**Pastor’s Discretionary Funds Guidelines**

The Pastor’s Discretionary Fund is a designated fund made available to the Senior Pastor to distribute for emergency financial aid. The congregation should establish a policy and procedure on how the fund is to be funded and disbursed. A Policy statement adopted by the congregation’s Administrative Council describes how the congregation wishes the Pastor’s Discretionary fund to be administered. See attached example.

The Council and Finance committee should periodically review the practices and management of the fund to ensure all parties understand the procedures so as to protect the pastor from unknowingly running afoul of relevant Internal Revenue Service regulations that can result in unintended tax consequences to clergy and donors.

# Ownership of the Fund

Income to the discretionary fund (such as interest earned) must be recorded as income to the congregation. Appropriate recording ensures that income to the fund is income to the congregation, not taxable income. Because the pastor’s discretionary fund is an asset of the local church, it should be included in the annual audit.

# Clearly Defined Purpose

The appropriate use of clergy discretionary funds is to address needs among the congregation and community members. Payments for food, rent utilities and medical bills for those in need are tygpical uses of the fund.

# Prohibitions on Personal Use and Conflicts of Interest

The Senior Pastor is essentially acting as a ***trustee*** of the Discretionary Funds which are owned by the church and often funded by the contributions of numerous donors.

Prohibited uses of the discretionary fund are payments for anything that personally benefits the authorized clergy. The funding of personal clothing, food, books, rent, utilities, insurance premiums and medical expenses ***of the clergy*** are not appropriate. Therefore it should be clearly established and enforced that the discretionary fund may not be used to benefit directly or indirectly, the clergyperson or the clergy person’s family. An individual misusing the funds may be exposed to civil and/or criminal liability. Additionally, the fund should not be used on projects which might present an actual or potential conflict of interest or the appearance of impropriety.

# Documentation/Recordkeeping

Since the pastor has discretion regarding the distribution of the discretionary funds, maintaining a confidential record indicating when and to who funds were disbursed is important. The pastor should expect to be asked to account for all funds disbursed and be required to document and record distributions from the fund showing the types of assistance provided during the year.

The church has the authority to request additional documentation of expenditures. Therefore, it is best practice for the Pastor to seek payments from the fund through some type of formal mechanism to ensure internal control over access to the fund (this can be done and still maintain confidentiality for the specific needy persons who will be beneficiaries).

Discretionary Funds are subject to audit and should be included in financial reports following standard accounting procedures.

# Dollar Amount Limitations

There should be a limit on the dollar amount that may be expended at any one time without advanced and written permission being received from the church council or finance committee.

# Purchase of Goods and Services vs. Cash Payments

There are a variety of methods for dispersing funds to aid individuals or families that should protect the confidentiality of the recipients and protect the pastor from unnecessary risk. One way is to provide in-kind assistance, for example purchasing grocery gift certificates or transportation ticket rather than giving cash. This practice ensures aid is used appropriately.

# Separation from Accountable Reimbursements

 The practice of using such discretionary funds for reimbursement of continuing education expenses, business-related travel expenses and purchase of vestments should be avoided, for at least two reasons. First, keeping these arrangements separate minimizes the chance of any unintended tax consequences to the clergyperson. Second, such payments would be inconsistent with the stated purpose(s) of the Pastor’s discretionary fund.

# Education

New clergypersons, finance secretaries and/or treasurers, and the chairs of relevant committees should be educated on the existence and purpose of a Pastor’s discretionary fund and its established internal controls and policies. This education should cover the potential income tax consequences which could result from failure to adhere to those internal controls and policies.

**Tax Consequences:**

Gifts to the discretionary fund, which are fully under the purview of the congregation’s Administrative Council are deductible by donors as charitable contributions,

Contributions made to the discretionary fund for the direct benefit (pass through) of a named individual are not deductible contributions for income tax purposes and should not be accepted.