

Raising Funds for Short-term Mission Trips

Summer is just around the corner and many churches and mission organizations have begun putting together short-term mission trip opportunities for their congregations and donors. Whether it is spending several weeks in the inner city ministering to the homeless or sharing the Gospel in a foreign country where you don't know the language, the experience of living for a short time in a different environment without all the creature comforts of home can be both difficult and rewarding. Seeing how God is working in the lives of the people in other parts of the work can be a life-changing experience.

Most programs require participants to cover the cost of participation. For some this can be a challenge (think high school and college students, single parents, individuals on fixed incomes), so along with all the other preparations that go into planning for such a trip, organizers often have to help individuals raise the funds that will be needed to cover their participation costs. One solution is to allow participants to raise financial support from friends and family to help offset the cost. Sometimes called, "self-support raising" or "deputation," the church generally determines an amount each individual is responsible to come up with to participate in the trip and then allows them to raise some or all of the funds by soliciting gifts from others. Funds raised are most often recorded in a support account with the Church and charges are then made against the account to fund the costs of the trips, including; programs expenses, travel and materials costs. They may also include amounts to help cover the church's overhead expenses, including the cost of staff leading the event.

The *IRS has acknowledged fund-raising of this sort as a legitimate practice and acknowledges that gifts raised by this method may even be tax deductible to the donor if certain practices are followed.*¹ As you might expect however, the practice has occasionally been controversial because of the tendency on the part of some fundraisers (misguided or otherwise) to represent that contributions will only be used to support the work of the individual doing the actual fund-raising. When this occurs the exact nature of the transaction can easily become blurred with donors being led to believe that the organization is a mere conduit of funds that will be reserved for the exclusive use of the fundraiser. For its part, the IRS considers such solicitations and contributions to be private gifts which cannot be considered tax-deductible to the donor, even if the gifts are given through a local church.

Since it is generally helpful when raising funds to have the gifts be tax deductible to the donor, paying attention to the solicitation process and the subsequent management of the funds is extremely important.

So, how does a charity properly raise funds using the deputized concept?

The IRS suggest charities use two general tests to determine whether a tax-deductible contribution was made to or for the use of a charitable organization or if a gift is a non-deductible pass-through to a particular individual who ultimately benefitted from the contribution.

¹ *This acknowledgment first appeared in the Technical Instruction Program for Fiscal Year 1999, designed specifically for training IRS agents on practices related to religious non-profits, and has been affirmed several times since then in their training manuals.*

Intended Benefit Test – was the contributor’s intent in making the donation to benefit the organization itself or the individual?

Control Test – does the recipient organization have 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?

Intended Benefit Test – was the contributor’s intent in making the donation to benefit the organization itself or the individual?

In the *Technical Instruction Program for Fiscal Year 1999*, the IRS has provided the following suggested language for use in donor receipts to help clarify the record of the true intentions of a donor at the time of the contribution.

“This contribution is made with the understanding that the donee organization has complete control and administration over the use of the donated funds.”

Use of this language should provide strong evidence of both donor intent and organizational control in the deputized fund-raising context.

In February of 2000, the IRS further expanded on this to suggest that the following language, when used in the solicitation for contributions, will help show that the qualified donee has exercised the necessary control over the contributions and that the donor intends that the qualified donee is the actual recipient of the contributions:

“Contributions are solicited with the understanding that the donee organization has complete discretion and control over the use of all donated funds.”

Control Test – does the donee organization have 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? The IRS uses the terms “discretion and control” with respect to the charities obligation over deputized funds and may be evidenced by such factors as: adequate selection and supervision of the participants and formalization of a budget that establishes the compensation (if any) and expenses of each deputized individual.

Establishing a budget which references how the funds will be used and how much in funds is needed to participate in the event very important (i.e. you can’t just say that whatever is raised will be used for the event, you need to understand beforehand what the potential costs will be and only solicit sufficient funds to meet that need).

So, what is the best way for the charity to demonstrate intended benefit, control and discretion of the funds?

The answer is for the church or charity to have a formal budget established for the trip and exercise full control over the disbursement and use of the funds. So, the next time you get ready to plan a short term mission experience consider following these simple guidelines:

- Gifts received for the trip should be treated as “non-refundable” to the donor.²
- Amounts paid out as salary (if any) should be reported on Form W-2 or 1099-MISC to the extent required by IRS code.
- Trip expenses should be paid directly by the charity whenever possible, and reimbursements to individuals should be made pursuant to the guidelines of an IRS “accountable” reimbursement plan.
- Potential participants should be screened to ensure they will be able to fully participate in the event and otherwise assist in accomplishing the goals of the trip.
- Some meaningful training, development, and supervision of the staff and others leading the trip should occur (e.g. why are we doing this trip, what are our goals, how will we help assure that they are accomplished, what things will need to be accomplished before, during and after the trip begins to help ensure the goals are accomplished, etc.).
- Follow up communication to donors to the event to share trip results and memories is encouraged.
- The financial practices associated with the operation of these types of trips should be regularly reviewed as part of the organization’s annual audit.

If these simple rules are followed, then funds raised can be treated as charitable contributions, and even funds contributed by individuals participating on the trip can be treated as tax deductible donations.

One final thought. While accounting practices will vary, even if the church chooses to track the donations received by the individual participant or fundraiser for internal accounting purposes and then use some or all of the funds to pay for their related expenses, it will not jeopardize the nature of the gifts or the organizations exempt status.

Although tracking by an organization may show that contributions are earmarked for a particular person, if the actual use of the funds and the totality of the facts and circumstances demonstrate that the organization still maintained full control of, and discretion over, the use of the funds so as to carry out its intended functions and purpose the organization would meet the two tests recommended by the IRS and thus not jeopardize the donations nor its status as a tax exempt entity under IRC 501(c)(3) and IRC 170(c)(2).

² *What happens if an individual on a STMT can no longer go and asks for a refund of the funds held in their account (whether for themselves or other donors). Can these monies be refunded? No, not without jeopardizing all monies received by the organization for this one STMT and possibly any other activities funded through direct contributions.*

DISCLAIMER

This material is presented with the understanding that the author is providing basic information only, and assumes no liability whatsoever in connection with its use. Tax laws are constantly changing, are subject to differing interpretations, and the facts and circumstances in any particular situation may not be the same as those presented here. Therefore, we urge you to do additional research and make sure that you are fully informed and knowledgeable before using the information contained herein.