

Pastoral Funds

Guidelines for Administering Pastoral Funds¹

Adopted by Executive Council, 8/6/22. Amended 12/3/22.



Introduction

The subject of pastoral funds often raises questions from both clergy and lay persons. The answer to the questions can have significant consequence for both the clergy, the church, and persons who contribute to the pastoral fund.

Since clergy can unknowingly run afoul of IRS tax regulations, the Bishop and Executive Council of the Episcopal Diocese of San Diego believe that the diocese has a responsibility to suggest some guidelines for these funds which will encourage proper stewardship of monies intended for those in need, and have therefore asked that this memorandum be prepared to guide clergy and congregation treasurers in managing pastoral funds.

The Canonical Basis for Pastoral Funds

Pastoral funds are to be used for the poor and for other “charitable and pious purposes” according to the National Canon cited below. Obviously, gifts to the poor are its primary purpose. “Other charitable and pious purposes” may include gifts to any recognized charitable organization (the same ones to which an ordinary individual could make a deductible gift), to the church itself, and for certain items such as vestments, books, and other professional items which will remain the property of the church when the clergy leaves. (These are examples only, and not intended as an exclusive list. Furthermore, as suggested elsewhere, such items as vestments, books, and other professional items would be more appropriately paid for from a separate expense line item for Rector’s Professional Expenses.)

The Canons of the Church say nothing about Pastoral Funds by name. The origin of pastoral funds apparently lies in Title III, Canon 14(f) of the National Church, dating back to 1814, which states: *“The Alms and Contributions, not otherwise specifically designated, at the Administration of the Holy Communion on one Sunday in each calendar month, and other offerings for the poor, shall be deposited with the Member of the Clergy in charge of the Congregation or such other Church officer as the Member of the Clergy in charge shall appoint to be applied to such pious and charitable uses as shall be thought fit by the Member of the Clergy. When a parish is without a Rector the Vestry shall appoint a responsible person to serve as Almoner.”*

While it is now often customary to supplement the pastoral fund with gifts from individuals and also from the church’s general operating funds, one item is of particular importance in the Canon: the words “alms,” “contributions” and “offerings” are used, which clearly mean that these are funds given to the church and which therefore belong to the church.

¹ Adapted from the Diocese of California’s “Guidelines for Administering Pastoral Funds,” which is adapted from the Diocese of Rochester.

Suggested Guidelines

1. Pastoral Account Structure and Ownership

- a. The Pastoral Fund should be an account of the congregation. Although the priest may write the checks and maintain the confidential records of the fund, the fund itself belongs to the congregation. The bank account, if kept separate from other church funds, should be in the name of the church (i.e., "Christ Church Rector's Pastoral Fund") with the church's tax ID number on the account. To preserve confidentiality, the clergy may be the only signer.
- b. Since the pastoral fund is an account of the congregation, it should be audited annually as part of the congregational audit. Given the confidential nature of the transactions, arrangements should be made for someone to review the pastoral fund on a confidential basis.
- c. The person administering pastoral funds is in a position very similar to that of a trustee, managing funds which belong to the church. She or he is handling funds which are not her or his own property. That person is therefore obligated to do so with a high degree of care, not to waste the funds, not to let them be commingled with personal funds, and finally to use them for the purposes for which they were entrusted to her or his care.
- d. Because pastoral funds are the property of the church, they should remain in the custody of the church when the priest is called elsewhere.
- e. The fund is to be reconciled against bank statements on a monthly basis, with the fund balance reported monthly to the church treasurer who in turn will include the balance on congregational reports.
- f. The checks (and any other pastoral assets, like cash, gift cards, etc.) should be kept in a secure location.

2. Deposits / Gifts to the Fund

- a. Because pastoral funds are the property of the congregation, gifts should be made to the church rather than to the priest as an individual. A gift to the church is deductible to the donor whereas a gift to the clergy is not.
- b. A gift to a clergyperson, not payable to the church, is not deductible by the donor. Further, if given in return for services rendered, such as for funerals, weddings, etc., it is taxable income to the clergy.
- c. Churches also may have a policy that all fees for weddings, funerals and baptisms be deposited in the pastoral fund. Diocesan letters of agreements with clergy usually prohibit charging church members for clergy services in weddings and funerals. Honoraria payable to clergy may be donated to the fund at the clergy's sole discretion (and must be reported as personal income on the priest's tax return).
- d. The Canons provide for funding for pastoral funds to come from the un-designated "alms and contributions" at one service per month throughout the calendar year. In practice this has traditionally meant the loose offering at one service. Some congregations also provide funding through the church budget.
- e. A gift to the pastoral fund may be unrestricted, or, if restricted, should be designated for one of the legitimate purposes of the church, including the pastoral use of the clergy. Gifts designated for specific individuals are not tax deductible. In other words, one cannot "run money through" a pastoral fund to send one's children to school or to pay

for Aunt Hattie's stay in the nursing home even though there may be a need. Such a gift would not be deductible to the donor. This may limit a congregation's ability to raise funds to help a specific person during a specific crisis.

- f. All donations for the pastoral fund should be made to the church, deposited in a church account, and then transferred to the pastoral fund. The only deposits made to the pastoral fund should be checks drawn on a church account. There may be rare occasions where direct deposits to the pastoral fund are necessary. Such transactions should be extremely rare, and the nature of the transaction should be shared with a warden or the treasurer.
 - g. Contributions are to be acknowledged in writing. The priest is to make such acknowledgement if there is not a normal process for the church treasurer to do so. Such acknowledgement will include a note of thanks on behalf of the congregation, date and amount of contribution, and the statement "This receipt is the contemporaneous acknowledgment required by the Internal Revenue Code. Further, and in accordance with Section 170(F)(8)(B), no goods or services were provided to you or consisted solely of intangible religious benefits."
3. Uses of the Fund
- a. An interpretation of the Canons suggests that monies expended from the fund should be for "charitable and pious purposes." Hence, gifts to the poor, gifts to any recognized charitable organization and gifts to the church itself, are within the general intent of pastoral funds. Pastoral funds are not intended for the business expenses of the clergy or congregation. (A separate line item in the operating budget of the congregation should be established for the business or professional expenses related to the priest's ministry.)
 - b. Wherever possible it is preferable that payments for rent, utilities, medical care and the like be made directly to the provider rather than to the individual or family.
 - c. The priest does not have complete discretion over the funds. Funds should never be used to make payments that personally benefit the priest or the priest's family. The fund may not be used on projects which might present an actual or potential conflict of interest or the appearance of impropriety. The bishop's pastoral fund is available for clergy pastoral needs through conversation with the bishop.
 - d. The priest is subject to income tax, canonical discipline, and even legal charges on personal use of pastoral funds.
 - e. Each vestry shall set a dollar limit on transactions authorized by the priest from the pastoral fund, along with a procedure to obtain approval for amounts above that limit. Clergy in missions may spend up to \$2,000 per expenditure from the fund. Transactions above \$2,000 require the approval of the Bishop's Warden, who may also require the Bishop's Committee to review the transaction prior to authorization.
 - f. Pastoral funds shall not be converted to cash.
 - g. Financial assets purchased with the fund (like gift cards or prepaid debit cards) should be accounted for by the priest and documented (e.g. \$100 gift card from a local grocery store was given to a family to purchase groceries). The documentation and inventory of these assets shall be audited with the pastoral cash account.

Clergy Business Expense Accounts

Many of the expenditures which have heretofore been made from pastoral accounts are not specifically pastoral. These expenditures, such as those for continuing education, entertainment for business purposes, magazines and subscriptions, vestments, etc., are ordinary operating expenses of doing the clergy's job. Such expenditures are better handled by other budget line items, e.g. "Rector's Expenses." The amount budgeted should be worked out annually between the vestry and its priest. The pastoral fund is best saved for pastoral expenditures which must be kept discreet. This will give the congregation the opportunity to understand what the expenses of its priest are, and to provide the necessary funds as other employers do.

Personal and Professional Integrity in Finances

In addition to maintaining complete separation of personal finances from clergy pastoral funds, clergy are advised of the following ethics guidelines in financial affairs:

1. Clergy should not seek personal advantage or financial gain from a clergy person's position or from a pastoral relationship, beyond the clergy person's living (including any stipend or wage paid and authorized allowances and deductions).
2. Clergy should not be influenced personally by offers of money, financial reward, or gifts in kind.
3. Clergy should avoid situations of conflict between personal financial interests and pastoral ministry responsibilities.
4. Clergy should avoid borrowing money from, accepting, giving, or lending money to a person with whom the clergy person has a pastoral relationship as this may place the clergy person in a position where personal interest conflicts with pastoral responsibilities. Such circumstances must be disclosed to the bishop and vestry/bishop's committee to ensure transparency and accountability are actively present in the situation.
5. Clergy must arrange personal and church finances to ensure clear boundaries are maintained.
6. Clergy must disclose fully and be publicly accountable for all church monies which a clergy person handles.
7. A clergy person should not be an executor or trustee if the instrument will benefit their parish or person or family.
8. Clergy should be mindful that personal gifts from parishioners may be construed as income under federal tax law.

Conclusion

In conclusion, the pastoral fund is not now, nor was it ever, intended to be the personal property of the priest. These are monies which belong to the congregation and are entrusted to the priest for proper distribution. With regard to taxes, money flowing from a church to the clergy for the clergy's personal use is generally taxable as income to the clergy. Money given in exchange for services is taxable as income. Gifts are deductible only if given to an exempt organization, such as the church, but not if given to an individual, including a clergyperson, either directly or indirectly.