

SUPPORTING SEMINARY STUDENTS

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A member of a local church feels called to the vocational ministry, but she does not have the financial resources to quit her secular job to attend seminary. The local church, feeling the need to support the member, decides to help her by allowing other members to contribute to a fund that will pay the member while at seminary and give her a scholarship to cover all seminary expenses. While this is a rational plan, it is a recipe for disaster. For the reasons stated below, the church cannot do this without jeopardizing its tax exempt status.

Student Ministries, Inc. offers an alternative to the disaster a local church faces when it tries to offer support to seminary students and still accommodate those who want to support them. Below, I will contrast the problems associated with the local church support with Student Ministries.

SCHOLARSHIPS?

The first mistake the church has made relates to the use of the word "scholarship." The church may award a scholarship only if it furthers a charitable purpose and not to further any individual's purpose. This means that the scholarship must be available to a charitable class. A charitable class must be large enough to avoid the appearance of benefiting any specific individual. Most courts and scholars believe that the charitable class must have at least 75 or more members. Unless your church is large, it is highly unlikely that it would have 75 or more seminary students at the same time.

If the local church is supporting a small number of seminary students, then the scholarship program is being operated for the benefit of the individual students and not for the benefit of a charitable class. When a local church awards the scholarship, it is conferring a "private benefit" on the seminary student. When material, a private benefit may cause the Internal Revenue Service to revoke the church's tax exempt status. Further, the existence of a private benefit may also cause the church to lose its property tax exemption as well.

Student Ministries avoids this problem by not awarding scholarships. Instead, it pays the seminary students for ministry services that the student renders under Student Ministries' supervision.

RELATED PARTY PROBLEMS

The highest motivation for supporting a seminary student frequently comes from his or her family. When the family contributes to the seminary student scholarship fund, the family typically wants to deduct the contribution on their tax return. Since the church becomes simply a conduit for the family to deduct from their taxable income the

seminary student's expenses, the IRS typically will maintain that the church is again serving the private purposes of the family and not its charitable and religious purposes. This private benefit may serve as the basis for IRS and local property taxing authorities to revoke the church's tax exempt status.

In addition, since the church never assumed control over the money, the amounts contributed are not tax deductible for the family. No one may deduct their contribution.

On the other hand, Student Ministries assumes control of the donations. It supports approved students with available resources. The donor may suggest a particular student but must agree to allow Student Ministries to spend the money as it sees fit. Student Ministries also requires each supported student to work with a Student Ministries approved budget. If a particular student raises more support than their approved budget, then the excess can go to other needy students. Student Ministries also requires each student to perform services for their pay. These services are rendered to a local church and are supervised by a local minister. The students gain valuable experience while supporting themselves. Since Student Ministries supports dozens of students, all funds are spent pursuing its exempt purposes.

CONCLUSION

Student Ministries becomes the clear choice to those seminary students desiring to conduct their affairs with the highest integrity. It is also the clear choice for those who want to love and honor their home church by helping it avoid potential problems.