

## **PASTOR'S DISCRETIONARY FUND GUIDELINES**

### **1. Definition**

- 1.1. A Pastor's Discretionary Fund is typically a designated fund (as defined by the congregation) made available to the senior pastor to distribute as that person sees fit, for emergency financial aid. The congregation should establish a policy and procedure on how the fund is to be funded and dispersed. The congregation council, finance committee or other responsible group should periodically review the practices and management of the fund to ensure all parties understand the procedures and that the pastor is protected from tax or misappropriation risk.
- 1.2. A policy statement adopted by the congregation council describes how your congregation wishes the Pastor's Discretionary Fund to be administered. See the attached example.

### **2. Funding a Discretionary Fund**

- 2.1 Income to a discretionary fund must be recorded as income to the congregation. Appropriate recording ensures that income to the fund is income to the congregation, not taxable income to the pastor.
- 2.2 Typically, a pastor's discretionary fund is funded in a variety of ways. Some congregations include the fund in the annual budget, others provide for special designated offerings. Others designate the income from honorariums received for weddings, baptisms or funeral services. Honoraria or gifts in recognition of a service must be received as income to the congregation. If the payment is in the pastor's name, the income is considered taxable income to the pastor. If the pastor donates the payment to the congregation, it can be claimed as tax deductible contribution.

### **3. Dispersing the Discretionary Fund**

- 3.1 The appropriate and traditional use of clergy discretionary funds is to address needs among congregation and community members. Payments for food, rent, utilities, and medical bills for persons in need are typical uses of these funds.
- 3.2 Congregations have developed a variety of methods for dispersing funds to aid individuals or families that protect the confidentiality of the recipients and protect the pastor from unnecessary risk. Some clergy prefer to provide in-kind assistance, for example purchasing a bag of groceries or a train ticket, rather than giving cash. This practice ensures aid is used appropriately, but is more labor intensive for the pastor unless others are involved in the aid distribution, which limits confidentiality.
- 3.3 Prohibited uses of discretionary funds are payments for anything that personally benefits the authorized clergy. Therefore personal clothing, food, books, rent, utilities, insurance premiums, nor 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.

### **4. Accountability**

- 4.1 Some pastors will advance aid to individuals in need and then submit a voucher to the Treasurer for reimbursement, while others submit a voucher in advance to obtain funds for distribution.

Some clergy keep a record of all transactions, while others submit a report that the Treasurer holds confidentially. Since clergy have discretion regarding the distribution of discretionary funds, maintaining a confidential record indicating when and to whom funds were dispersed is in their best interest. Pastors should expect to be asked to account for all funds dispersed, even if the congregation has authorized confidential distribution of the aid.

- 4.2 The congregation council may approve the use of a separate checking account for the discretionary fund. The account must be opened in the congregation's name using the congregation's Federal Employer's Identification Number. Under these circumstances, all income from any source to the fund must be deposited to the congregation's general operating account, recorded on the books of the congregation, and subsequently transferred by the treasurer to the separate checking account. No monies from any source should be deposited directly into the separate checking account. The co-mingling of personal funds of any kind with discretionary funds is always improper. Monthly bank statements should be mailed directly to a person of trust other than the pastor—normally the treasurer.
- 4.3 Occasionally, congregations (typically a finance committee) request some type of report on discretionary fund distribution. Pastors may provide summary reports that offer some sense of the types of need being met without violating the confidentiality of aid recipients. For example, a report of \$300 in food assistance to six families, and two nights housing assistance for a family of four, gives the congregation valuable feedback on how they are helping others while maintaining confidentiality. A policy statement can indicate when and what is reported to the congregation for future planning.
- 4.4 Discretionary funds are subject to audit and should be included in financial reports following standard accounting procedures. The Pastor's discretionary fund remains with the congregation when the clergy departs. The congregation has a responsibility to protect both its assets and its staff as an element of good stewardship.

## 5. Tax Consequences

- 5.1 Gifts for a properly established discretionary fund, which is fully accountable to the congregation council, are deductible by donors as charitable contributions.
- 5.2 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 should not be accepted.

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*Approved by Financial Management Committee 11/11/2008*

## Discretionary Fund Policy

### Sample

This policy statement outlines the income, expenses and management responsibilities for the Pastor's Discretionary Fund at \_\_\_\_\_.

Any concerns or questions shall be directed to the Finance Committee.

The Pastor's Discretionary Fund is funded by \_\_\_\_\_

(the annual budget in line item \_\_\_\_\_ OR from designated offering envelope OR \_\_\_\_\_

\_\_\_\_\_.)

The Pastor is responsible for documenting and recording distribution of the fund. All records are confidential and held by the pastor. The church acknowledges that the pastor is authorized to distribute this fund at his or her discretion and is not required to provide and details regarding who receives assistance. The church may request general information regarding types of assistance requested (food, transportation, housing, etc.) to assess the changing needs of the community and individuals.

The Pastor is encouraged to use funds for goods and services, rather than cash assistance—for example, bus tickets or taxi fare, a bag of groceries, or hotel bill payment.

The Pastor shall submit requests for discretionary funds to the Treasurer. The Treasurer shall remit funds to the pastor as indicated on the request voucher. The approved limit on advances from the discretionary fund is \_\_\_\_\_.

The Treasurer shall report the beginning and end of year balance of the discretionary fund in the annual report and for the annual audit.

Date Adopted \_\_\_\_\_ by \_\_\_\_\_

Pastor's Signature \_\_\_\_\_

Date \_\_\_\_\_

Treasurer's Signature \_\_\_\_\_

Date \_\_\_\_\_

Finance Chair Signature \_\_\_\_\_

Date \_\_\_\_\_