



Stewardship: Understanding Church Finances for the Advancement of the Kingdom.

Financial Literacy and Legacy Series

Learn how to steward resources and achieve great success so giving becomes a blessing to all; the giver and the receiver.

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The topic of Organizational Finances within our churches and ministries has changed over the centuries. One fact remains the same: proper stewardship of our resources for Kingdom Advancement is necessary. To reach the lost, the hungry, and the disenfranchised among us and to see Jesus operating through us on the earth, an abundance of resources is necessary to fulfill the purpose God alone has directed.

What is Stewardship?

The word "stewardship" in Webster's dictionary defines it as:

- The activity or job of protecting and being responsible for something
- The office, duties, and obligations of a steward
- Conducting, supervising, or managing something, especially: the careful and responsible management of something entrusted to one's care.

Then the dictionary further goes on to say that a steward is:

- A person's job is to manage the land and property of another person.

Interestingly, when you look at the word "ship" by itself, you see a vessel that transports across a body of water. Something can be placed on a ship to provide transportation from one place to another. Another visual would be shipping goods or services to another destination for someone else's use. When proper stewardship is in place, a person or an organization can provide for others locally or abroad. When we get the firm idea that we own nothing and that God owns everything, stewardship is much more than an idea but a lifestyle.

What Does the Bible Say About Stewardship?

Stewardship is found in the Bible, representing many examples of people whom God directed to carry out his plan through the governance, establishment, and servanthood of His laws and purposes where ever they resided and whatever state they were in. We have many examples, such as Adam, Abraham, Isaac, Jacob, Joseph, Noah, Esther, and Nehemiah, to name a few. Each one had a plan and purpose from God to steward and manage the property, finances, building efforts, and people; it is still the same today. There are a few words for steward referenced in the text, such as:

- ☉ In Hebrew, meaning a worshipper, to serve, to build, rebuild, and establish (Gen. 43:19, I Kings 16:9)

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- ☉ The Greek definition means the manager of a household or to manage household affairs, the family of God, and a steward of the Law approved of God. (Luke 16:8, and Tim 1:7)
Note: a steward, manager, superintendent (whether free-born or, as was usually the case, a freed-man or an enslaved person) to whom the head of the house or proprietor has entrusted the management of his affairs, the care of receipts and expenditures, and the duty of dealing out the proper portion to every servant and even to the children not yet of age

Now, if we look at a few scriptures we can visually see what God is expecting from our service regarding financial stewardship.

- ☉ [Luk 16:8 KJV] 8 And the lord commended the unjust steward because he had done wisely: for the children of this world are in their generation wiser than the children of light.

What is being said in this scripture is that the unjust steward was acting more wisely and will use the principles more readily than we, as the children of light, because the world knows what works even though it was gained unjustly.

The following scripture refers to leadership and how to act when stewarding God's plan.

- ☉ [Tit 1:7 KJV] 7 For a **bishop** must be blameless, as the **steward of God**; not self-willed, not soon angry, not given to wine, no striker, not given to filthy lucre;

The reference here I would like to make is that the word for bishop in Greek is derived from "episkopeo," which means to look upon, inspect, oversee, look after, beware, and the care of the church rested upon the elders. The compound word "epi" is a timing word used to identify future events foretold in the present. This means that you can live in the future, which is prophetic faith with grace to cover you.

- **Kronos** time is how we live by our current calendar,
- **Kairos** timing is an appointed time in God's purpose, and we live it by faith.
- However, **Epi** time is for the promises of God for those who live and believe in His covenant. It is a superimposition of time, place, order, etc., in relation to the distribution of time, on behalf of the space of; through time. It is to establish or bring about God's promises to the current time, place, and order by force (in His Glory) that was not in position for each individual who believes in the covenant of the Most High God.

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In all cases, the person or persons responsible for running affairs should do so in a righteous way, just, and with integrity and love. The simplest way that we can measure our progress in performing the task is by the Fruit of the Spirit.

- ☉ [Gal 5:22-26 KJV] 22 But the fruit of the Spirit is love, joy, peace, longsuffering, gentleness, goodness, faith, 23 Meekness, temperance: against such, there is no law. 24 And they that are Christ's have crucified the flesh with the affections and lusts. 25 If we live in the Spirit, let us also walk in the Spirit. 26 Let us not be desirous of vain glory, provoking one another, envying one another.

This is our guide in stewarding God's resources, His people, and His property for the Christian who wants to receive the best from the Father and can be entrusted with all that he is given.

Determining the Proper Foundation

The debate on whether a church should incorporate or not is still at the cross hair, but it is because all the facts may not be known to make a fruitful decision. I say fruitful because if the right decision is not made, you will not be able to bear much fruit without the proper foundation. A corporation is not a person; it is an entity (artificial person) created to be wholly separate and distinct from its founders and members.

- The Body of Christ is not subjected to the state
- The church has to form an entity that it uses to manage its assets, internal policies, and procedures. It can be dissolved anytime, and a new one can be created if desired.

Benefits of Incorporating a 501(c) 3:

- Lawsuits have increased dramatically against the church
- Limited Legal Liability (corporate veil)
- The personal assets of its founders, directors, officers, trustees, and others in leadership positions would be protected if anyone ever tried to sue the church.

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If you stay Un-Incorporated:

- The church is an unincorporated organization
- Are subject to the same regulations and are not immune to oversight, regulatory or interference
- A Texas court ruled that the wrongful conduct of the church is imputed to the members, so if the church gets sued, every member can also be sued.
- It further purports that every member knew or should have known the activities of the church and that all the assets are at risk.

Internal Revenue Service Code 7701(9)(3) clearly defines:

- That an incorporated church for tax purposes shall be treated as a corporation
- Staying unincorporated does not exempt the church entity from government oversight

Churches are created daily in homes, hotel conference rooms, and schools without incorporating before the 1st service. This is leaving the entity exposed.

Steps to Incorporate

There are a few steps necessary to incorporate a church, and it is done at the state level, and for every state, the process can be different, and payment of fees is sometimes necessary.

Incorporation requires Articles of Incorporation to be filed with the Secretary of State where you live. This will include the following:

- Name of the entity
- Name of the Board of Directors
- Name of the Registered Agent
- Name of the Incorporator (which in most cases is the same as above)

You will then need to file a form SS-4 with the Internal Revenue Service online to acquire a FEIN number (Federal Employer Identification Number) for the organization you are creating. This identifying number is meant to create distinction, open bank accounts, and file the proper tax forms. The church is not tax-exempt when it receives the FEIN, so you will need to continue the process to completion. You will need this to create the 501 (c) 3 nonprofit or for-profit organization. The Articles of Incorporation are not limited to forming a church but a legally incorporated entity. The Articles for a church, however, have to have specific language included when filing for the exempt status. (See below: Purpose Clause)

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Steps to Create a 501 (c)(3) Organization

Anyone seeking to file a 501 (c)(3) organization must complete the Incorporation process and complete the application by completing Form 1023, a 28-page document with questions to determine whether the entity qualifies for tax exemption status.

Although most people believe that a church can still operate without having this designation because it allows freedom from government intervention and allows for freedom of speech and doctrine, this is not the case. Supreme Court has ruled that whether an entity calls themselves a church, regardless of exemption, is under the same rules and governance.

The issues of concern come in when the members get audited and have to determine whether their giving receipts are allowed to be tax deductible.

The auditor will not make the presumption that the entity is a 501 (c) (3); therefore, the burden is on the member. When a church becomes exempt, it has to give detailed information about its activities, including but not limited to the budget, missionary activities, and how it pays its pastors and employees. No assumptions are made because all activities are outlined; therefore, any activity the entity engages in that is not listed is subject to scrutiny. There are benefits of being a 501 (c)(3) entity as follows:

- Exemption from federal income tax
- Eligibility to receive tax-deductible, charitable contributions
- Exemption from certain employment taxes
- Assurance to foundations and other grant-making institutions that they are issuing grants or sponsorships to permitted beneficiaries
- State officials may grant exemption from state income and sales tax
- Counties approve property tax exemptions on property taxes
- The U.S. Postal Service offers reduced postal rates to specific organizations
- Increased credibility within the congregations
- IRS Publication 78 will list your church or organization as a legitimately organized, nonprofit, charitable organization, thus making it easy for anyone wanting to know your status.



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The Internal Revenue Service uses an organizational test because it has not agreed on the definition of a church. You will have to have these clauses in your By-Laws, or the 501 (c) (3) application will be rejected.

- It has to have a purpose consistent with section 501 (c)(3) and
- It has to have a dissolution clause stating that the remaining assets will be used exclusively for exempt purposes, such as charitable, religious, educational, and scientific.
- Purpose Clause:
 - The specific purpose for which the corporation is initially organized is to establish and oversee places of worship, conduct the work of evangelism worldwide, create departments necessary to support missionary activities, license and oversee ministers of the gospel, and to also engage in activities that are necessary, suitable or convenient for the accomplishment of that purpose, or which are incidental thereto or connected therewith which are consistent with section 501 (c)(3) of the Internal Revenue Code. This corporation is organized and operated exclusively for religious purpose within the meaning of section 501 (c)(3) Internal Revenue Code.
- Dissolution Clause:
 - In the event of dissolution of the corporation, no part of the corporation's earnings or assets shall inure to the benefit of any of its members; the residual assets of the corporation shall be distributed to one or more organizations which themselves are exempt as organizations described in section 501 (c)(3) and m170 (c)(2) of the Internal Revenue Code of 1986, or corresponding sections of any prior to future Law, or to the federal, state or local government for exclusive public purpose.

Churches have to ensure that this language is included in their By-Laws, or the application will be rejected, which will cause you to have to pay additional fees to update the application with the Secretary of State and cause the additional time to re-submit your application.

Along with this verbiage is a 14/15 point test that the Internal Revenue Service uses to determine what a church is since there is no legal definition. This test was derived from a court case operating a school; however, it is still determined on a case-by-case basis.

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The 15 Point Test is as follows: A church is a church for tax purposes if there is,

- A distinct legal existence
- A recognized creed and form of worship
- A definite and distinct ecclesiastical government body
- A formal code of doctrine and discipline
- A distinct religious history
- A membership not associated with any other church or denomination
- A complete organization of ordained ministers ministering to their congregation
- Ordained ministers selected after completing the prescribed course of study
- Literature of its own
- An established place of worship
- A regular congregation
- Regular religious services
- A Sunday school for the religious instruction of the young
- A school for the preparation of its ministers
- Any other facts and circumstances that may bear upon the organization's claim for church status

The IRS uses this as a guide but is careful to allow themselves room so that they are not limited to just these points for determination.

I want to discuss the difference between a ministry and a church because there are clear distinctions when dealing with the IRS. There is an IRS code Section 170(b)(1)(A)(i) says that a person can donate up to 50% of their income and a tax write-off for it, while section 509(a)(1) says that a church is not a private foundation. However, a ministry is described by sections 590(a)(1) and 170(b)(1)(A)(vi) as an organization that is religious but not a church, and a person can only donate up to 30% of their income and get a write-off. If you wish to change the ministry to a church, you will need to file a "Request for Ruling Letter," submit a list of information and send it to the IRS for consideration.

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Other items needed in your By-Laws will be:

- How the Housing Allowance is addressed
 - There is a specific calculation for this; you have to provide three scenarios and choose the lowest of the three. It has to be submitted to the board for approval, and a Form W2 is given to the Pastor, **not a Form 1099**, at the end of the year.
- How licensing and ordination of Ministers occurs
 - A formal class structure and licensing/ordination program should be in place. This is when you set specific criteria for someone eligible to be licensed and ordained by your church. The entity should keep good records of all people that have been licensed. The people have to keep a meaningful relationship with the church, and there should be a renewal process with dates to comply on a regular basis.
- Board formation and who is on the Board
 - An Executive Board should be formed and has to have a minimum of 3 people. The majority have to be uncompensated, and the majority have to be unrelated. The board should at least meet four times a year; however, the Law only requires one meeting per year. The discussions should pertain to policies and procedures, financial status reports, ratification of prior acts, and other essential discussion items. Minutes should be recorded, kept, and filed. Minutes are legal documents printed and given to the board to review before the next board meeting. The minutes should be read out loud and approved as written by the board.
- Accounting Process including Tithes and Offerings
 - The accounting system has to be used for the accuracy of funds received and expenses paid. Finding the right accounting system can be burdensome and costly but is necessary in order to keep the financial system in order. The use of "cash basis" versus "accrual basis" is a better option and less confusing. It is also used to support the annual offering letter to the church members. In 2006, the Pension Protection Act was passed to require an annual statement to be given to the member, and that personal receipts would no longer be used on their merit. The statement has to have an itemized listing of all offerings and contributions made within that year for the member to use as a tax deduction; included with the

annual giving amounts is a statement that identifies that no other goods or services were given to the member on behalf of their gifts.

- Reimbursement Plan
 - Accountability is necessary for this plan to work according to the rules of the IRS. There are two types of reimbursements, and both require a documented process. The standard reimbursement is used when the Pastor or church employee incurs an expense on behalf of the church, such as supplies, lodging, pastors' study materials, benevolence, etc. In this case, a form should be filled out in detail. Receipts should accompany the form and proper signatures included. Advanced reimbursement is when the Pastor has to travel for a speaking engagement, and the church determines what the expense is beforehand. The Pastor will have to keep all receipts and turn in any excess funds that were not used. Before implementation, a reimbursement plan and policy must be approved by the Board before reimbursements under these guidelines can be processed.
- Ministers Compensation Package
 - The Pastor cannot set compensation packages for Pastors/Ministers; only the Board can do so. The Pastor can participate in the discussions, but they cannot be present when the Board votes. If set by the Pastor, it is considered an excess benefit transaction that imposes an excise tax of 15% of the entire transaction. The Pastor would have to submit Form 4720 and pay the tax on what earnings were received.
- Accepting Credit Cards
 - Receiving credit cards is a pretty simple process and should be used because it is convenient for parishioners. The church entity will receive a Form 1099-K for all transactions they have processed on your behalf. A credit card policy should be put in place for the use of the Church's designated card for purchases pertaining to church business. All receipts should be kept and turned in to the accounting department.
- Pastoral Love Offering
 - Love offerings are touchy, especially when the congregation wants to bless the Pastor. In order for it to truly be a gift, it should be spontaneous and cannot be

mentioned over the pulpit as a gift for services but for what the Pastor means to each person individually. These gifts are not tax deductible and should not be included in the compensation package. The IRS concludes that the value of property acquired by gifts is excluded from gross income.

- Guest Speakers and Honorariums
 - When anyone comes to speak at a church, the person speaking should complete an IRS form W-9, and if a person is paid \$600 or more, they will have to receive a Form 1099 to report the income on their personal tax return. If a W-9 is not obtained, the church requesting services must keep 28% for withholding and send it to the IRS for the month on Form 945. The church must pay out of its funds if it does not withhold these taxes.

Annual reporting should always include financial statements and any issues throughout the year. If the church is a 501 (c)(3), it is required to file IRS Form 990 annually. If the church or ministry has receipts less than \$25,000, 990EZ Postcard can be filed online to keep the designated status. If a filing form is missed three years in a row, the status is withdrawn, and the entity will have to formally request the IRS for designation to be reactivated.

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Dear Steward!

I hope the strategies in this article assist you on your understanding of Church Finances.

There are more tools available, with more to come at www.drnichelledbell.com

Also, visit the website to keep up with book releases, schedule a call or speaker engagement, and sign up for future training classes.

You can also sow a seed into this ministry on our giving page.

Join My Daily Bread Facebook page at

<https://www.facebook.com/groups/mydailybreadkingdomliving>

I pray that the information provided helps you implement the strategies for Church Finances for the betterment of the Kingdom and its advancement.

In Your Service,

