

DIOCESE OF BUFFALO INTERNAL AUDIT NEWSLETTER

Pass-Through / Donor Designated Gifts for Others

April 2024

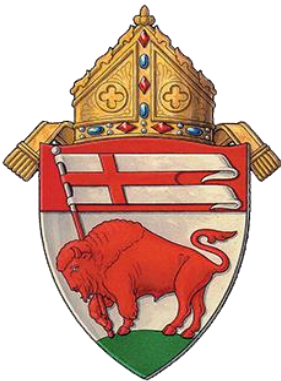
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DONATIONS

The IRS defines a charitable contribution as a donation or gift to, or for the use of, a qualified organization. It is voluntary and is made without getting, or expecting to get, anything of equal value in return. Qualified 501(c)(3) organizations include nonprofit groups that are religious, charitable, educational, scientific, or literary in purpose.

General Rule: A donation given to 501(c)(3) nonprofit charitable organizations is tax-deductible. Because of these tax deductions, parishes must follow 501(c)(3) donation rules and regulations to retain their 501(c)(3) tax-exempt status.

PASS-THROUGH / DONOR DESIGNATED GIFTS

Pass through donations are donations given to a 501(c)(3) organization with the intention the donation will be given to another, typically an individual or a corporation which is not a charitable organization or a for profit organization. The donations are given with the expectation the funds will be “*passed through*” to benefit a specific individual/family/organization. This practice is not permitted by the IRS or DOB.

Example: Individuals or organizations want to assist an individual or family who has a genuine need. Instead of writing a check directly to an individual/family in need, they prefer donating to a charitable organization (501(c)(3)) and have the organization “pass” the payment to the individual/family. This would allow the donor to receive a tax deduction for their donation.

According to *IRS Publication 526*, contributions earmarked for a certain individual or family including those in need or worthy are not deductible. Donors can't deduct these contributions even if they make them to a qualified organization for the benefit of a specific person. However, donors can deduct a contribution to a qualified organization which helps needy or worthy individuals if they don't indicate that their contribution is for a specific person, such as Catholic Charities.

Example: Donors can deduct contributions to a qualified organization for flood relief, hurricane relief, or other disaster relief. Diocesan special collections for this type of disaster relief effort are an example of a deductible donation because these donations are not earmarked for a particular individual or family.

Gifts or donations to other organizations must be made directly to those organizations, the parish should not be used as an agent for those donations. The only exception to this would be for donations made as part of the offertory to one of the designated DOB approved second collections.

RISK OF LOSING 501(C)(3) TAX-EXEMPT STATUS

If your parish participates in this type of transfer or pass through donation, your parish is at risk of losing its 501(c)(3) tax-exempt status. If the beneficiary of the gift is an individual and the parish gives the entire amount to an individual, it may give the IRS a basis for revoking the church's tax-exempt status. The IRS views a gift designated for a certain individual/family as a pass-through gift and is not deductible for the donor. Since it is earmarked for an individual person, the parish has little or no control over how the funds will be spent, the parish simply passes money onto an individual. If the donor claims a tax deduction, but the ultimate beneficiary is the individual, not the parish, it is essentially not carrying out the organization's functions and missions.

CONCLUSION

Donations designated for the benefit of an individual do not qualify as charitable contributions, and the IRS does not allow a tax deduction for them. Accepting pass-through gifts will jeopardize your parish's 501(c)(3) tax-exempt status. Therefore, Diocese of Buffalo must not allow parishes to accept any gift which is designated for a specific person, or another organization.

- If pass-through gifts are accepted in error by the parish, the parish must return the funds to the donor immediately.
- If the parish is unable to return the funds, you must record this deposit as a donation in the donation receipt account. A Form W-9 must be obtained from the individual (beneficiary) the check is payable to. A Form 1099-NEC must be issued from the parish if payments exceed the \$600 limit.