



Gifts to members:
church as family
and church as charity

March 2017



Stewardship Briefing Paper

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About Stewardship

Stewardship's mission is to transform generosity by:

- making giving easy
- inspiring greater generosity
- strengthening Christian causes

and our vision is:

- for the world to encounter Jesus through the generosity of his church

Since 1906, Stewardship has been helping the Christian community in the UK to give and receive. We love **making giving easy** and help over 25,000 individuals to give around £60 million each year, to our database of over 19,000 charitable causes.

We are committed to **strengthening Christian causes**, by offering practical, tailored support to help Churches and Christian charities to transform the world.

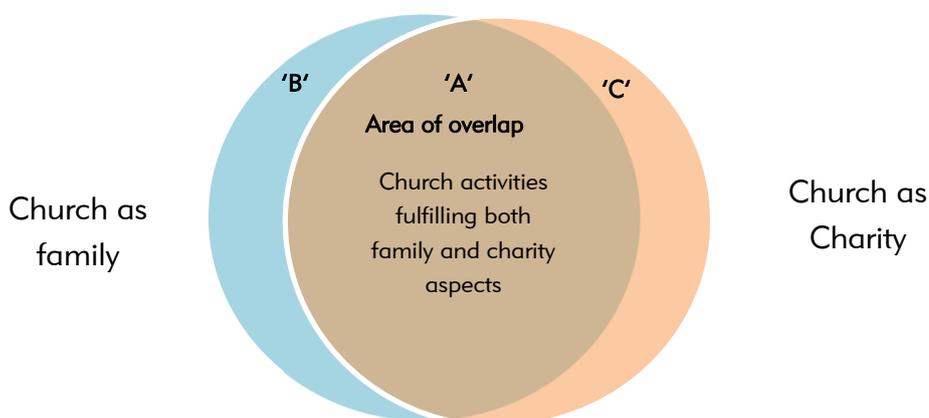
And we **inspire greater generosity** from this community too, through our wealth of resources, courses and campaigns for individuals and churches alike, including the multiple award winning [40acts](#) campaign and website.

1. Introduction

Church can mean different things to different people, but it seems to us that right at its heart is the desire for God’s people to meet the biblical demand to love others, whether they are in some way associated with the church or not. At its very best, church is highly relational and is often rightly compared to a family in which we share good and bad; walk with and support those going through tough times and rejoice with those enjoying good times. This is church as family and is to be strongly encouraged (see the early church in Acts).

In the UK, church is also normally structured as a charity and all charities (not just churches) are governed by charity law and must pursue one or more of the 13 recognised charitable purposes. A charity’s activities must be undertaken **wholly** (i.e. only) in pursuance of its charitable purposes. For churches the primary purpose is normally “advancing the Christian faith”, often supplemented by “the relief of poverty”. This is church operating as a charity.

For much of the time these two aspects of church—family and charity—overlap, with the church pursuing activities which further its charitable purposes and which also build family. See the diagram below.



By law, the church charity can undertake activities that fall within segments ‘A & C’, but cannot undertake activities within segment ‘B’ as these, good as they may be in their own right, are not charitable in the eyes of the law.

In drawing this distinction between family and charity, we are aware that there can be real benefit in the mutual support of people that are in some way linked to the church as part of the long term strengthening of the church and in so doing achieving the charitable objective of ‘advancing the Christian faith’.

As the New Testament outlines (especially in Paul’s epistles to the Ephesians, Colossians, Romans, and John’s epistles to the wider church) there is considerable value in church relationships being genuine, deep and supportive. This builds the framework of the church and

also provides a very significant evangelistic breadth as the church shows itself as a community of genuine and practical love and support.

We are therefore aware that there are good reasons why support of those associated with the church can be considered as advancing the church's charitable aims for the public benefit and therefore falling within the area of overlap 'A'.

However, there are also perfectly legitimate times when the church wants to act as family out of a sense of friendship, but in so doing, their actions are **not** fulfilling their charitable purposes (segment 'B'); church as family and church as charity no longer overlap.

In this paper we are looking to be practical and also to draw out what might be the perception of those outside of the church; both the regulators and the general public. Our aim is to help the church to understand the issue; to make appropriate and sensible judgements; and to draw distinctions where necessary so that the church can continue to build family but where the church charity operates wholly under charity law.

We need to recognise right from the outset that there will be times when drawing a distinction between church acting on a friendship basis within segment 'B' and church acting to achieve its charitable objectives is a tricky judgement call. Typically, but not always, where churches do operate within segment 'B', it will be because they already know the person/people they are interacting with. It is less likely that a church will act on a friendship basis to a person or group that it has no previous relationship with.

However, as the church charity must always act in ways that achieve its charitable purposes, the closeness of any relationship between the church and the recipient may influence any trustee assessment, but will not be decisive.

Just because this assessment is not straightforward does not mean that churches can bury their heads in the sand, look the other way, or confine the issue to the 'too difficult' pile.

2. When might church as family not overlap church as charity?

Churches can sometimes operate on more of a family basis but not as a charity when church activities and expenditure have more to do with friendship than they have to do with charitable purpose. Some examples where this might occur and which we will explore later include gifts given by a church in recognition of a celebration (marriage, birthday etc.); gifts given by way of appreciation as a 'thank you' for service in the church; or other activities that have friendship as their core motive.

Whilst some churches may not identify the family/charity distinction, for others the issue might appear to be trivial or pedantic, and for others still the demarcation line between family and charity is blurred. The consequences for churches which use charity funds to support activities that

are predominantly friendship-based can be serious as the accounting and tax treatment that applies to funds used in this way is significantly different from those used for church as charity.

3. Why might this be an issue?

The issue does not stem from the intention or the desire for the church to act as family; it comes from the application of charity law. Charity funds which have been used primarily for reasons of friendship and that do not further the charitable purposes of the church are not by definition charitable, and as such should not be conducted from inside the charity at all.

Before we go on to look at a potential operating model for churches to consider in dealing with this issue, let's take a look at a few areas where church as family and church as charity may not overlap (segment 'B'), but we start with one area common to many churches in which these two aspects may indeed overlap (segment 'A').

4. One area where family and charity could overlap

Fellowship or hardship fund

Where a fellowship or hardship fund exists to provide support for people in the community (whether church attendees or not) who are going through particularly difficult times, expenditure incurred in this way can often meet both the criteria of church as family and charity. For example, a payment from a fellowship fund to support a family connected to the church who have limited means and who have recently seen their house flooded would most likely satisfy the church's charitable purposes and would also be seen as an act of friendship helping out a family in a situation of hardship.

The same may be true where a church attendee (who is not otherwise wealthy) has been made redundant and is suddenly struggling to pay their rent or mortgage.¹ Support in this instance must be limited and reasonable and cannot run on indefinitely, but again may well meet the dual aspects of church as family and church as charity.

However, even where the dual aspects of family and charity can be met, such funds are not without their potential controversies, particularly where they are used predominantly or exclusively to help out those considered as being in some way connected to the church. Church leaders who operate a fellowship or hardship fund in this way need to consider whether it sends out the right message to the world at large or may give the impression that the church is simply looking after their own.

On a practical level, decisions to support a person or group of people should be made within a policy set by the trustees, with the decision and the reasoning behind it being properly minuted.

¹ It is unlikely that **any** repayment of the **capital** element of a mortgage would be similarly viewed as this would be seen as helping the recipient to acquire a personal asset.

Where churches operate fellowship or hardship funds, we suggest that policies and procedures are put in place (including financial limits, the use of loans where appropriate, and other guidelines) that ensure that such funds are used properly; are administered well; and that ensure that certain people, families or issues are not being unjustifiably favoured and others inadvertently overlooked.

Any fund that is used to meet the charitable purposes of the church:

- Can operate from inside the charity;
- Can make use of money donated to the church (on which Gift Aid can be claimed);
- Is able to reclaim Gift Aid on specific restricted donations;
- Will be included in the statutory accounts of the church charity.

5. Some areas where family and charity may not overlap

5.1 Celebratory or anniversary gifts

Celebrating birthdays, anniversaries and other significant events is an important aspect for all families, church or otherwise. The desire for a church to want to celebrate is an understandable and legitimate one, but before this type of celebration may be paid for by the church charity the church leaders must be sure that the primary purpose of such expenditure is to further the charitable purpose of the church and not to celebrate with friends.

A simple straightforward celebratory gift (birthday present etc.) is unlikely to meet the criteria for charitable expenditure and as such gifts that solely or primarily reflect an act of family celebration should not be paid for by the charity (see suggested operating model later). However, there may be cases when a celebratory gift does meet the charitable purpose criteria and incidentally also the family aspect of church; these gifts can legitimately be paid for from church funds and so will be accounted for from within the church charity.

An example might be a celebratory birthday or anniversary meal provided by the church for the family and friends of a church attendee where the primary purpose of the event is in accordance with the charity objectives e.g. promoting partner charities which carry out activities in line with the church's own objectives (perhaps the relief of poverty), or advancing the Christian faith through an opportunity to preach the Gospel.

If the primary purpose for the event was in accordance with the church's charitable purposes and the birthday was the incidental vehicle used to deliver it, then this should be acceptable. The charitable purposes of the church are being met and so, incidentally, is the more relational family aspect. On the other hand, if the primary purpose is the birthday celebration, and the charitable purpose is an 'add-on', then this event is likely to fall the other side of the judgemental line and will not be considered as charitable expenditure.

When assessing the primary purpose of the event, one aspect that the authorities might take into consideration is assessing what the participants thought they were being invited to. Were they made aware in advance that there would be a Christian message or the promotion of another charity, or were they of the understanding that they were simply attending a birthday or other celebratory get together?

As that simple example demonstrates, there will not always be an obvious demarcation line and church leaders and trustees will have to exercise reasonable judgement. Whilst some events and activities will have a clear charitable purpose, for others this will not be so obvious. It is for the church leaders and trustees to determine where an action or activity properly sits recognising that where such expenditure is accounted for inside the church charity, this may be subject to challenge from either HMRC or the Charity Commission.

Strictly, the value of the gift is irrelevant, but very small non-monetary gifts (e.g. birthday or anniversary card) are unlikely to cause a problem.

5.2 Thank you gifts

Saying thank you and recognising the time and effort of people is important and we would argue that very often recognition is not best served by the church giving a gift of money or of monetary value. Recognition can take many other forms and a simple private (or in some cases more public) thank you will often mean more than any gift.

Thank you gifts (monetary or of monetary value) given to volunteers are fraught with all kinds of potential dangers including:

- a) Exhibiting fairness across all volunteer groups;
- b) The requirement that expenditure should be in pursuit of charitable activities;
- c) The danger that inadvertently you are allowing volunteers to 'morph' into workers;
- d) Using thank you gifts as a substitute for volunteers claiming proper and valid expenses.

Also bear in mind that regular (e.g. annual) 'thank you' gifts to the same person take on a different character from an ex-gratia gift. At some point, they create a sense of expectation that is open to challenge by the relevant authorities.

a) Exhibiting fairness

Whilst the church is clearly described in both Romans 12 and 1 Corinthians 12 as a body with all parts essential and praiseworthy, the reality is that many churches tend to value certain volunteers above others. This might be because of a volunteer's perceived gifts and talents; it might be because of the more 'up-front' nature of the ministry that they perform; it might be because they are more vocal than others; it might simply be that they are better liked.

Whatever the motive or good intention that lies behind a gift, it is very easy to cause unintended resentment among volunteers if some receive a thank you gift and others not. While this is not a legal issue or matter of charity law, it can cause significant resentment and result in pastoral issues.

b) Expenditure in pursuit of charitable purpose

All the same issues regarding expenditure and charitable purpose apply here as those that we have already discussed. Are the trustees clear how the payment of a thank you gift furthers the purpose of the church or is it more an act of church as family?

c) Volunteers morphing into workers

While a single small one-off, or even annual, thank you gift is unlikely to turn your volunteers into workers, it is most definitely an unhelpful step in that direction. Volunteers are allowed to claim back proper expenses incurred in pursuit of their volunteering (see below), but being paid an allowance or a thank you gift may be considered as a payment for services provided, and may be a factor when considering if church volunteers are really employees, with all the very significant legal and tax ramifications that brings.

d) As a substitute for expenses

Volunteers will often incur expenses whilst carrying out their volunteering. Whilst volunteers are perfectly entitled to claim back those expenses, many churches will recognise that volunteers are often reluctant to do that and so in an attempt to 'even things up', the church pays them a thank you gift by way of compensation.

Volunteers should be actively encouraged to claim back proper expenses, not only because this is the most appropriate way to move forward (such expenditure clearly being in pursuit of the charitable purpose of the church) but also because it helps identify the true cost of providing the activities and ministries. Church leaders and treasurers should do all that they can to encourage volunteers to reclaim expenses, recognising in the end that they can't force people to do so.

Emphasising a 'please claim all expenses' policy from the start of the volunteering relationship may just help to remove any embarrassment and reluctance on the part of the volunteer to make proper claims. Remember, it is always open to the recipient to gift back some or all of their expenses payment and where they do so, the church may be able to Gift Aid!

Thank you gifts should not be used as a substitute for proper expenses.

5.3 Entertaining

Perhaps the most contentious area of all relates to expenditure on entertaining. Entertaining can take many forms with perhaps the most usual being making use of coffee shops, pubs and



restaurants as places for holding meetings and using church money to purchase food and drink for those in attendance.

We recognise that there are times when it might be more appropriate to hold a meeting in a venue away from the church in an environment that may encourage a different level and tone of conversation. Making use of a public venue as opposed to a private one may actually be a safeguarding issue (a youth leader meeting a young person, a pastor meeting a member of the opposite sex etc.).

However, before church money is used in this way, leaders should consider why an alternative venue is appropriate (not simply because it is a little more comfortable) and be confident that any money spent is both proportionate and in line with the church's charitable purpose. Once again, what is appropriate, fair and proportionate is a matter of judgement for the trustees.

A strategic meeting considering the forthcoming emphasis and activities of the church will be in accordance with the church's charitable activities. However, before using church funds to buy the food and drink, the trustees will need to consider:

- whether it is appropriate to hold such a meeting in a venue away from church;
- whether it is right for the church to be paying for the food and drink;
- whether the amount spent is considered to be proportionate;

These are all matters of judgement and should be considered in any policy document agreed by the trustees.

But what about entertaining on church premises, is that any different? By and large, the same rules and considerations apply, with the charitable purpose test being met where the provision of food and drink is considered 'incidental to the charitable purpose'.

There are a number of examples where entertaining in this way on church premises may well meet the dual aspects of church as family and church as charity.

- Meals that are provided as a prelude to attending an 'Alpha' or other evangelistic talk or meeting. The primary purpose of the meeting is clearly the promotion of the Christian faith, with the food and drink provided by the church being incidental to that;
- Food and drink served before or after church services to encourage attendance at special services or to facilitate deeper relationships between attendees;
- Food and drink provided by a church to deepen relationships, build trust and to strengthen church community regardless of who attends (members, attendees or others).

Where churches do see such entertaining as valid charitable expenditure, it would be wise to have a policy in place both to avoid misunderstanding and to ensure that levels do not get out of hand. Perhaps without going as far as creating a hospitality register (although some churches may choose to do this), the church trustees and other leaders should be aware of general levels of entertaining so as to satisfy themselves that such expenditure is appropriate, and also to ensure that certain individuals are not being unjustifiably favoured.

In the same way as for 'thank you' gifts, the perception that entertaining is not being applied in an even-handed way brings with it real potential for resentment and disgruntlement which for any church is at best unhelpful.

5.4 Member loans at beneficial interest rates

Recognising that it may not be right for all churches, if a church has excess funds (reserves), and is not prohibited from doing so by its governing document, it may be legally entitled to lend out some of those funds, both to people associated with the church and those that are not. Although this use of funds may appear attractive to trustees, particularly in times of low interest rates, it is a course of action that is littered with potential pitfalls.

While (depending upon the commerciality of the interest rate used) determining whether funds have been properly used remains important; it may not be the most pressing issue as there are plenty of other issues for trustees to consider including:

- Determining an appropriate interest rate to charge;
- Deciding what security (type and value) will be required;
- Ensuring that they do not take undue risk with the charity's assets;
- Constructing a suitable and fair application process;
- Deciding which applicants will be successful;
- Administering the loan;
- Managing the debt and dealing with people falling behind on repayment.

These are all reasons why trustees should be very careful before proceeding down this path. Churches that want to make these types of loans should operate a clear and transparent policy and maintain good, clear and accurate records. In cases where secured loans are regularly made, other charity law and financial services regulations could come into play.

6. What might be a good operating model for church leaders to consider?

As we have sought to emphasise throughout this paper (and hopefully the examples have served to demonstrate) making a judgement about the nature of some types of expenditure is not always straightforward. However, there are undoubtedly times when a legitimate desire for the church to act as a family will not overlap with church operating as a charity.

Where a church wants to act as a family in this way, we would suggest that a separate fund is managed outside and clearly separate from the charity. Because such a fund would not be part of the charity, its income and expenditure would not form part of the charity's accounts and also the fund would not be able to claim Gift aid on donations. In order to try and avoid any confusion or misunderstanding, we would suggest that such a fund:

- Has its own bank account;
- Has authorised signatories who are not substantially the same group as for the church charity accounts;
- Is given a name that is distinct and different from anything that could be associated with the church charity;
- Is set up in a different bank to that used for church banking or if the same bank is used the bank is made clear that it does not form part of the church charity;
- Is still subject to a level of accountability;
- Is clear to all who contribute to it that this is a private arrangement and not in any way a part of the church charity. Contributors need to make contributions with their 'eyes open'.

If so desired, this type of fund could still be overseen by some of the church leadership (although it would be good to introduce others in order to further differentiate it from a church charity fund) but operated as a private fund in a private capacity. It is effectively a co-operative or group of friends acting together in order to bless others.

Where this type of arrangement is set up, the fund:

- Must not reclaim Gift Aid (or any other form of charitable tax relief) on any donations that it receives directly;
- Must not be topped up from church charity funds;
- Should maintain a level of accountability.

While establishing and operating a private fund in this way deals with the charity law issue, many of the other issues about fairness and process will still remain and even though the fund is not part of the church charity, we would continue to strongly advocate good operating controls, and sensible policies and procedures are put in place.

7. Conclusions

The highly desirable, heightened relational family aspect of church may make it appear to be different from other charities and while this might be true at a human level, as an operating charity it remains subject to charity law in just the same way as any other charity.

Churches that want to bless people, predominantly out of a sense of family or friendship, should carefully consider whether it is right for this to be done with charity funds. It may be more appropriate, with all the potential regulatory and reputational issues, to do so with funds which do not form part of the church charity. We consider this review and judgemental decision-making process to be an important step to ensure that the trustees meet the demands placed on them by charity law and to protect the church charity from using funds improperly.

Church as family is wonderful, but trustees and other church leaders must also hold in balance the governance requirements of a charity and act accordingly.

Appendix 1: what to think about when writing a church policy

Largely, because this is an area that relies heavily on the judgement of the trustees and the leader, policies will differ from church to church and as such it is not appropriate to include a sample policy template within this paper. However, the list below sets out some areas which you would do well to think about as you seek to put together a suitable policy:

- Recognise that there are times when a church may want to act as a family but where such actions do not overlap with the church operating as a charity.
- The operation of a fellowship or hardship fund:
 - Who makes up the potential beneficiary universe? Is the fund only for use with those associated with the church and if so on what basis?
 - How is the existence and use of the fund made known?
 - How potential recipients are identified and assessed?
 - The level of accountability applied;
 - Verification of the underlying facts;
 - Do you see a difference between assessing people and situations associated with the church and those that are not?
 - Who oversees the use of the fund and signs off expenditure and hold the records?
- Specifically address the issues of celebratory and 'thank you' gifts:
 - What is considered acceptable and what is not?
 - How are potential recipients assessed?
 - Who is able to sign off expenditure and holds the records
- Re-enforce the policy of encouraging volunteers to fully claim all legitimate expenses.
- Address the issues of entertaining:
 - When is it right for the church to pay or contribute towards the cost of meetings held away from church;
 - Provide expenditure guidelines for food and drink in particular;
 - Consider establishing a hospitality register making all 'entertaining' open to scrutiny by church leaders and trustees alike.
- In cases where loans to members are considered:
 - How is the appropriate interest rate determined?
 - What security (type and value) is required?
 - Explain a suitable and fair application process

- Set criteria to determine which applicants will be successful
- Set out the administering process, including managing default situations.

Even where a separate fund outside of the church charity is established, we would still advocate that a proper operating policy is established, drawing on many of the considerations set out above.