuition Payments. There have been numerous cases involving attempts to claim contribution for payments that effectively are tuition to a private school. Occasionally, the IRS has even asserted that the donors were guilty of criminal tax fraud. Probably any payment which has the result directly or indirectly of funding a specific person’s tuition will not be tax deductible (Rev. Rule 83-104). It does not matter that the donor is not related to the student.

Camp, Seminar, Retreats. Contributions to assist specific individuals to attend these would not be tax deductible. These are essentially the same as tuition payments. The person attending is receiving entertainment, education, training, or spiritual edification.

Scholarship Fund. General contributions to a scholarship fund where the donor does not preference or determine who gets the scholarship are deductible. This could apply to a scholarship fund, whether it was for a school, camp, seminar or a retreat.

Personal Ministry Expense. A volunteer can claim a deduction for the expenses the volunteer incurs while performing ministry or other charitable activities (Reg. 1.170A-1(g)) provided the donor receives no significant personal pleasure or recreation from the activity (IRC 170(j)). Pleasure from serving others or recreation after a full day would not disqualify the contribution. Sometimes instead of claiming the expense directly, a volunteer may make a contribution to the organization to fund the volunteer/donor’s expenses. Contributions to an organization which is sponsoring a ministry work trip to fund the volunteer/donor’s own expenses on the trip (transportation, food and lodging) are also deductible and practically may facilitate group purchases for travel and other ministry expenses.

Paying Another’s Ministry Expenses. Tax deductions for paying the expenses of someone else who volunteers, however, have been rejected by the Supreme Court (Davis v. U.S., 495 US 472). The Court ruled that parents of Mormon missionaries could not claim tax deductions for payment of their missionary sons’ expenses. Contributions to an organization designated to pay the expenses of a specific volunteer would be a non-deductible pass-through under Revenue Ruling 62-113.

Mission Trip Expenses. Contributions to an organization planning a ministry work trip to help fund the trip can be tax deductible. Deductible contributions may include gifts only preferenced for the expenses of a specific participant, for the same reasons “missionary support” is tax deductible. The donor must understand the gift is to the organization (not for a specific person) and the organization must control the timing and activities of the ministry trip, who participates in the trip, and how the funds are used for the ministry trip. Since the gift is to the organization, the gift is irrevocable even if the person for whose expenses the gift is preferenced does not go.

Summary. The frequency of court cases and attention given to these situations in rulings over the years illustrate the potential for confusion. On occasion, it may be appropriate to request non-deductible contributions for specific needy individuals. More commonly, a tax deductible contribution is desirable and potentially possible. When planning to request gifts, an organization should determine whether the gift will be tax deductible or not before communicating the need.

Finally, when a tax deductible contribution is the goal, churches and other nonprofits must be clear in their communication and control over contributions in order to protect their donors' tax deductions.

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