



## Hardship Payments, Taxability, & Funding Guidelines

### HARDSHIP PAYMENTS PROVIDED TO PARISHIONERS

Parishes and missions that want to assist needy parishioners or others who are dealing with financial hardship due to various circumstances, such as loss of a job, family illness, medical bills, or other causes should establish a plan to balance the natural pastoral instincts of compassion with the parameters that the IRS calls for with our not-for-profit status. The IRS distinguishes between charity and private benefit. (See Publication 4221-PC, Compliance Guide for 501(c)(3) Public Charities for more information) A private benefit, such as a lack of true financial need or a conflict of interest that involves a church representative and recipient of assistance, can trigger tax consequences on the recipient and jeopardize the non-profit status of the parish and mission. The following guidance has been provided to assist with making decisions about such support and provides a process to follow that allows the ministry to be compassionate without jeopardizing the IRS rules in this area.

### GENERAL GUIDANCE

The best way to handle requests for financial assistance is to develop, perhaps with a key member of the parish finance council or the parish treasurer, a policy within the IRS guidelines that can be followed consistently. Such a policy may state limits, such as \$500, that might be provided in the most difficult cases, with suggestions for approaching other organizations that might be approached for financial needs greater than that, such as the St Vincent de Paul Society and Catholic Charities, or other charities that are better equipped to formally evaluate and assist.

### IRS RULES ON COMPENSATION, GIFTS, AND CHARITABLE GIVING

The guidance that the IRS provides in this area is that payments made to individuals fall into 3 major areas:

**COMPENSATION** – payments made in exchange for goods or services provided by the individual are taxable income, and must be coded as either W-2 wages or as 1099 income.

**PRIVATE GIFTS FROM PRIVATE INDIVIDUALS** – payments made by one taxpayer to another taxpayer are subject to a limitation (\$16,000 in 2022). This means that anyone can give tax-free gifts to any other individual without the gift being taxable to the recipient or a tax deduction to the donor. A parish and mission cannot make a private gift. The use of parish staff or the office is discouraged, though helping accumulate private gifts within the parish is possible if care is taken to ensure that the gifts remain as private, from individual to individual, and does not lead to any recognition by the parish as to tax-deductibility. A caution in using the parish business office in this manner is that it may often lead to many other needy families requesting similar treatment, which makes decisions on hardship cases very difficult to make. A documented policy on hardship assistance is recommended.

We discourage the parish from organizing and sponsoring a fundraiser, such as a GoFundMe, for a specific individual in the parish's name. The pastor may promote a fundraiser that is organized



by a separate individual, but communication should be clear that it is not a parish fundraiser. See [Policies, Best Practices & Procedures - Roman Catholic Archdiocese of Atlanta | Atlanta, GA \(archatl.com\)](#) *Electronic Payment Processing System Guidelines* and *Online Giving Guidelines*. The parish should understand the IRS's tax laws related to a hardship payment to an individual, and that a payment organized by the parish could unnecessarily trigger a 1099 if the fundraiser is in the parish's name and there is not a documented financial need. Additionally, the contributions to the fund are not tax deductible to the donor when they are earmarked for a specific individual.

CHARITABLE PAYMENTS FROM PARISH FUNDS – funds that are provided out of general contributions are generally recognized as taxable income if paid to an individual or family, unless certain need based requirements are met. In the IRS's view, charitable donations given to the Church in offertory are allowed to be tax-deductible. However, in order for the payments to assist an individual to not be taxable to that individual, certain qualifications must be met and documented. For the need-based assistance to be considered charitable, the parish must follow the following guideline:

1. The recipient of the fund cannot provide a service for the benefit of the parish or mission in exchange for the assistance. Meeting this requirement will eliminate the need of issuing a 1099 or similar tax form.
2. The following documentation should be retained in an organized manner for transparency and record keeping purposes:
  - Eligibility of the individual receiving the assistance.
  - IRS record keeping requirements for assistance that is intended for charitable purposes include:
    1. Name and address of recipient
    2. Amount distributed
    3. Purpose of assistance given
    4. Manner in which individual was selected
    5. Relationship between the recipient and the organization. If the assistance is provided to someone that has a relationship with the members (including pastor, treasurer, finance council, employees, and ministry members), officers or donors of the parish or missions it must be noted.
  - Process for monitoring the use of the funds.

## TYPES OF ASSISTANCE

NON-CASH ASSISTANCE: Parishes are encouraged to only provide non-cash assistance to increase the assurance that the funds are used as intended. The accounts payables process must be followed: pre-approval of purchase (threshold may be set), provide receipt for purchase, document business purpose, (see Best Practices for details). Giving cash gifts directly to the recipient should be avoided so that funds cannot be used for other purposes. Example of non-cash assistance include:



1. Bills Paid Directly: make direct payments to the third party vendor, such as for utilities, mortgage/rental, insurance, medical, food, transportation, funerals, school, etc....on the individual's behalf. Obtaining a copy of the bill paid should be part of the formal evaluation process of the family's needs (See IRS record keeping requirements).
2. In-kind Gifts: provide food and supplies.
3. Gift Cards: Purchasing and distributing a few gift cards occasionally is not a major task, but if it's a regular process that includes cards of varying amounts and expirations dates, and material in total, it can be a burden to track and an increased risk of fraud. If the pastor approves the use of gift cards, they must be appropriately secured and tracked from the time of purchase to distribution, and there has to be an accounting for who received each one (See IRS record keeping requirements). For locations that intend to use gift cards regularly, the process should be documented and followed. Suggested guidelines:
  - Treat gift cards as cash and keep in a safe and under dual control.
  - Develop an organized/systematic method for tracking.
  - Develop a segregation of duties for accountability. Consider:
    - The pastor should approve the purchase of gift cards.
    - Individuals with access to the general ledger should not be responsible for the gift cards.
    - The individual that purchases the gift card should not be the person who is in charge of distributing them. (This may be hard in a small parish- recruit volunteers.)
  - Submit the receipt for the purchase of the gift cards
  - Record the cost of the gift card in general ledger, such as in the ministry exchange account or department expense account.
  - Set a threshold for the maximum amount kept on hand. Replenish when it falls below this threshold.
  - Reconcile the gift card distribution log when necessary, such as when the gift cards are replenished. For example: Purchased \$500 in gift cards. Plan to replenish when the balance drops to \$200. Prior to purchasing \$300 in gift cards, confirm that \$300 was distributed (recorded in the log).
  - Follow documentation as required by IRS guidelines related to hardship support.

CASH ASSISTANCE: Direct payments to individual are highly discourage. Such payments could create a tax liability for the recipient and would be coded as "1099" income; a social security number is required. However, there is an exception allowed by the IRS (in Publication 3833), which states that "individuals who receive assistance in meeting personal needs from a charitable organization are not subject to federal income tax on the value of the assistance" provided that the requirements (describe above) are met.



## FUNDRAISING

**AUTHORITY OVER VOLUNTEER ORGANIZATIONS:** Pastor/administrator/principal should exercise proper management control over volunteer organizations. Business, development, or other appropriate office personnel should liaison with volunteer leadership ensuring proper controls are implemented. Bylaws should be established that restrain volunteer control over funds. All funds raised on behalf of the parish/mission/school belong to the parish, mission, or school with whom the organization is affiliated. Funds raised are under management control from the moment of collection, not just from the time they are transferred to the parish/mission/school, and bylaws should be written accordingly. Volunteer organizations should not operate autonomously and parish/mission/school authority over funds generated should be clarified both in writing and practice. Pastor, administrator or principal must approve all fundraisers.

**ASSESSABLE V. NON-ASSESSABLE:** Pastor, administrator or delegate should contact the Archdiocesan Finance Office to determine what type of receipts are assessable versus non-assessable and what type of receipts should be recorded as revenue versus exchange to maintain consistency. All parish-specific second collections should be approved in writing by the Archbishop before scheduled. Second collections should not be regarded as free from assessment unless pastor/administrator requests and obtains approval from the Archbishop in writing.

## CONCLUSION

The ministry should follow the policies, best practices, and guidelines of the Archdiocese of Atlanta, as well as federal and state laws. The ministry head has a responsibility to keep the pastor, parish treasurer and finance council informed about the activities of the ministry. Good communication is essential to preparing a budget and making financial and operational decisions. Members of the ministry should be trained and provided ministry specific written guidelines, as well as access to related best practices and policies of the parish and Archdiocese.



## Sample Community Outreach Ministry Charity Policies and Procedures

The purpose of this document is to provide a parish community assistance ministry a road map for developing policies and procedures for charitable giving. The ministry should tailor this to meet the needs of the parish, keeping in mind the Archdiocese guidelines, federal and state laws.

**Name of Ministry:**

**Parish:**

**Purpose/Mission of Ministry:**

**Governance:** identify the core team who will oversee the ministry in addition to the Pastor and Parish Treasurer. Determine how large you want the leadership team. This may be determined by the size of your parish and the expected number of individuals expected to be served. The size of the core team can change over time.

**Those Served:** There are an abundance of individuals to serve in every community. Your mission will help determine those you wish to serve. Examples of charitable classes include: homeless, homebound, those experiencing financial hardships, divorce or separation, unemployment.

**Budget:** Establish both a gross and case-by-case budget annually during the budgeting process. Determine the maximum amount the ministry is to provide to one recipient. Setting limits will allow the ministry to help more individuals and set a precedent. Make sure there is a clear understanding between charity and private benefit to the recipient. Consider limiting repeat assistance, which can also lead to private benefit. Exercise prudence and good judgment.

**Fundraising:** Document in general how your ministry will be funded.

**Selection criteria:** Describe what makes an individual eligible for need-based assistance from your ministry, essentially you need a vetting process. Sometimes this can be obvious, but other times it's not. With each individual, ask: Do they fit in the criteria that the parish has identified within the purpose of the community outreach program?

**Record Management:** document an organized approach for record management and case history on recipients of funds. The case history should include (1) name, address, (2) amount provided, (3) purpose of funds, (4) manner of selection of individual and (5) relationship (if any) to ministry members, council members, employees, and parish board members.

**Form of Charitable assistance:** examples include payments to third party vendors on behalf of the individual in need, in kind gifts of food and supplies, gift cards.

**Process for Monitoring:** describe what procedures for monitoring the use of funds

**Community Partners:** List. Examples: St Vincent de Paul, pregnancy center, food bank, etc...

**Strategic plan:** What areas do you want to address in 1-3 years? 3-5 years?