

EPISCOPAL DIOCESE OF NORTHWESTERN PENNSYLVANIA ALMS FUND GUIDELINES

Alms funds contain money designated solely for pious and charitable purposes, primarily aid to the poor and needy of a parish. The money comes from loose offerings and special collections and from gifts made directly to the rector or priest-in-charge. An almoner, typically a member of the clergy or a cleric's lay designee, administers the funds.

These guidelines are meant to help standardize how congregations of the Episcopal Diocese of Northwestern Pennsylvania define and handle alms funds, and to clarify the use of the funds and their accountability requirements.

Underlying these guidelines are three basic rules: Alms funds must be audited, with the information confidential but not secret; alms funds are subject to all the applicable regulations of civil law, particularly those of the Internal Revenue Service; and alms funds are not portable: They are the exclusive and permanent property of the parish and cannot leave control of that parish when the rector or priest-in-charge who had administered them leaves that parish.

Following these guidelines ensures that a congregation is both serving the poor through an alms fund and properly monitoring the fund's use.

Background

The provision in the national canons of the Episcopal Church regarding alms funds lies in Title III, Canon 9.5.b(6), 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 Rector or Priest-in-Charge or with such Church officer as the Rector or Priest-in-Charge shall appoint to be applied to such pious and charitable uses as the Rector or Priest-in-Charge shall determine. When a Parish is without a Rector or Priest-in-Charge, the Vestry shall designate a member of the Parish to fulfill this function."

This section originated at the Convention of 1814, at which time all of the alms and contributions received at the Administration of Holy Communion were to be put to these uses (providing for the poor and pious and charitable uses). At that time it was customary to have only one celebration of Holy Communion each month. By 1904, however, most churches were having at least one celebration of Holy Communion each week, and often more.

For this reason, the Canon was changed to apply to only one celebration per month, and then only to contributions otherwise undesignated. In other words, the loose offering from one communion service per month goes to a fund to be administered by the rector or priest-in-charge, together with "other offerings for the poor."

It is now often customary to supplement the discretionary fund with gifts from individuals and also from the parish's general operating funds. Of particular importance in the Canon are the

words “alms,” “contributions” and “offerings,” which clearly mean these are funds given to the church and therefore belong not the rector or priest-in-charge, but rather to the church.

Locally, alms funds are governed by Diocesan Canon Title II, Canon 11, Sections A, C, and D. These rules require every congregation to have an alms fund belonging to the congregation and to have an almoner (clergy or other). These rules also describe the funding mechanisms for an alms fund.

Title I, Canon 7.1(f) of the Episcopal Church states: “All accounts of the Diocese shall be audited annually by an independent Certified Public Accountant. All accounts of Parishes, Missions or other institutions shall be audited annually by an independent Certified Public Accountant, or independent Licensed Public Accountant or such audit committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority.”

The Canons of the Episcopal Diocese of Northwestern Pennsylvania require compliance with this provision. For the reasons set forth above, it is clear that alms funds are “accounts of the parish” and therefore are subject to being audited, though a congregation can use procedures to keep confidential how the funds were used.

Diocesan Canon Title II, Canon 11, Section H requires an audit of a parish’s alms fund, as the Canon requires audits of all other congregational funds. Section F of the Canon states that audit records are confidential but not secret.

In addition, each congregation must pay particular attention to applicable civil law, specifically tax law, which includes the following principles:

- a. Money flowing from an employer (a church) to an employee (the priest) for the employee’s personal use is generally taxable as income to the employee.
- b. Money given in exchange for services is generally taxable as income.
- c. Gifts or donations are deductible by the donor only if given to an exempt organization, and are not deductible if given to an individual, either directly or indirectly.

Alms Funds Guidelines

With the foregoing in mind, follow these guidelines:

1. **Use of funds.** As outlined in Canon III.9.5.b(6) , as cited, above, permissible uses of alms funds are for the poor and for “other charitable and pious purposes.” The rector, priest-in-charge or designated almoner has discretion for the specific uses of an alms fund, but those uses must abide by the Canons and civil law. Obviously, gifts to the poor are the primary purpose. See also Diocesan Canon II, Title 11, Section B for a description of the uses of an alms fund. “Other charitable and pious purposes” includes gifts to any recognized charitable organization to which an individual could make a tax-deductible gift; gifts to the church itself; and the purchase of items used in the parish for its purposes, such as vestments, books, and other items and resources that will remain the property of the parish. (These are examples only, and not intended to be an exhaustive list). Diocesan Canon II, Title 11, Section B prohibits the use of an alms fund to pay

for any congregation expense. The instructions for the annual parish report require such expenditures to be shown as income and expenses on the report. Alms funds cannot be used to “hide” expenses and income and therefore reduce a congregation’s diocesan assessment. Purchasing books for the personal library of the clergy or paying other personal expenses of the clergy are not proper uses. Alms funds may be used for any legitimate church purpose, but the better practice is for business expenses of the clergy to be paid by the church through an expense account or expense allowance, and not be funded through the alms fund. Section E of the above-cited Diocesan Canon specifically forbids a congregation from using an alms fund to pay for clergy expenses.

2. **Recipient of gift: alms fund.** Because alms funds are property of the parish, rather than the clergy, checks for gifts should be made payable to the parish, rather than to the individual clergy member, even though the gift is intended to go to the alms fund. A gift to the parish is tax - deductible, whereas a gift payable to the clergy is not.

3. **Restrictions on gift.** A gift to the alms fund may either be unrestricted or, if restricted, must be designated for one of the legitimate purposes of the church, as the Canons allow. In other words, funds cannot be donated to the alms fund with the restriction that they be used to pay for individual expenses beneficial to a relative of the donor, such as to pay for the donor’s children’s school expenses or the donor’s aunt’s stay at the nursing home, even if the intended individual beneficiary has a need. Such an attempt to make a gift tax-deductible by funneling it through the alms fund violates tax law. The gift will not be tax-deductible, and the clergy should not look the other way if such a gift is made. The clergy must refuse the gift instead.

4. **Gifts to clergy.** The alms fund is not the proper vehicle to make a gift to the clergy. While it is possible for an individual to make a gift to a member of the clergy, such a gift is not tax-deductible by the donor, nor taxable to the clergy member, and does not go into the alms fund. Funds given to clergy for services rendered, such as performing weddings and funerals, if passed along to the member of the clergy for personal use, constitute taxable income. If a member of the clergy then gives the gift to the alms fund, the gift is still taxable income to the clergy but is a deductible contribution to the church.

5. **Not property of the clergy.** The alms fund is not the money of the almoner, including if that person is a cleric. The almoner has discretion to determine the specific use of an alms fund, but the fund can never be used for the almoner’s personal needs, such as sending his or her children to college or taking his or her family out to eat. Because the funds are property of the parish, alms funds, along with any items purchased with these funds, must remain at the church when the cleric or almoner is called elsewhere. See Diocesan Canon II, Title 11, Sections B, E, and H.

6. **Bank account.** As provided in the Manual of Business Methods in Church Affairs, all alms funds must be deposited into the general operating account of the congregation, using its federal employer’s tax identification number. All gifts and donations intended for the alms fund, whether delivered to the church or to the cleric, shall be deposited into this account, and the almoner shall provide appropriate receipts to the donors.

With approval of the vestry, the parish may establish a separate bank account into which alms funds are transferred from the operating fund. However, this account shall also be in the name of the congregation, such as “Good Shepherd Episcopal Church; Parish Alms Fund.” Some expenditures from this account may merit confidentiality, such as payments made on behalf of a member of the congregation with a personal financial need that has been made known to the cleric in confidence. Therefore, it may be appropriate to handle this account differently from other church accounts.

Cash disbursements from an alms fund and checks made out to “cash” are highly discouraged, and should only be made when there is a real emergency and a check cannot meet the needs. The clergy must maintain detailed private records of precisely what is done with the proceeds of all such expenditures paid for by the alms fund. This provides protection for the clergy member in case of an IRS audit or in case a question arises about the propriety of the expenditures. See Diocesan Canon II, Title 11, Section G, about regular and annual reporting requirements related to alms funds. Diocesan Canon II, Title 11, Section F, specifies that all records of an alms fund are “confidential but not secret.”

7. **Audit.** The parish, through the vestry or bishop’s committee, must arrange for someone other than the clergy member to review this bank account and the associated private records, on a confidential basis, as part of the annual audit. Ideally, a trusted representative of the firm or team doing the audit should have a private conference with the rector or priest-in-charge regarding the records and audit. Diocesan Canon II, Title 11, Section H requires that a parish’s annual audit include the parish’s alms fund.

8. **Duty of care.** The almoner who administers the alms fund is in a position very similar to that of a trustee. He or she is handling funds that are not his or her property. Such person is therefore obligated to use a high degree of care; not to waste the funds or co-mingle them with personal funds; and to use the alms fund for the purposes for which they were entrusted to his or her care.

9. **Internal Revenue Service.** Remember that the IRS does audit churches, clergy, and individual donors. These are guidelines only. The exercise of common sense and good judgment is highly recommended in dealing with issues involving discretionary funds. For additional guidance, please see the Manual of Business Methods in Church Affairs, which is available at www.episcopalchurch.org/finance_58218_ENG_HTML.htm.