

Using Discretion with Discretionary Funds

by *Vonna Laue, CPA*

MANY CHURCHES will allow a “pastor’s discretionary account” as an expense line item. This is typically a budgeted amount to be used by the pastor as he deems appropriate. Often he is only questioned if the amount spent is beyond the approved budgeted limit. He may choose to use this account to supplement other budgeted amounts, such as benevolence, or as an account for items such as meal expenses. There are several factors to think about if your church has, or is considering, such an account.

First, is the account under the control of the church? Typically, this would be an expense line item only; however, it may periodically be handled by depositing funds into a separate bank account. If the account is opened in the name of the pastor, those funds are income to him. If it is an account with the tax identification number of the church, it should be included in the financial statements of the church and the additional controls listed in this article should be followed.

Second, are the expenses properly approved? As with any other expenses or expense reports, an appropriate approval process should be followed. For the protection of the church’s assets as well as the

reputation of the pastor, it is important to have individuals review and approve the expenses the pastor makes from this account. This would need to be done by someone “over” the pastor and, therefore, would typically be a board member or an assigned church committee. An exception to this would be if several pastors each had a discretionary account and supervisor/subordinate relationships existed within the pastoral staff.

Third, as a part of the review process, all necessary documentation must be obtained. This documentation would include necessary receipts as well as a documented ministry purpose. Meals are a typical type of expense a pastor may incur. These receipts would need to have notations as to who took part in the meal as well as the ministry purpose (discussion of the upcoming missions conference, counseling session, etc.). If the expense relates to a confidential situation, the pastor may choose not to include an individual’s name on the documentation, but he should still maintain a personal record. This would also typically be an exception and not the standard practice. The church’s funds should not be spent simply to provide the daily lunch of certain staff members.

Fourth, accurate record keeping should be included for any requirements that may result from how the funds were disbursed. For example, it should probably be the policy that the pastor not pay an individual for things such as services out of this account. It could result in an employment

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Summary

- A “pastor’s discretionary account” is an expense line item which is typically a budgeted amount to be used by the pastor as he deems appropriate.
- This article outlines factors to consider in setting up such an account.
- The most important things to remember are the impact it may have on the church if funds from this account are misused (or are apparently misused) as well as any potential tax impact the payments may have for the pastor.

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Business administrators just need to take the necessary steps to be sure the pastor and the board are aware of the implications related to a special account such as this.

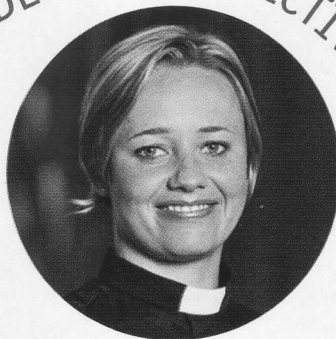
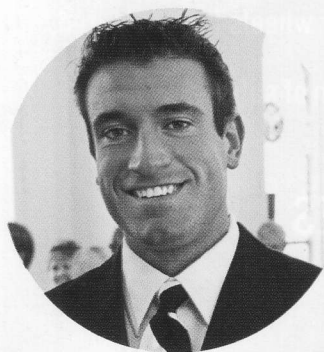
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type situation that would require compliance with various laws.

Finally, benevolence payments should be considered according to the overall benevolence policy of the church. Benevolence policies generally include things such as what the requirements are to receive a benevolence gift from the church and how much the church will help with at one time or over a period of time. This assistance is typically reviewed and approved by a committee (even if it only consists of a couple of individuals). Benevolent amounts should be disbursed from pastoral discretionary funds in compliance with at least the spirit of the policy. A pastor may certainly be questioned if he begins to make what some would consider unreasonable assistance disbursements from this account.

The most important things to remember are the impact it may have on the church if funds from this account are misused or are apparently misused as well as any potential tax impact the payments may have for the pastor. If there is a lack of documentation for the disbursements or if the disbursements personally benefit the pastor, they need to be included as taxable compensation. It would then need to be determined if all of the expenses were income or just certain payments.

These accounts may be used and are fairly common. Business administrators just need to take the necessary steps to be sure the pastor and the board are aware of the implications related to a special account such as this. As we all know, everyone is looking to you for the answers on how to handle the situations they create! **Fi**



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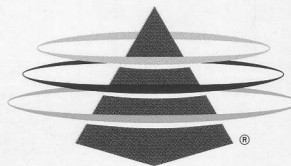
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