

Raising Funds for Short-Term Missions 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 and ministering 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.² The goal when raising funds for a ministry event such as this is to be able to have the gifts treated as tax deductible to the donor, even if the person making the donation is the participant. Consequently, getting it right is extremely important.

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.*

² *It is important to understand that the IRS has specifically noted on several occasions that where contributions are solicited for specific individuals the gifts are deemed to be private gifts and are not considered tax-deductible, even if the gifts are given through a local church. I should also be noted that a church that helps facilitate private giving can face significant penalties if the funds are not accounted for properly, up to and including loss of their tax-exempt status.*

So, how does a church or 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, the **Intended Benefit Test** and the **Control Test**.

Intended Benefit Test

This test asks the question...was the contributor's intent in making the donation to benefit the organization itself or an 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

This test considers whether the charity receiving the funds is able to exercise full control of the donated monies and has complete discretion as to their use so as to carry out its exempt functions and purposes.

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 any donated funds and may be evidenced by such factors as: adequate selection and supervision of the participants, formalization of a budget that establishes how the charities funds will be spent, exercise of control over compensation, benefits and monies paid to staff, and how monies are managed and controlled with respect to individuals "deputized" to act on behalf of the charity (i.e. individuals serving on a short-term mission trip).

Establishing a budget which references how the funds will be used and how much in funds is needed to participate in the event is 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).

The best way to demonstrate control and discretion of the funds is for the church or ministry to have a formal budget established for the trip and for the organization to exercise full control over the disbursement and use of the funds.

For example:

- Gifts received for the trip should be treated as “non-refundable” to the donor.³
- 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 made pursuant to 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.
- 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 assure that they are accomplished, what things will need to be accomplished before, during and after the trip begins to 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. Because, 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 not jeopardize its status as a tax exempt entity under IRC 501(c)(3) and IRC 170(c)(2).

Need Assistance?

CMA is able to provide clarification and answer your questions regarding the structuring and oversight of mission activities and trips of this type. For those members who have signed up for e-consulting you can simply send us your questions via e-mail and we will get back to you as quickly as we can. If you are not a member of CMA or have not signed up for e-consulting privileges and who like to learn more about how CMA can be of assistance to your ministry, please feel free to contact our office for more information.

³ *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.*