

Pass-Through Donations to Independent Ministries
From the General Conference of SDA Legal Counsel

“This is first and foremost a policy decision of the denomination to draw the firm line on this question. We are not to be the donation clearinghouse for our members convenience to help fund their favorite independent ministries.

“A major factor for not receipting such donations and merely acting as a pass-through conduit for the donation to another entity is the complete lack of accountability between the church and the independent ministry and the complete lack of independent discretion and control over the use of the donated funds by the receiving church. That is in contrast to donations designated for another denominational entity such as an institution or denominational ministry where there is in fact significant oversight by the denomination and a comprehensive system of accountability through our organizational structure and governance, and routine financial and policy audits of the entities using those funds.

“In at least one sense, a pass-through or conduit situation is similar to an earmarked donation, let’s say to, or for the benefit of, a specific individual. That donation cannot be properly receipted as a tax deductible donation to or for the use of the church, since the donor’s intent is not to help the church, but rather to only help that specific individual. The church would have no discretion or control to use the money or decide that the designated beneficiary did not need the help in part, or at all. They couldn’t just use it for something else since it is a restricted gift, really a personal gift, from the member/donor to that individual.

“For donations to an independent ministry, we do not have a means of control over how they ultimately use that money nor do they have any obligation of accountability to us. (Often independent ministries are formed precisely because they do not want to be subject to denominational control and accountability.) Yes, they may claim to be “supporting” ministries, and often act in harmony with our teachings and standards. But they don’t have to, nor do they always do so. And if we decide that we will exercise the legally expected and appropriate discretion and control over the use of the money they donated to us by withholding all or a portion of it, and not just blindly and without questions or accountability forward it onward to the independent ministry, there could be legal consequences. If we don’t use restricted donations as designated by the donor, they could file a complaint with the state attorney general’s office in charge of charitable organizations within the state. And that gets complicated, and could potentially have a ripple effect up to the Federal level.

“A very essential piece of this issue is that we essentially are putting our exempt status on the line by allowing it to be used for the benefit of the independent ministry to receipt contributions in our name that are really for them to use, bypassing the direct accountability that the independent ministry would have to the state and Federal government, and to the donor to substantiate donations to it with a proper receipt issued to their donor. A missing piece of that last part, is the attenuated, or really a non-existent, relationship between the donor and the independent ministry. What happens if the independent ministry misuses the funds contrary to what the donor wanted done with them? What is the donor’s recourse? Will they complain to the independent ministry? Probably not. They would more likely complain to us and expect us to solve that problem. (And that goes back to the previous paragraph.) Could they complain to the state Attorney General’s office? Maybe, but who should the AG go after? The independent ministry, likely in a different state? Or our church in their jurisdiction that took in the donation to begin with? There are no easy answers for these questions that could arise if things go sideways.”

For more tutorials on IRS AND LABOR DEPT RELATED TOPICS, see section 6500 on the gccsda.org auditor webpage.