

The Episcopal Diocese of Northern California Treasurer's Manual
DISCRETIONARY FUNDS

CLERGY DISCRETIONARY FUNDS

It is common practice for a church to set aside a sum of money in a discretionary fund giving the clergy member sole authority over its distribution. The vestry may establish guidelines restricting use of the fund.

There may be tax consequences of such arrangements. If the clergy person has the authority to use any portion of the fund for personal use the entire fund must be reported as taxable income to the clergy person in the year it is funded. This is true even if the clergy person does not personally benefit from the fund. The mere fact that the clergy person could personally benefit from the fund is enough for the fund to constitute taxable income. To avoid tax consequences and to maintain good internal accounting controls follow these guidelines:

- establish the fund by means of a board resolution that prohibits personal use by the clergy person;
- the resolution should specify that the fund may be distributed by the clergy person only for needs or projects that are consistent with the church's exempt purposes (as set forth in the church's charter);
- establish the discretionary fund as a church bank account using the church name and tax identification number;
- at least one other member of the church should be authorized to sign on the account;
- donations should be made out in the name of the fund and not in the name of the clergy person;
- donations cannot be restricted for the purpose of benefiting a specific person;
- any restrictions imposed must be consistent with church charter;
- funds given in return for services rendered such as weddings, funerals are not donations to the fund but income to the clergy person;
- the fund stays with the church when the clergy person is called elsewhere;
- the fund should be audited during the regular church audit;
- the annual report of the discretionary fund should be presented at the annual meeting.