Handling Contributions for Specific Missionaries

By Richard R. Hammar

Church members make contributions to missionaries in a number of ways. Unfortunately, many church members and church treasurers are not familiar with the tax rules that apply. This article summarizes the key rules.

RULE #1--DIRECT GIFTS TO MISSIONARIES

Church members sometimes send a check directly to a missionary. Occasionally an interested person will even give a missionary an item of property, such as a car, a home, or an item of jewelry. These gifts are not tax-deductible by the donor as charitable contributions. To be tax-deductible, a charitable contribution must be to or for the use of an organization the IRS has recognized as tax-exempt.

This requirement is not met when gifts are given directly to a missionary as opposed to a church or missions agency. While the donor cannot claim a charitable contribution deduction, the missionary who receives the gift may not have to report it as taxable income--if it truly meets the definition of a gift. Under federal tax law, gifts are not included in taxable income. But to be a gift, a transfer may not be compensation in disguise. In other words, if the donor is transferring money or property to a missionary to more fully compensate him or her for services rendered in the past, then the IRS may claim that the transfer is not a gift.

Key point:

Persons may still make direct contributions to individual missionaries or religious workers. Such contributions are not illegal--they merely are not tax-deductible as charitable contributions. The fact that taxpayers who cannot itemize their deductions on Schedule A (Form 1040) no longer may claim a charitable contribution deduction will reduce the impact of the court's decision, since it is estimated that nearly 70 percent of all taxpayers no longer are able to itemize their deductions. This means that about 70 percent of all taxpayers will receive no tax benefit from making charitable contributions. It makes no difference whether such persons make their contributions to a missions board or directly to a missionary--the contributions are not deductible in either case.

RULE #2--GIFTS TO MISSIONARIES ACTING AS COLLECTING AGENTS

There is an exception to rule 1. If a missionary conducts a service in a church, and the church collects an offering on the missionary's behalf, contributions directly to the missionary may be deductible as a charitable contribution if the missionary is acting as a collecting agent for his or her missions agency.

Example:

John is a commissioned Assemblies of God missionary. He raises his budget by speaking in local churches and collecting offerings and other support. He acts as a collecting agent for the Assemblies of God Division of Foreign Missions (DFM) and turns over all offerings to DFM. DFM exercises full control of the donated funds and has implemented detailed reporting procedures to verify John's missionary activities and the expenditure of missions funds. Church members often make contributions designating John when he conducts religious services. These contributions are tax-deductible as charitable contributions. While the contributions designate John by name, it is clear that in reality they are being made to or for the use of DFM.

Key point:

Donors who want greater assurance that a contribution will be tax-deductible should follow rule 3 (explained below). This will also expedite the processing of a contribution receipt and minimize the risk of the contribution being lost in the mail overseas.

RULE #3--CONTRIBUTIONS TO A MISSIONS AGENCY DESIGNATING A PARTICULAR MISSIONARY

Church members can get around the limitations of rule 1 by simply making their gift directly to a missions agency but designating a specific missionary to be benefited. This assumes that the missions agency exercises full control over these funds to ensure they will be used to carry out its purposes.

RULE #4--CONTRIBUTIONS TO AN INDEPENDENT MISSIONARY

Are contributions tax-deductible if made to a local church designating a particular missionary not associated with any missions agency? According to the IRS, such contributions are deductible only if the church has full control of the donated funds and discretion as to their use, so as to ensure that they will be used to carry out its functions and purposes. This means that the local church must assume the role of a missions agency and adopt procedures verifying that the funds are being spent to carry out its mission and purposes. How is this done? At a minimum, the church would need to do the following:

- *Require the missionary to complete a periodic (e.g., quarterly) activity report summarizing all missionary activities conducted for the previous period.* This would include services conducted, teaching activities, and any other missionary activities. In each case, the summary should list the date and location of the activity.
- *Require the missionary to complete a periodic accounting of the donated funds received from the church.* The church should prepare an appropriate form. The form should account for all dollars distributed by the church. Written receipts should be required for any expense of more than $75. This report should indicate the date, amount, location, and missionary purpose of each expense. It can be patterned after the expense report that is used for business travel. Keep in mind that religious purposes includes not only those expenses related directly to missionary activities, but also ordinary and necessary travel and living expenses while serving as a missionary.
- *The church board should approve each independent missionary's ministry as a legitimate activity in furtherance of the church's religious mission.*
- *Reconcile the expense summaries with the activity summaries.*That is, confirm that the expenses claimed on the expense reports correspond to the missionary activities described in the activity reports.

Such procedures can be burdensome for a church. However, rule 1 serves as a warning that contributions to local churches for independent missionaries are not tax-deductible without such controls.

Key point:

A church that supports an independent missionary will need to issue him or her a 1099 form at the end of each year, reporting all distributions (assuming they amount to at least $600). This is not necessary for missionaries commissioned by or associated with recognized missions agencies and who receive W-2 or 1099 forms directly from their missions agency. In order to issue a 1099, a church will need to know the missionary's address and social security number. This information can be obtained by having the missionary complete and submit IRS Form W-9 prior to any distribution. If the missionary refuses to provide this information, then the church must engage in backup withholding (and withhold 31 percent of the distribution).

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