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RESPONSIBILITIES OF THE CHURCH TREASURER

► The church treasurer holds an office of vital importance to the success of the local church ministry. The treasurer represents the church in an official capacity within the church body and outside the church body (e.g., banks, vendors, etc.). In conjunction with the pastor, the treasurer has the critical role of maintaining the business integrity (both in financial and legal matters) of that local body. It is important for the treasurer to stay current on federal, state, and local laws that affect the church with regard to taxes, reporting and filing requirements, and other legal issues.

In most churches in the United States, the church treasurer position is a volunteer, nonpaid staff position. In larger churches, treasurers sometimes receive some compensation. In the largest of churches, the treasurer position is only a position on the church board, with financial duties handled by paid staff such as a church business administrator. A well-informed, conscientious treasurer is often the key for a church desiring to demonstrate accountability and integrity.

The responsibilities of the treasurer should always be in writing, such as in a position description (denominations generally detail church treasurer responsibilities in polity documents). These responsibilities often include the following:

- Serves as financial officer of the congregation
- Is responsible for payment of all bills, invoices, and charges



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- Performs or oversees all of the financial recordkeeping functions
- Prepares the financial reports for the church board and provides appropriate financial information to the church and gift acknowledgments to donors
- Files all of the required federal, state, and local tax forms
- Monitors the cash position of the congregation and invests available funds in accordance with church investment policies
- Is empowered to borrow funds as directed by the church board
- Assists in the preparation of the annual church budget
- Often serves as a member of the church finance committee, if the church has such a committee (Evangelical Lutheran 2007, chapter 1)

SEPARATION OF FINANCIAL RESPONSIBILITIES

The segregation of church financial responsibilities is fundamental to accountability and integrity. While a church treasurer could feel the separation of duties is a negative reflection on the treasurer's trustworthiness, this arrangement is important for the protection of the treasurer and the congregation. The credibility of the church treasurer is vital to the integrity of the church's financial processes. Thus it is critical to protect the treasurer's credibility by establishing appropriate checks and balances.

While church revenue comes in various forms (including rent and fees), offerings are the financial lifeblood of a church. Most offerings received by churches are unrestricted—that is, they may be used to fund any aspect of church ministry. But nearly every church receives some donor-restricted funds, which require special treatment in recording the income and expense.

Why do problems arise in handling church offerings? It is primarily because cash is so easily misappropriated. It is small, lacks owner identification, and has immediate transferability. This is why cash should always be counted and recorded by two people. Sole access to offerings, as will be shown, can create a difficult situation for some people.

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All funds received by a church should be recorded in a way that reflects the nature of the funds, the name of the donor/payer (when available), and the amount donated or paid. Counting forms (similar to the “Offering Counting Form” found on page 127 and the accompanying CD) should be used by tellers to record offering details. The Guidelines for Handling Church Offerings (below) are an excellent basis for developing guidelines specific to the needs of your church.

The following procedures should be conducted *separately* from the treasurer’s responsibility:

- Oversight of the counting process
- Oversight of the depositing of all receipts
- Training individuals involved in counting the offering

Offering totals should be reported to the treasurer for recording in the church financial system. Offering details, including any restricted gifts, should be provided either to the treasurer or to another person designated by the church for posting into the donor management system. (If the church does not use an electronic donor management system, a form similar to the “Individual’s Contribution Record” found on page 128 and the accompanying CD may be used.)

Guidelines for Handling Church Offerings*

- **Adopt policies to prevent problems.** Written policies are the ounce of prevention that could avoid serious problems at your church. Adopt a series of detailed policies that outline the procedures to be followed from the time the money goes into the offering plate—in worship services, during Sunday School classes, in other services, from the mail, or from delivery to the church—until the money is deposited in the bank.
- **Make accountability and confidentiality dual goals.** Too

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many churches focus so much on confidentiality that accountability takes too low a priority. True, some confidentiality is sacrificed when good accountability exists. But the church that does not balance confidentiality and accountability is treading on dangerous ground.

- **Use confidentiality statements.** Counters should sign a written statement of confidentiality before participating in the counting process. If the commitment of confidentiality is broken, the individual(s) should be removed from the team of counters.
- **Always follow the principle of two.** When a church leaves the offering in control of a single person—even for a short time period—before the count has been recorded or the uncounted offering has been dropped at the bank, it is a blatant invitation for problems. When sole access to the offering is allowed, most people will not take any money. However, for some, the temptation may be too great.

Even when the principle of joint control is carefully followed, collusion between the two people is still possible—leading to a loss of funds. The risk of collusion can be reduced by rotating ushers and offering counters so they don't serve on consecutive weeks. Church treasurers, financial secretaries, and other church-elected individuals should serve for limited terms, such as two or three years. A pastor or the church treasurer should not be involved in the counting process. A husband and wife could serve on the same counting team only if a third party is always present.

Example: The Sunday offerings go from the ushers to the head usher and then to the financial secretary, who takes the money, makes the initial count, records the donations by donor, and then makes the bank deposit. Problem: This violates the principle of having offerings in the control of two individuals until they are counted. The head usher and financial secretary both have the oppor-

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tunity to remove cash. Or they could be accused of mis-handling the funds and have no system of controls to support their innocence.

- **Keep the offering plates in plain view.** When the offering is being received, it is important that each offering plate always be kept in plain view of two ushers. When a solo usher takes an offering plate down a hall, upstairs to the balcony, behind a curtain, or out a door, there is a possibility of losing cash from the plate.
- **Be sure the guidelines cover Sunday School offerings.** Too often churches are very careful with offerings from the worship services but not so careful with offerings received in church school classes. These offerings should be counted in the class and turned over to an usher or counting team comprised of at least two individuals.
- **Encourage the use of offering envelopes.** Members should be encouraged to use offering envelopes. The envelopes provide a basis for recording contributions in the church's donor records.

Some churches emphasize this concept by providing each individual or church family with a series of prenumbered offering envelopes to be used throughout the calendar year. The numbering system identifies the donor. This can ease the process of posting donations and is an excellent approach.

- **Count the offerings as soon as possible.** A frequent reason given by churches for not counting offerings immediately is that church members don't want to miss the service. This is very understandable. In some churches, the Sunday offerings are counted on Monday. Adequate control over the money is maintained by providing a secure place to store the funds, usually a safe, and carefully limiting access to the storage location.

However, the greater the length of time between receiv-

ing and counting the offering, the greater the potential for the mishandling of funds. When offerings are immediately counted, secure storing of the funds is important but not as critical because an audit trail has been established.

- **Have counters complete offering tally sheets.** Tally sheets should be completed that separately account for loose checks and cash that were placed in offering envelopes. Checks or cash placed in blank, unidentified offering envelopes should be recorded with the loose funds. This separation of money serves as a control amount for the later posting to donor records.
- **Use a secure area for counting.** For the safety of the counting team, confidentiality, and the avoidance of interruptions, provide a secure area in which the offering can be counted. (When offerings are significant, consider providing armed security when offerings are transported to the bank.) The counters should have an adding machine, coin wrappers, offering tally sheets, and other supplies. The adding machine should have a tape (instead of a paperless calculator) so the counting team can run two matching adding machine tapes of the offering.
- **Deposit all offerings intact.** Offerings should always be counted and deposited intact. Depositing intact means not allowing cash in the offering to be used for the payment of church expenses or to be exchanged for other cash or a check.

If offerings are not deposited intact, an unidentified variance between the count and the deposit could occur. Additionally, if an individual is permitted to cash a check from offering funds, the church may inadvertently provide the person with a cancelled check that could be used in claiming a charitable tax deduction.

- **Verify amounts on offering envelopes with the contents.** As the counting team removes the contents from offering

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envelopes, any amounts written on the envelope by the donors should be compared with the contents. Any variances should be noted on the envelope.

- **Properly identify donor-restricted funds.** All donor restrictions should be carefully preserved during the counting process. These restrictions are usually noted on an offering envelope, but they can take the form of an instruction attached to a check or simply a notation on the check.
- **Use a restrictive endorsement for checks.** During the counting process, it is important to add a restrictive endorsement, with a “For Deposit Only” stamp, to the back of all checks.
- **Place offerings in a secure location when they are stored in the church.** If offerings are stored in the church, even for short periods of time, the use of a secure location is important. A safe implies security, while an unlocked desk drawer connotes lack of security. But defining security is often not that easy.

Again, the principle is that no one person should have access to the funds at any time. This can be accomplished by

- obtaining a safe with two locks
- changing the combination and distributing portions of the new combination to different people or
- placing the safe in a locked room or building and placing the offerings in locked bags before locking them in the safe

Ideally, offerings are counted during or after the service and a deposit is made immediately. Alternately, the cash portion of the offering is recorded and the uncounted offerings are immediately transported to the bank drop box by two people. When these two preferable options are not used, the offerings are generally stored at the church for a period of time on Sunday or perhaps until Monday morning.

This process requires a secure storage location, preferably a safe, and highly structured controls over access to locked bank bags and the safe.

- **Use proper controls when dropping uncounted funds at the bank.** If your church drops uncounted offerings at the bank, several key principles should be followed:
 - The funds should be placed in locked bank bags with careful control of the number of persons who have keys to the bags.
 - Two individuals should transport the funds to the bank.
 - Two people should pick up the funds from the bank on the next business day, count the funds, and make the deposit.
- **Control deposit variances.** Provide written instructions to the bank concerning procedures to be followed if the bank discovers a discrepancy in the deposit. The notification should go to someone other than the individual(s) who participated in preparation of the deposit.
- **Segregate duties when recording individual contributions.** Someone other than a member of the counting team should record individual gifts in donor records. This segregation of duties reduces the possibility of the misappropriation of gifts.

Acknowledging and Reporting Charitable Gifts*

Contributors to your church seeking a federal income tax charitable contribution deduction must produce, if asked, a written receipt from the church if a single contribution's value is \$250 or more. Strictly speaking, the burden of compliance with the

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\$250 or more rule falls on the donor. In reality, the burden and administrative costs fall on the church, not the donor.

The IRS can fine a church that deliberately issues a false acknowledgment to a contributor. The fine is up to \$1,000 if the donor is an individual and \$10,000 if the donor is a corporation.

A donor will not be allowed a charitable deduction for single donations by check or gifts-in-kind of \$250 or more unless the donor has an acknowledgment from your church.

If a donor makes multiple contributions of \$250 or more to one church, one acknowledgment that reflects the total amount of the donor's contributions to the church for the year is sufficient. In other words, the church can total all of the contributions for a donor and only show the total amount on the receipt.

If a donor contributes cash, the donor must have an acknowledgment to qualify for a charitable deduction—this is true for all cash gifts without regard to whether they are single gifts of \$250 or more.

- **Information to be included in the receipt.** The following information must be included in the gift receipt:
 - the donor's name
 - if cash, the amount of cash contributed
 - if property, a description, but not the value (if the gift is an auto, boat, or airplane, the church must generally provide Form 1098-C to the donor), of the property
 - a statement explaining whether the church provided any goods or services to the donor in exchange for the contribution
 - if goods or services were provided to the donor, a description and good-faith estimate of their value and a statement that the donor's charitable deduction is limited to the amount of the payment in excess of the value of the goods and services provided, and if services were provided consisting solely of intangible religious benefits, a statement to that effect

- the date the donation was made and
- the date the receipt was issued

- **When receipts should be issued.** Donors must obtain their receipts no later than the due date, plus any extension, of their income tax returns or the date the return is filed, whichever date is earlier. If a donor receives the receipt after this date, the gift does not qualify for a contribution deduction even on an amended return.

If your church is issuing receipts on an annual basis, you should try to get them to your donors by at least January 31 each year and earlier in January if possible. This will assist your donors in gathering the necessary data for tax return preparation.

Form 1098-C must be provided within 30 days after the date that [a donated] vehicle is sold or within 30 days of the donation date if the church keeps the property.

- **Frequency of issuing receipts.** The receipts or acknowledgments can be issued gift-by-gift, monthly, quarterly, annually, or any other frequency. For ease of administration and clear communication with donors, many churches provide a receipt for all gifts, whether more or less than \$250.
- **Form of receipts.** Except for Form 1098-C, used for gifts of autos, boats, or airplanes, no specific design of the receipt is required. The IRS has not issued any sample receipts to follow.

The receipt can be a letter, a postcard, or a computer-generated form. It does not have to include the donor's social security number or other taxpayer identification number. A receipt can also be provided electronically, such as via an e-mail addressed to the donor.

- **Separate gifts of less than \$250.** If a donor makes separate gifts by check during a calendar year of less than \$250, there is no receipting requirement since each gift is a separate contribution. The donor's cancelled check will provide sufficient

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substantiation. However, most churches receipt all gifts with no distinction between the gifts under or over \$250.

- **Donations payable to another charity.** A church member may place a check in the offering plate of \$250 or more payable to a mission organization designed for the support of a particular missionary serving with the mission. In this instance, no receipting is required by your church. Since the check was payable to the mission agency, that entity will need to issue the acknowledgment to entitle the donor to claim the gift as a charitable contribution.
- **Donor's out-of-pocket expenses.** You may have volunteers who incur out-of-pocket expenses on behalf of your church. Substantiation from your church is required if a volunteer claims a deduction for unreimbursed expenses of \$250 or more. However, the IRS acknowledges that the church may be unaware of the details of the expenses or the dates on which they were incurred. Therefore, the church must substantiate only the types of services performed by the volunteer that relate to out-of-pocket expenses.
- **Individuals.** Gifts made to poor or needy individuals ordinarily do not qualify as charitable contributions. Gifts made personally to employees of a church are not charitable contributions.
- **Foreign organizations.** Earmarked gifts are not limited to gifts earmarked for individuals; a gift may be earmarked for an organization. It may be inappropriate to accept gifts restricted for a foreign charity even if the charitable purposes of the foreign charity are consistent with the purposes of the church.

Example 1: An individual offers to make a \$5,000 donation to your church restricted for the Sri Lanka Relief Outreach for its relief and development purposes, a foreign charity. While the church provides funding for various foreign missionary endeavors, it has no connection with the Sri Lanka Relief Outreach and has no practical

way to provide due diligence in relation to a gift to this entity. Based on these facts, the gift has the characteristics of an earmarked gift. The funds should generally not be accepted by the church.

Example 2: Same fact pattern as in Example 1, except the church regularly sponsors short-term mission trips to Sri Lanka and provides funds to the Sri Lanka Relief Outreach, based on the due diligence performed by the church's staff and volunteers on mission trips with respect to this particular foreign entity. Based on these facts, the church is generally in a sound position to make a gift of \$5,000 to the Sri Lanka-based charity as requested by the donor, avoiding the characteristics of earmarking.

Since gifts by U.S. taxpayers to a foreign charity do not produce a charitable deduction, donors may earmark a gift for a foreign charity to try to convince a church to pass it through to the entity. When a church is empowered in such a way that it is no more than an agent of or trustee for a particular foreign organization, has purposes so narrow that its funds can go only to a particular foreign organization, or solicits funds on behalf of a particular foreign organization, the deductibility of gifts may be questioned by the IRS.

- **Contingencies.** If a contribution will not be effective until the occurrence of a certain event, an income tax charitable deduction generally is not allowable until the occurrence of the event.

Example: A donor makes a gift to a church to fund a new education program that the church does not presently offer and is not contemplating. The donation would not be deductible until the church agrees to the conditions of the gift.

Most gifts do not require any reporting by the church to the IRS. In addition to gifts of autos, boats, and airplanes, certain gifts

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require IRS reporting, or execution of a form that the donor files with the IRS:

- **Gifts of property in excess of \$5,000.** Substantiation requirements apply to contributions of property (other than money and publicly traded securities) if the total claimed or reported value of the property is more than \$5,000. For these gifts, the donor must obtain a qualified appraisal and attach an appraisal summary to the return on which the deduction is claimed. There is an exception for nonpublicly traded stock. If the claimed value of the stock does not exceed \$10,000 but is greater than \$5,000, the donor does not have to obtain an appraisal by a qualified appraiser.

The appraisal summary must be on Form 8283, signed and dated by the church and the appraiser, and attached to the donor's return on which a deduction is claimed. The signature by the church does not represent concurrence in the appraised value of the contributed property.

If Form 8283 is required, it is the donor's responsibility to file it. The church is under no responsibility to see that donors file this form or that it is properly completed. However, advising donors of their obligations and providing them with the form can produce donor goodwill.

- **Gifts of property in excess of \$500.** Gifts of property valued at \$500 or more require the completion of certain information on page 1 of Form 8283. For gifts between \$500 and \$5,000 in value, there is no requirement of an appraisal or signature of the church.
- **Charity reporting for contributed property.** If property received as a charitable contribution requiring an appraisal summary on Form 8283 is sold, exchanged, or otherwise disposed of by the church within three years after the date of its contribution, the church must file Form 8282 with the IRS within 125 days of the disposition.

This form provides detailed information on the gift and

the disposal of the property. A copy of this information return must be provided to the donor and retained by the church.

A church that receives a charitable contribution valued at more than \$5,000 from a corporation generally does not have to complete Form 8283.

A letter or other written communication from a church acknowledging receipt of the property and showing the name of the donor, the date and location of the contribution, and a detailed description of the property is an acceptable contribution receipt for a gift of property.

There is no requirement to include the value of contributed property on the receipt. A tension often surrounds a significant gift of property because the donor may request the church to include an excessively high value on the charitable receipt. It is wise for the church to remain impartial in the matter and simply acknowledge the property by description and condition while excluding a dollar amount.

Example: A church receives a gift of real estate. The receipt should include the legal description of the real property and a description of the improvements with no indication of the dollar value.

- **Acknowledging and reporting gifts of autos, boats, and airplanes.** Churches are required to provide contemporaneous written acknowledgment containing specific information to donors of autos, boats, and airplanes. Taxpayers are required to include a copy of the written acknowledgments with their tax returns in order to receive a deduction. The church is also required to provide the information contained in the acknowledgment to the IRS. The information included in such acknowledgments as well as the meaning of “contemporaneous” depends on what the church does with the donated vehicle.

Vehicle sold before use or improvement. If the donat-

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ed auto, boat, or airplane is sold before significant intervening use or material improvement of the auto, boat, or airplane by the organization, the gross proceeds received by the church from the sale of the vehicle will be included on the written acknowledgment. Therefore, for donated property sold before use or improvement, the deductible amount is the gross proceeds received from the sale.

For property sold before use or improvement, a written acknowledgment is considered contemporaneous if the church provides it within 30 days of the sale of the vehicle. The written acknowledgment provided by the church should include the following information:

- the name and taxpayer identification number of the donor
- the vehicle, boat, or airplane identification number or similar number
- certification that the property was sold in an arm's-length transaction between unrelated parties
- the gross proceeds from the sale and
- a statement that the deductible amount may not exceed the amount of the gross proceeds

If a church furnishes a false or fraudulent acknowledgment or fails to furnish an acknowledgment in accordance with the time and content requirements, the church will be subject to a penalty equal to the greater of

- the product of the highest rate of tax and the sales price stated on the acknowledgment or
- the gross proceeds from the sale of the property

Vehicle not sold before use or improvement. Churches may plan to significantly use or materially improve a donated auto, boat, or airplane before or instead of selling the property. In such circumstances, the church would not include a dollar amount in the written acknowledgment. Instead, the written acknowledgment (written within 30 days

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of the contribution of the vehicle to be considered contemporaneous) should include the following information (Form 1098-C may be used as the acknowledgment):

- the name and taxpayer identification number of the donor
- the vehicle, boat, or airplane identification number or similar number
- certification of the intended use or material improvement of the property and the intended duration of such use and
- certification that the property will not be transferred in exchange for money, other property, or services before completion of such use or improvement

The deductible amount for contributed autos, boats, or airplanes that will be used or improved by the church is the fair market value of the property, as determined by the donor, taking into consideration accessories, mileage, and other indicators of the property's general condition.

For donated autos, boats, or airplanes that a church will use or improve, if a donee organization furnishes a false or fraudulent acknowledgment or fails to furnish an acknowledgment in accordance with the time and content requirements, the church will be subject to a penalty equal to the greater of

- the product of the highest rate of tax and the claimed value of the property or
- \$5,000

In certain instances, an auto, boat, or airplane may be sold at a price significantly below fair market value (or gratuitously transferred) to needy individuals in direct furtherance of the church's charitable purpose (although it is difficult to imagine how a boat or an airplane would meet this definition).

For property that meets this definition, the gift acknowl-

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edgment also must contain a certification that the church will sell the property to a needy individual at a price significantly below fair market value (or, if applicable, that the church gratuitously will transfer the property to a needy individual) and that the sale or transfer will be in the direct furtherance of the church's charitable purpose of relieving the poor and distressed or the underprivileged who are in need of a means of transportation.

Example: On March 1, 2008, a donor contributes a qualified vehicle to a church. The church's charitable purposes include helping needy individuals who are unemployed develop new job skills, finding job placements for these individuals, and providing transportation for these individuals who need a means of transportation to jobs in areas not served by public transportation. The church determines that, in direct furtherance of its charitable purpose, the church will sell the qualified vehicle at a price significantly below fair market value to a trainee who needs a means of transportation to a new workplace. On or before March 31, 2008, the church provides Form 1098-C to the donor containing the donor's name and taxpayer identification number, the vehicle identification number, a statement that the date of the contribution was March 1, 2008, a certification that the church will sell the qualified vehicle to a needy individual at a price significantly below fair market value, and a certification that the sale is in direct furtherance of the church's charitable purpose.

Generally, no deduction is allowed unless donors receive Form 1098-C within 30 days after the date that the vehicle is sold or within 30 days of the donation date if the church keeps the car. If the vehicle is sold, donors must be informed of the gross selling price.

If the church keeps the car, the private-party sale price

must be used by donors to figure the charitable tax deduction for donations, not the higher dealer retail price.

(See "Sample Charitable Gift Receipt" No. 1 and "Sample Letter to Noncash Donors" in Appendix 2 and on the accompanying CD.)

Quid Pro Quo Disclosure Requirements*

When a donor receives goods or services of value approximate to the amount transferred, there is no gift. This is because the person received a quid pro quo in exchange for the transfer, and thus, there is no gift at all. If the payment to a church exceeds the approximate amount of goods or services provided to the payor, the difference qualifies as a charitable gift.

The church is required to provide a receipt for all transactions where the donor makes a payment of more than \$75 to the church and receives goods or services (other than intangible religious benefits or items of token value).

Form of the Receipt

The receipt must

- inform the donor that the amount of the contribution that is deductible for federal income tax purposes is limited to the difference in the amount of money and the value of any property contributed by the donor over the value of the goods or services provided by the church and
- provide the donor with a good-faith estimate of the value of goods or services that the church is providing in exchange for the contribution

Only single payments of more than \$75 are subject to the rules. Payments are not cumulative. It is not a difference of \$75 between the amount given by the donor and the value of the ob-

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ject received by the donor that triggers the disclosure requirements, but the amount actually paid by the donor.

Calculating the Gift Portion

It is not a requirement for the church to actually complete the subtraction of the benefit from a cash payment, showing the net charitable deduction. However, providing the net amount available for a charitable deduction is a good approach for clear communication with your donors.

When to Make the Required Disclosures

The disclosure of the value of goods or services provided to a donor may be made in the donor solicitation as well as in the subsequent receipt. However, sufficient information will generally not be available to make proper disclosure upon solicitation. For example, the value of a dinner may not be known at the time the solicitation is made.

Goods Provided to Donors

To determine the net charitable contribution, a gift must generally be reduced by the fair market value of any premium, incentive, or other benefit received by the donor in exchange for the gift. Common examples of premiums are books, tapes, and Bibles.

For gifts of over \$75, organizations must advise the donor of the fair market value of the premium or incentive and explain that the value is not deductible for tax purposes.

Donors must reduce their charitable deduction by the fair market value of goods or services they receive even when the goods or services were donated to the church for use as premiums or gifts or when they were bought wholesale by the church. Therefore, churches cannot pass along to donors the savings realized by receiving products at no cost or buying products at a discount.

If donors receive benefits of insubstantial value, they are allowed a full tax deduction for the donation:

- **Low-cost items.** If an item that has a cost (not retail value) of

less than \$9.10 and bears the name or logo of your church is given in return for a donation of more than \$45.50 (2008 inflation-adjusted amount), the donor may claim a charitable deduction for the full amount of the donation. Examples of items that often qualify as tokens are coffee mugs, key chains, bookmarks, and calendars.

- **De minimis benefits.** A donor can take a full deduction if the fair market value of the benefits received in connection with a gift does not exceed 2 percent of the donation or \$91 (2008 inflation-adjusted amount), whichever is less.

Examples of the Quid Pro Quo Rules

Here are various examples of how the quid pro quo rules apply:

- **Admission to events.** Many churches sponsor banquets, concerts, or other events to which donors and prospective donors are invited in exchange for a contribution or other payment. Often, the donor receives a benefit equivalent to the payment and no charitable deduction is available.

But if the amount paid is more than the value received, the amount in excess of the fair market value is deductible if the donor intended to make a contribution.

- **Auctions.** The IRS generally takes the position that the fair market value of an item purchased at a church auction is set by the bidders. The winning bidder, therefore, cannot pay more than the item is worth. That means there is no charitable contribution in the IRS's eyes, no deduction, and no need for the church to provide any charitable gift substantiation document to the bidder.

However, many tax professionals take the position that when the payment (the purchase price) exceeds the fair market value of the items, the amount that exceeds the fair market value is deductible as a charitable contribution. This position also creates a reporting requirement under the quid

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pro quo rules. Most churches set the value of every object sold and provide receipts to buyers.

Example: Your church youth group auctions goods to raise funds for a missions trip. An individual bought a quilt for \$200. The church takes the position that the quilt had a fair market value of \$50 even though the bidder paid \$200. Since the payment of \$200 exceeded the \$75 limit, the church is required to provide a written statement indicating that only \$150 of the \$200 payment is eligible for a charitable contribution.

- **Bazaars.** Payments for items sold at bazaars and bake sales are not tax deductible to donors since the purchase price generally equals the fair market value of the item.
- **Banquets.** Whether your church incurs reporting requirements in connection with banquets where funds are raised depends on the specifics of each event.

Example 1: Your church sponsors a banquet for missions charging \$50 per person. The meal costs the church \$15 per person. There is no disclosure requirement since the amount charged was less than \$75. However, the amount deductible by each donor is only \$35.

Example 2: Your church invites individuals to attend a missions banquet without charge. Attendees are invited to make contributions or pledges at the end of the banquet. These payments probably do not require disclosure even if the amount given is \$75 or more because there is only an indirect relationship between the meal and the gift.

- **Deduction timing.** Goods or services received in consideration for a donor's payment include goods and services received in a different year. Thus, a donor's deduction for the year of the payment is limited to the amount, if any, by which

the payment exceeds the value of the goods and services.

- **Good-faith estimates.** A donor is not required to use the estimate provided by a church in calculating the deductible amount. When a taxpayer knows or has reason to know that an estimate is inaccurate, the taxpayer may ignore the church's estimate.
- **Rights of refusal.** A donor can claim a full deduction if he or she refuses a benefit from the church. However, this must be done affirmatively. Simply not taking advantage of a benefit is not enough. For example, a donor who chooses not to make use of tickets made available by your church must deduct the value of the tickets from his or her contribution before claiming a deduction. However, a donor who rejects the right to a benefit at the time the contribution is made (e.g., by checking off a refusal box on a form supplied by your charity) can take a full deduction.
- **Sale of products or a service at fair market value.** When an individual purchases products or receives services approximate to the amount paid, no part of the payment is a gift.

Example 1: An individual purchases tapes of a series of Sunday morning worship services for \$80. The sales price represents fair market value. Even though the amount paid exceeds the \$75 threshold, the church is not required to provide a disclosure statement to the purchaser because the value of the products is approximate to the amount paid to the church.

Example 2: The Brown family uses the fellowship hall of the church for a family reunion. The normal rental fee is \$300. The Browns give a check to the church for \$300 marked "Contribution." No receipt should be given because no charitable contribution was made. The Browns received a benefit approximate to the amount of their payment.

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Example 3: The Brown family uses the church sanctuary and fellowship hall for a wedding and the reception. The church does not have a stated use fee but asks for a donation from those who use the facility. The comparable fee to rent similar facilities is \$250. The Browns give a check to the church for \$250 marked "Contribution." No receipt should be given because no charitable contribution was made. The Browns received a benefit approximate to the amount of their payment. Note: It is inappropriate for the church to try to mask a fee by calling it a donation.

Example 4: Your church operates a Christian school. The parent of a student at the school writes a check payable to the church for his child's tuition. No receipt should be given because a payment of tuition does not qualify as a charitable contribution.

(For examples of these types of contribution receipts, see "Sample Charitable Gift Receipt" No. 2 in Appendix 2 and on the accompanying CD.)

Suggested Steps in Handling Expenditures



1. Bills and obligations should be approved for payment based on a Travel and Other Expense Reimbursement Policy (see Appendix 2 and accompanying CD). This approval should be indicated in writing by the person responsible. In larger congregations, a purchase approval form may be used to approve a payment and identify the account to be charged. In all cases, expenditures should be supported by original invoices and/or receipts, not photocopies.
2. Check is prepared.
3. Check is signed by person(s) authorized under the bank account agreement. The pastor should not be an authorized signer. In order to prevent delays in payment when the treasurer is not available, churches should have multiple

people authorized for the signing of checks under the bank agreement.

4. Blank checks should never be signed in advance, under any circumstance.
5. The check number is written on the invoice or support document to prevent duplicate payments, and the check is mailed.
6. If the financial secretary and/or treasurer is authorized to initiate fund transfers to or from savings and/or investment accounts via telephone, it is suggested that a verification notice (written form) be developed indicating that on a specific date such a transfer took place, including the purpose, and signed by the chair of the church's governing board. This form should be retained in the files of these accounts (Evangelical Lutheran 2007, chapter 3).

Other Forms of Payment

If your church adopts the policy that all payments, other than minor payments through a properly established petty cash fund, be paid by check, the treasurer's job of recording all expenses is much easier and you will avoid many of the pitfalls associated with alternative means of purchasing, such as credit cards.

Credit Cards

When a church uses the credit card method of payment, those with the main purchasing responsibilities in the various departments may request the privilege of using the church's card for approved expenses. While this system simplifies the jobs of these persons in that they do not have to submit their purchase needs in advance, it can easily get out of hand. For example, some people in the local church do not always share the treasurer's level of commitment to saving proper documentation of ministry expenses that is necessary for tax deductions. It is not uncommon for the treasurers who work in churches that use credit cards to be completely uninformed of some expenses until the credit card bill

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arrives. Upon receiving the bill, the treasurer must track down all expenses shown on the credit card statement and collect the documentation after the fact. This same problem often occurs in churches where each department has its own checkbook, with the treasurer knowing nothing of the expenses until the bank statement arrives.

Another significant challenge for churches that use credit cards involves the short turnaround time credit card companies give for submitting payment on a bill. The time for the treasurer to track down, document, and get proper authorization signatures does not always allow time for the credit card bills to be paid by the due date. Credit card companies generally charge fees for late payments. These fees can add up quickly.

The simplest answer to this challenge is to have only *approved* individuals purchase what they need and submit their receipts for reimbursement. "Approved" is emphasized because it is important to keep potential expenses within reason. One approach is to have only one person in each department authorized to approve expenses. This plan eliminates numerous individuals approaching the treasurer seeking reimbursement for dubious expenses from which the church may not benefit.

Using credit cards comes not without challenges. To successfully meet these challenges churches should adopt credit card policies and procedures and have each cardholder sign an agreement to abide by them. Churches can then benefit from the conveniences that credit cards bring while establishing proper safeguards for their use.

(See the "Sample Credit Card Policies and Procedures" and "Church Cardholder Agreement" in Appendix 2 and on the accompanying CD.)

SHOULD YOU COMPUTERIZE YOUR CHURCH'S FINANCIAL RECORDS?



The availability of the computer provides the means to estab-

lish an accounting system that offers everything a congregation may require for the recording and processing of its financial information.

The software program for this accounting process should be a double-entry system. Many small churches use entry-level software, such as QuickBooks. As a church grows, it should consider purchasing a higher level software to more adequately handle budgeting, reporting, payroll, and more.

It should provide for check writing and a monthly reconciliation of deposits and withdrawals (canceled checks). Since this type of accounting software automatically records deposits and disbursements as posted to the congregation's chart of accounts, the ability to create reports of financial activity is relatively easy and can provide informative details of the congregation's financial status as related to its annual budget program. (Evangelical Lutheran 2007, chapter 5).