



Memo

Date: February 6, 2017
To: Pastors and Parish Business Managers
From: Michael Warren, Controller, Office of Finance
Re: Parishioner Hardship Payments and Taxability

From time to time, pastors are approached by particularly needy parishioners who are dealing with financial hardship – either due to loss of a job, family illness, medical bills, or other causes. When these occasions arise, it is often difficult to balance natural pastoral instincts of compassion with the parameters that the IRS calls for with our not-for-profit status.

The following guidance has been put together to assist with making decisions about such support, and how 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, a simple policy 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 for financial needs greater than that, such as St. Vincent de Paul Society, or other charities that are better equipped to formally evaluate and assist.

IRS Rules on Gifts, Compensation and Taxability

The guidance 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 of \$14,000 (in 2017). 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. In a parish setting, this is the simplest manner

by which a parishioner might provide a gift directly to a needy family, possibly anonymously. A parish cannot make a private gift in this way, only an individual taxpayer can. The use of parish staff or the office is discouraged, although helping accumulate private gifts within the parish is possible - if care is taken to ensure that gifts remain private, from individual to individual, and does not lead to any recognition by the parish as to tax-deductibility.

Please be cautious in using the parish business office in this manner; it may lead to many other needy families requesting similar treatment, which makes decisions on hardship cases very difficult to make.

- **Payments from Parish Funds** – Funds that are provided out of general offertory receipts are generally recognized as taxable income if paid to an individual or family, unless certain requirements (described below) are met. In the IRS view, charitable donations given to offertory are allowed to be tax-deductible, and for the parish to then provide such funds to an individual (or family), even to assist with financial hardship is not accepted practice - except in certain instances, as described in the box below. Several alternatives to this:

Pay Bills Directly to Utilities, etc. – Making direct payments to the gas company, or to the bank for a mortgage payment on the parishioner’s behalf is a better alternative to making payments directly to the family. This requires that the pastor, or a member of his finance council have a formal evaluation process of the family’s needs, and avoids the view that the IRS might have if funds were provided directly to the family and perhaps used for other purposes.

Pay Individual Directly – Normally, payments made to an individual (not an employee) would make the payments taxable, and would be coded as “1099” income. If the family in hardship has very little income for the year, then any amount of taxes due on their income may be extremely low, with little if any taxes ultimately due. However, there is an exception allowed by the IRS in certain dire instances, where “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 following tests are met:

For payments made directly to an individual to NOT be taxable per the IRS, adequate records must be maintained and specify:

- (a) name and address of the recipient;
- (b) the amount distributed;
- (c) the purpose for which the aid was given;
- (d) the manner in which the recipient was selected; and

(e) the relationship between the recipient and the organization.

Such documentation must be kept for any distributions made to individuals, and can be furnished to the IRS upon request. The charitable organization would not file a 1099 for such payments.

Prohibited

The IRS does NOT allow (1) special collections earmarked for a specific individual or specific family; nor (2) donations made to a parish stipulating that funds are being given to a specific individual or family.

If you have any further questions about these guidelines, please contact mwarren@archatl.com or 404-920-7411.

Thank you.