

# **Benevolence and Outreach**

## ***How to be Compliant While Being Compassionate***

**July 21, 2022**  
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**BATTERSHELL & NICHOLS**  
A PROFESSIONAL SERVICE CORPORATION

# Remote Accounting Services

- We provide bookkeeping services to churches and Christian nonprofits including:
  - Produce a monthly financial report for leadership
  - Process contributions and bills
  - Record all transactions in the general ledger
  - Reconcile bank accounts, credit cards, and close the books each month
  - Process payroll and file all quarterly and annual payroll forms
  - Provide budget and cash flow projection oversight
  - Give assistance with internal controls



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# Remote Accounting Services

- Why do we provide this service?
  - With online software solutions dramatically improving, outsourced bookkeeping has become a popular alternative to in-house bookkeeping
- Top reasons our clients use our remote accounting services:
  - Managing finances distracts the organization from its mission
  - Leadership and member increased confidence in their finances
  - Tax and accounting regulations are complex and changing faster than ever
  - They want a trusted advisor to provide CPA oversight



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## **DISCLAIMER:**

- *The author is not engaged by this text or webinar in the rendering of tax, accounting, or similar professional services.*
- *While the tax, and accounting issues discussed in this material have been reviewed with sources believed to be reliable, concepts discussed can be affected by changes in the law or in the interpretation of such laws since this text was printed. For that reason, the accuracy and completeness of this information and the opinions based thereon cannot be guaranteed.*
- *Before taking any action, all references and citations should be checked and updated accordingly.*



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# Definition: Benevolence

- Giving money to persons in financial need from a fund established by the charitable organization.
- These are generally restricted funds because they come from donors with the restriction that the funds are to be used only for benevolence purposes as outlined in the organization's policy and/or mission.
- Donors give to this fund with the expectation that their contributions are tax deductible.
- However, some charitable organizations also fund some benevolence spending from general funds.

# Definition: Outreach

- Giving money to a project or event that is sponsored by the charitable organization.
- These are also generally restricted funds because they come from donors with the restriction that the funds are to be used only for the organization's "outreach" purpose.
- Donors give to this fund with the expectation that their contributions are tax deductible.
- However, many charitable organizations also fund outreach spending from general funds.



## Definition: Needy

- Persons do not have to be totally destitute to be needy. Rather, merely lacking the resources to meet basic necessities qualifies.
- On the other hand, charitable funds cannot be distributed to persons merely because they are victims of a disaster.
- Therefore, an organization's decision about how its funds will be distributed must be based on an objective evaluation of the victim's needs at the time of the grant.

-Church and Clergy Tax Guide 2022, pg. 388

# Distinguishing Between Benevolence and Outreach



- **Benevolence:**

- Giving to individuals
- Follow a policy
- Recipient should demonstrate a hardship and financial need
- In rare situations, the funds given may be considered taxable to the recipient when the recipient is required to perform services to receive the funds



# Distinguishing Between Benevolence and Outreach



- **Outreach:**

- Generally an event designed to reach those who do not attend a church, and is for the benefit of all who come/receive
- No hardship needs to be demonstrated
- Consistent with church's mission

For documentation purposes, keep these two funds separate from each other!

# Guidelines for the Charitable Organization

- Charitable Organization:
  - Must retain full control of the funds
  - Must use the funds only for the stated purpose
  - Should have written guidelines
  - Document use of funds
  - Be consistent – level playing field

# Guidelines for Documentation

- Documentation should include (IRS pub 3833):
  1. A complete description of the assistance provided,
  2. Costs associated with providing assistance,
  3. The purpose for which the aid was given,
  4. The charities objective criteria for dispersing assistance under each program,



# Guidelines for Documentation

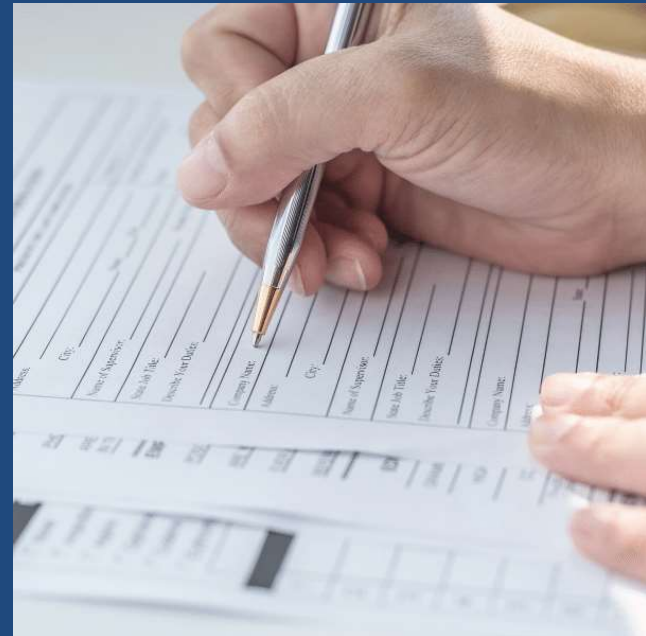
- Documentation should include (IRS pub 3833):
  5. How the recipients were selected
  6. The name, address, and amount distributed to each recipient
  7. Any relationship between a recipient and officers, directors, or key employees of, or substantial contributors to, the charitable organization
  8. The composition of the selection committee approving the assistance.

# Guidelines Relating to the Donor

- Donor:
  - Cannot direct their gift to a specific individual.
  - Cannot require the charitable organization to send the gift to a for-profit organization or project that is not part of the church's work and mission.
  - Can suggest or make the organization aware of the need, but cannot control their gift based on their instructions.

# Common Mistakes Charitable Organizations Make with Benevolence Funds

1. No written policy for managing benevolence funds
2. Accepting gifts with strings attached
3. Being subjective rather than objective
4. Benevolence to employees, using different criteria (except for disaster relief under IRC 139)
5. Accepting funds earmarked to a specific person



See article for further details: <https://battershellnichols.cpa/5-common-mistakes-nonprofits-make-with-benevolence-funds/>

# Best Practices

- Benevolence
  - Have a written policy
    - Sample policy - See handout provided on webinar
  - Have an application for recipient to complete that demonstrates hardship
    - Sample application- See handout provided on webinar
  - Have 2-3 decision makers
    - Ideally not the pastors or staff
    - Elders, deacons
  - Avoid exceptions (perhaps require a board to approve)
  - Don't favor one recipient over another
  - If possible, give to vendors of past due bills, not to the individual

# Best Practices



- Outreach

- Open it to anyone in the community
- Not given in exchange for any goods or services
- Congruent with the mission of the charitable organization



## Tax Reporting (benevolence recipient)

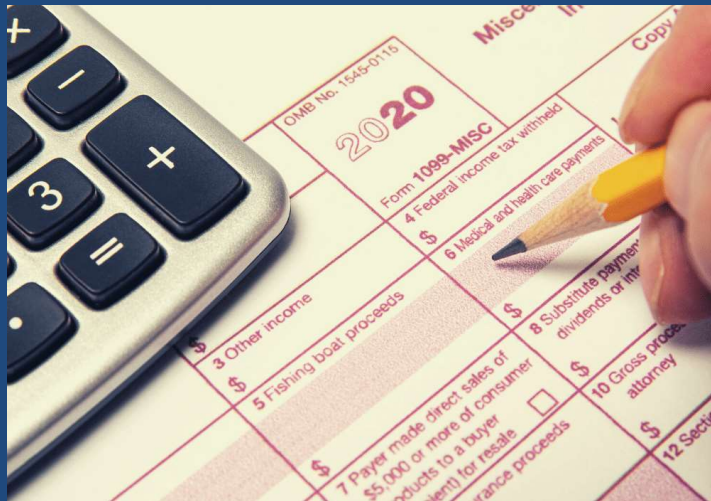
- Tax reporting to the individual receiving benevolence
  - No Form W-9 is needed
  - Form 1099-MISC generally not needed (PLR 9314014)
  - Exception: If recipient is required to perform services to receive the funds, then Form 1099-NEC needs to be filed (if at least \$600).

# Tax Reporting (payments for services)

- Reporting to individuals being paid for services
- Payments to corporations (except to attorneys):
  - No Form W-9 is needed
  - No Form 1099-NEC or MISC needs to be filed



# Tax Reporting (payments for services)



- Payments to individuals (e.g. rent paid to individual landlord):
  - Have landlord complete a Form W-9
  - File Form 1099-MISC if \$600 or more for the year
- Exceptions:
  - If paying with a credit card, no reporting is required (the credit card company would instead file a Form 1099-K)
  - Payments for merchandise, no reporting is required.

# The Church Network – Pacific NW Chapter



- Restarting after COVID shutdown
- Poll question follows to gauge interest
- Interest in being involved? Send email:

[Info@BattershellNichols.com](mailto:Info@BattershellNichols.com)  
or  
[pnwchaptertcn@gmail.com](mailto:pnwchaptertcn@gmail.com)

# Additional Resources

- Facts about Charitable Donations:  
<https://www.irs.gov/newsroom/know-these-facts-before-deducting-a-charitable-donation>
- IRS Pub 3833 - Proving Assistance Through Charitable Organizations  
<https://www.irs.gov/pub/irs-pdf/p3833.pdf>

# Next Webinar



**Date and topic: to be announced**

# Thank you for joining us

Please reach out with any questions:

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(253) 839-1620



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