

Important Considerations for Benevolence Programs

Many nonprofit organizations have benevolence programs to assist people during times of emergency or financial crisis. Situations of need can — and often do — arise unexpectedly. Having a written policy in place can help you respond quickly and graciously. It can also protect the tax-exempt status of your organization and the deductibility of donations made, and shield fund recipients from mistaken taxation.

In addition, a carefully crafted policy can help prevent misunderstandings about the program's purpose, and assist those responsible for disbursing funds in making consistent evaluations and remaining accountable for following set guidelines. If your benevolence program or disbursements are ever challenged in an audit, a written policy will provide evidence that your program was set up in a manner that is consistent with your exempt purpose.

Benevolence Program Best Practices

We recommend the following best practices for benevolence programs:

- Create and implement a written policy.
- Define what types of contributions will be allowed. To be tax-deductible, contributions must be made to the fund, not to a specific individual or family.
- Appoint a committee or personnel to review and approve requests. Avoid giving one person control over fund distribution without adequate oversight and accountability measures.
- Decide what types of need will receive support. Typically, assistance is allowed for basic needs such as shelter, food, clothing, and medical.
- Develop adequate criteria for determining individual need.
- Document the need and obtain (and document) external verification before disbursing larger amounts. (More on this below.)
- Include reasonable limits per person during a specified time period. The tax law does not require limits, but larger amounts and longer-term assistance require more investigation and consideration than can be addressed in a policy for routine assistance.

- Make disbursements from a general fund or a benevolence fund, rather than from the collection plate or other sources.
- Pay assistance (rent, mortgage, utilities, etc.) directly to the service provider, rather than to the individual.
- Always keep a written record of all funds disbursed.

We examine some of these best practices in further detail below.

Determining Individual Need

The amount of data you should gather for an assessment of need depends on the type of request. For example, if short-term assistance is needed during a disaster, it may be sufficient to view the disaster and then confirm that the individuals seeking assistance live in the affected area.

A prudent practice is to establish contact with other entities providing benevolence in your geographical area. The purpose is to communicate and compare whether the same individuals are seeking and obtaining benevolence from the other entities. This will daylight the extent of support being provided and avoid instances of people working the system to obtain benevolence from more than one source.

For larger disbursements or longer-term assistance, we recommend that you do a financial assessment by having individuals complete an application. Information to consider requesting includes, but is not limited to:

- Employment status
- Dependents
- References
- Present income and expenses
- Assets owned
- Other sources of support or benevolence

The ECFA offers subscribers and accredited organizations a sample benevolence policy [here](#).

In addition, external verification is recommended for larger disbursements. This involves verifying the information provided by the applicant with another source, such as the applicant's employer or references.

Documenting Individual Need

You should keep adequate records and case histories on each aid recipient, including:

- Name and address of recipient
- Amount distributed
- The purpose for which the aid was given
- How the recipient was selected
- Any relationship between the recipient and leadership or board members of the organization

Note that the organization does not need to issue a 1099-Misc for benevolence funds disbursements over \$600. This is because benevolence is a gift, rather than a payment for services.

Making Disbursements

It may be tempting to just take cash out of an offering plate or similar source to help someone in need. There are two issues with this, however. First, it does not provide a record of the assistance. Funds should never be disbursed without supporting documentation and a written record of the transaction, as described above.

Secondly, it does not provide adequate accountability, creating a significant opportunity for abuse. Even a trusted employee under significant pressure — pressure others might not be aware of — may rationalize an inappropriate disbursement. Limiting the opportunity for misuse will protect the organization as well as its employees and volunteers.

Further Considerations

We are sometimes asked if it is ever okay for the organization to receive benevolence donations that are designated for a specific individual or family. Gifts that the donor requires to be used for a specific individual or family will not be tax deductible.

Your organization may agree to collect funds specifically designated for one or more individuals. If you do, it is important to clearly communicate to the donors that their payment is a personal gift and will not be handled as a tax-deductible contribution.

There also may be instances where a donor recommends an individual in need to the benevolence committee. In this situation, the committee, not the donor, should determine what amount, if any, will be given to the individual. The donor should understand that the benevolence committee will exercise control and discretion over the donation, and that the recommended recipient will be put through the same approval process as other individuals.

Benevolence program disbursements to employees also require special considerations. To give benevolence funds to an employee without having to show it as taxable income on their W-2, you need to have a formal hardship assistance plan in place before the assistance is given. See [IRS Publication 3833](#) for the requirements of a hardship assistance plan.

Conclusion

When emergencies and financial hardships arise, loving and caring people respond and care for those in need. A well-documented benevolence program process will ensure that assistance is provided in a way that does not jeopardize your organization's tax-exempt status or the integrity of your mission.

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