

Pastor's Discretionary Fund Tips

Many ELCA congregations commonly have a fund called the pastor's discretionary fund, intended to give the pastor discretion and authority to provide confidential financial support to people in need. In some congregations, the pastor is given free rein, with no guidelines or instructions on how the congregation intended for the pastor to handle these monies. In other congregations, the pastor is given some guidance, but it may be very general or unclear, given orally or understood culturally. In addition, in some congregations, pastors understand that they can use these funds to pay for program or other expenses that are not totally covered by the budget. Congregations and their pastors may be unaware of the potential for misuse of funds and the income tax consequences to these arrangements.

Regardless of the level of trust between the congregation and its pastor (or between the pastor and the finance committee and treasurer), written policies for the responsible handling of the pastor's discretionary fund are beneficial for everyone and should minimize misuse of funds and negative income tax consequences. If the pastor has complete discretion, without clear guidelines or financial policies, there is a risk that the entire fund could be construed as taxable income to the pastor, simply because the pastor ultimately has the discretion to pay the funds to him or herself.

Tips

Here are some tips for responsibly handling a pastor's discretionary fund in your congregation:

Establish a written policy that:

1) sets forth the exclusive purpose(s) of the fund with specificity and clarity. (Is it to be used only for providing assistance to the needy? May the pastor use it for any other purposes and, if so, for what specific purposes, consistent with the program and budget of the church?);

2) requires the pastor to document and record distributions from the fund (and authorizes the finance committee or treasurer to request additional documentation), showing the types of assistance provided during any given year (e.g., \$100 gift card from a local grocery was given to a family to purchase groceries; \$500 was paid to the hospital for a family to cover hospital emergency room treatment for a seriously ill child; \$150 was paid to a transportation company to provide a woman with transportation to and from a kidney dialysis center for a year; bus tickets and a new pair of shoes and pants were purchased for a homeless person who had a job interview.);

3) encourages the pastor to use the monies for goods and services rather than cash assistance (e.g., taxi fare, bus ticket, a bag of groceries, a pair of shoes, a doctor's bill), which helps to protect the pastor, the congregation and the persons receiving assistance from accusations of irregularity or private inurement of benefit;

4) requires the pastor to request the funds from the treasurer on some type of request voucher form, as an internal control mechanism over access to the fund (note: this

can be done and still maintain confidentiality for the specific needy persons who will be beneficiaries);

5) requires the fund to be audited with the other congregational funds;

6) states that the fund may not ever be used by the pastor personally, or for his or her family, and

7) limits the dollar amount that may be expended at any one time without advance written permission from the congregation council or finance committee.

Oversight

- Educate new pastors, finance secretaries, treasurers, finance committee chairs and congregation council chairs on the existence and purpose of the fund and the internal controls and policy that have been established to protect the church and all persons from accusations of irregularity or private inurement of benefit;

Authority

- Give the pastor authority to distribute the fund only for the specified purpose and consistently enforce the limits on this authority;

Protocols

- Educate all new pastors about the policy, and ensure that they understand the congregation's protocols (i.e., make sure the pastor knows that the funds can never be used personally or for any family member, for any purpose, including, but not limited to, college tuition for the pastor's children or other family members; health care expenses for the pastor and his family; emergency cash for the pastor or family members, etc.);

Taxes

- Educate all new pastors, treasurers and financial secretaries about these matters, and ensure that they understand the potential income tax implications if the congregation's policy is not followed carefully;

Security

- Ensure that the pastor does not keep a stash of emergency cash in his/her desk for quick disbursement because security and internal controls for cash in a desk drawer are inadequate; and

Audit

- The congregation should make provisions for an annual audit of this fund by the congregation's audit committee. If there are some confidential gifts, at least the congregation treasurer or president should be told all the details.