CHRISTIAN MANAGEMENT ASSOCIATION

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When is a Charitable Contribution Deductible?

Not all contributions are created equal under the tax code. While Sunday morning offerings and gifts are almost always tax deductible, gifts that come with restrictions or specific designations may not be legally deductible or receipted as such by the church. Likewise, sometimes a payment received from a member for something that looks like a service (i.e. participation in an event), can actually be treated as a tax-deductible donation if set up correctly.

So when is a contribution really a contribution? Section 170 of the Internal Revenue Code says a church can only treat charitable contributions or gifts as tax deductible when they are made *"…to or for the use of "entities organized under section 501(c)(3) of the tax code and whose tax exempt status is currently active and in good standing.*

In looking to determine whether a contribution has been made "*to or for the use of*" a qualified charity the IRS will consider the following three factors:

1. Is the gift intended to benefit the organization,
2. Does the organization have full control of the gift, and
3. Is the organization able to exercise full discretion over how the funds are ultimately to be used?

In looking to determine whether a designated contribution has been made "...to or for the use of" the IRS will look to see whether the qualified charity had control of the donated funds and whether it exercised real discretion in expending the funds to further its exempt purpose (as opposed to that of the donor or that of another ministry or organization). Where a sufficient degree of control is exercised by the charity, any designation by a donor will be viewed as a mere expression of the donor's wishes rather than a private limitation upon the charity's use of the funds.

Most IRS challenges to the deductibility of a contribution will hinge upon this control factor. The most compelling evidence of control is affirmative Board action over the budget process and financial policies that dictate how funds received will be spent. The test of whether a gift is intended by a donor for the use of the organization and not as a gift to an individual or another entity is whether the organization has full control of the donated funds, and discretion as to their use, so as to insure that they will be used to carry out its functions and purposes.

In summary, a church should be careful before granting a tax deductible receipt to a donor to ensure that the "gift" meets this specific IRS tests. Failure to do so could both jeopardize the deductibility of the gift and the tax exempt status of the church.

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