

PASTOR'S DISCRETIONARY FUND GUIDELINES

We should recognize that every Church establishes a "Pastor's discretionary fund." It is a very usual, if not universal practice, for the Pastor to administer such funds.

In order for there to be clarity about the fund and its use, as well as to protect the Church and the Pastor (i.e., the money in the fund should not be perceived as income to the Pastor and fund contributors should be able to receive a tax deduction for charitable contributions), there are three steps that should be taken and in place.

- (1) The Church should establish and define the parameters of the discretionary fund as it does with all Church funds. The discretionary fund's purpose and use should be clear. For example, the Church Policy could say it is "establishing a Pastor's Discretionary Fund, the monies in the fund to be used solely at the discretion of the Pastor for charitable purposes consistent with the Church's tax exempt purposes, to assist individual, educational and communal needs that may be necessary to be met in a confidential manner or whose needs would bring benefit to the Church." Some such broad definition would enable the discretion fund to be used for help to the needy or a soup kitchen in the name of the Church, or a scholarship fund, or to help with school tuition, etc. The account should require at least two signatures.
- (2) Our attorneys are of the opinion that the Pastor's contract, if one is utilized, ought to contain a clause indicating that it is the intent of the Church to maintain a Pastor's Discretionary Fund as part of the charitable funds of the Church over which the Pastor will have general control and that this fund will be used for charitable purposes as indicated by the Church.
- (3) The Pastor should allow the CPA auditors, when auditing the Church accounts, also to audit the Pastor's discretionary fund.

The reasons for the above are (a) to protect the Church which is permitting someone to receive a charitable deduction of a contribution to the discretionary fund, and (b) to protect the Church, otherwise the discretionary fund's monies might be construed as income for which the Pastor must pay income tax. The Pastor can contribute to the discretionary fund and receive a charitable deduction like everyone else, but the Pastor cannot have money passed into the fund and use the fund for personal needs. So the discretionary fund cannot be used by the Pastor to take a vacation, but it can be used by the Pastor to attend an educational conference which would benefit the Church or to purchase a computer for a religious school, or to contribute to a communal fund. The idea is for broad charitable use of the funds. When a Pastor leaves office, the discretionary fund remains because it is a Church fund and is utilized by the next Pastor.

At times there is a misconception that Pastors have large amounts of money in discretionary funds and that they use these funds for all kinds of personal items. Our experience is that this is absolutely not the case. As a matter of policy, if the Church learns of a Pastor using the

discretionary fund as a means to provide funds for the Pastor, or for any other use other than charitable purposes, we would seek to have such practice stopped. Discretionary funds are operated as charitable funds by the Pastor, not as collection banks for personal use or for the Church's general use, and Pastors are very sensitive to the need to maintain integrity when using these funds.

We believe the rather straightforward steps outlined above will be helpful to Pastors and Churches alike.