Water-Mark Church of Orange Park, Inc.
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Facts About Mission Trip Contributions

Summer is popular time for many churches to spread their ministry beyond the walls of their church. Whether the mission trip is an hour away or halfway across the globe, there is a substantial tax benefit available to people donating towards a mission trip. Many people that donate to, or go on, a mission trip do not receive the full amount of tax benefits they are entitled to.

FROM A TAX PERSPECTIVE, THE IMPORTANT THINGS TO CONSIDER ARE:

In order for the contribution to be tax deductible, the short term mission trip must be an approved effort by the church. These trips may be self-directed by church leaders, or directed by an outside organization, with multiple participants from the church. Occasionally, there are circumstances where the church collects funds for a church member who is doing their own mission work, or participating on a mission trip that is sponsored by another church or organization. For individuals who are going on a mission trip sponsored by another church or organization, the church may be asked to collect funds for this individual, but they will not be considered tax-deductible, because they are for a specific individual, and the funds are considered 'donor advised'. In order for these to be considered tax-deductible, they should be given directly to the sponsoring organization.

For church-sponsored mission trips, donors can designate funds for a specific individual, but in order for the contribution to be tax deductible, the church must have ultimate control/discretion as to how the money is spent. A simple solution is to include a note or paragraph in printed documents that specifically states that if an individual receives more funds than needed, the excess will be used by the church to support the mission. This is important language. Donors can't expect to get their money back if the individual they are contributing towards exceeds their individual funding requirements, or even if that individual decides to back out of the trip. The gift is made to the church, or specifically towards the trip, but not the individual. That is the key.

Donations (by non-participants)
Since the church is a qualified charitable organization, individuals are able to deduct any cash donations to the church for the mission trip, as long as the church is in control of the funds donated. **<u>Gifts to a specific person (or made to the church and flagged for a specific person) to attend the mission trip are considered a gift and are not tax deductible.</u>** In order for the donation to stay tax deductible, donations should be made directly to the church/mission group and not marked for any individual. If the donation is made to a qualified charitable organization and is not indicated that the contribution is for a specific individual, it is tax deductible.

EXAMPLES:

Cash donation to church – tax deductible

Cash donation to individual, to be used for the trip – not tax deductible Check payable to church, no "memo" – tax deductible

Check payable to church, "memo for mission trip" – tax deductible

Check payable to church, "memo for person" – may not be tax deductible

Fundraising (by Organization)

Fundraising activities may be done by the organization, or individuals involved in the trip. There are guidelines that must be followed, to ensure the funds are handled appropriately, that tax-deductible status of the donation is maintained, and no individual consequences are incurred.

All checks should be made payable to the church, not to individuals. Cash donations should be collected and counted by adults, preferably by two or more individuals.

Any funds collected should go directly to the church account. Money should not be deposited in an individual's account and a single check written to the church.

Expenses for the fundraiser should be paid by submitting payment requests to the church treasurer, and should not be 'paid' from the cash collected by the fundraiser. This will provide accurate accounting and proper controls over receipts and disbursements.

Trip participants may not receive 'credit' for assisting with the fundraiser. The funds must go toward the overall cost of the trip, or distributed equally among all participants. This is important, since giving 'credit' may be viewed by the IRS as 'gifts for a specific person'. Also, the IRS may consider this type of arrangement as generating taxable wages to the individuals who participated, because they are 'earning money', and the individuals would be viewed as 'employees' of the church. The IRS' position is that fundraisers are fine, so long as they reduce the overall cost of an activity for everyone involved, regardless of the amount of work performed.

According to the IRS, if there are goods or services received by the donor, only the portion that is more than the fair-market value is tax-deductible. If there is an established charge for the fundraiser event, that charge is the fair-market value. If there is no established charge, or the event is a 'free will offering', a fair-market value should be established based on the reasonable value of the right to attend the event. Only the amount above that is tax-deductible.

Fundraising (by Individuals)
In some trips, individual will be raising funds toward the cost of their participation in the trip. Since this can be viewed by the IRS as 'gifts for a specific person,' there are guidelines that should be followed in order for these contributions to be considered tax-deductible. The key points are:

- **the donation should not be designated to an individual**
- **the organization must have complete control over the use of the funds**

To support these guidelines, a form similar to the one on the following page should accompany each donation that the donor wishes to be tax-deductible. The check, payable to the church, should not indicate any individual's name. This gives the church complete control over the use of the donated funds, and allows the donation to be considered a tax-deductible contribution. Contributions intended for team members who must cancel their participation, who raised more than the needed funds, or who become disqualified for any reason are then redirected to other charitable purposes related to the missions trip or other activities of the ministry.

Donations (by Participants)
Since trip participants have the potential to receive some personal benefit from a trip, the "rules" for donations for participants are different. A clear accounting of costs and benefits must be documented, to ensure that the correct portion of their contribution is tax-deductible.

Although trip participants cannot deduct the value of their services during a mission trip, they may be able to deduct some amounts they pay in giving services during a mission trip. The amounts must be:

- **Unreimbursed,**
- **Directly connected with the mission trip,**
- **Expenses they had only because of the services given**
- **Paid by the participant or his/her parents (if a dependent)**

Generally, a charitable contribution deduction can be claimed for travel expenses necessarily incurred while away from home performing services for a charitable organization only if there is no significant element of personal pleasure, recreation, or vacation in the travel. This applies whether the expenses are paid directly or indirectly. Expenses are paid indirectly if the payment is made to the charitable organization and the organization pays the travel expenses (the typical approach for church mission trips).

The deduction for travel expenses will not be denied simply because the participant enjoyed providing services to the charitable organization. Even if the participant enjoys the trip, a charitable contribution deduction can be taken for travel expenses if the person is on duty in a genuine and substantial sense throughout the trip.

However, if the person has only nominal duties, or if for significant parts of the trip the person does not have any duties, travel expenses cannot be deducted.

Deductible travel expenses include:

- **Air, rail, and bus transportation,**
- **Out-of-pocket expenses for your car,**
- **Taxi fares or other costs of transportation between the airport/station and hotel/room,**
- **Lodging costs,**
- **The cost of meals**

Non-Deductible travel expenses include:

- **Immunizations or prescriptions (somewhat unclear whether these are deductible)**
- **Passport or visa costs,**
- **Personal purchases, gifts, souvenirs,**
- **Sightseeing and recreation expenses,**

Travel expenses are deductible **ONLY** on days where mostly charitable work is performed and there no personal pleasure involved (besides the pleasure of ministry). Travel day are considered "work" days when it comes to the deductibility of expenses. Side trips or other sightseeing activities are not considered charitable expenses.

To prove the extent and duration of volunteer services, the trip leader should keep an itinerary of the entire trip. The itinerary should separate those times when the participants are on duty for the charitable organization from those times when the participants are free to choose his or her activities. Any detailed documentation and/or photos to support the itinerary should be saved.

Donations by participants should be tracked separately from non-participants, and appropriate documentation (receipts, work itinerary, etc.) must be available, so tax-deductible amounts can be calculated for the participants. If itemized costs can be obtained from the sponsoring organization, that is helpful. A proper written acknowledgement of donations and tax-deductible status can be issued to participants by the church after the trip's completion.

EXAMPLES:

1. Mission Trip costs $1000/person, and is 8 days in length. 2 days are travel days, 4 days are work days, and 2 days are sightseeing days. Jim contributes $1000. Tax-deductible amount for Jim is $750 (6 days, or 6/8 of the total amount).

2. Same mission trip. Jim contributes $800, and fund-raises the other $200. Tax-deductible amount for Jim is $480 (6/8 of $800).

3. Same mission trip. Jim contributes $1500. Tax-deductible amount for Jim is $1250 (6/8 of the $1000 trip cost, plus $500 donation for which he received no personal benefit)

Participants are responsible for tracking/documenting any personal expenses that are not included in the "mission trip costs", that they want to use for tax purposes.

Participants cannot "sponsor" another participant or have their trip costs paid by another individual's contributions, in an attempt to treat their own contribution as completely "tax-deductible".

Planning Opportunities
As the church plans its mission trips, it should pay close attention to the itinerary on an hour by hour basis. The church may allow for some limited sightseeing and personal time, but the primary purpose of the trip should be to render charitable or religious services to others. Most of the time should be devoted to volunteer work.

Some advisors have used the foreign business travel rules as an analogy with the charitable deduction rules.

For example:
Internal Revenue Service rules prohibit the deduction of travel expenses that may appear to be a vacation. To assure that businesses are not deducting vacations as business trips, the IRS has developed rules that define business trips. Initially, you must differentiate between business days and personal days. It is a business day if:

- **you are traveling,**
- **your presence was required for a business meeting,**
- **you conducted significant business**

To conduct significant business on a day, you must spend the majority of the working hours actively conducting business.

All days that do not count as business days, are counted as personal days. You may not deduct any expenses related to personal days. For the personal days, meals, transportation, or lodging, are not business expenses. To determine the appropriate expense for business transportation, you must prorate your transportation costs by the ratio of business days to total traveled days.

If more than half of the days are personal (more that 50% of the total days), then none of the expenses qualify as business expenses.

It is recommended that churches plan their mission trips to meet both the charitable rules and the business travel rules. The trip should schedule participants to work the vast majority of the days. The work should take up the majority of the work day. The church should prepare a detailed itinerary of each day's planned activities. If the requirements of foreign business travel rules are met when traveling as a charitable volunteer, there is more likelihood of success in deducting the volunteer expenses related to that mission trip as a charitable contribution.