

Scholarship Funds

By Rollie Dimos



Many churches want to help students in their congregation attend a college or university, so church leaders establish scholarship funds and seek donations from their congregations. While most donors expect to receive charitable giving credit for tax purposes, sometimes these donations will not qualify. Further, while most churches believe they can give a scholarship that doesn't result in taxable income for the student, this isn't always the case.

Do you know what steps are needed to ensure donations are tax deductible and scholarship awards are nontaxable?

How does your scholarship fund measure up?

Donations

In order for donations to a scholarship fund to be tax deductible, the donation should not have any restrictions attached. One restriction that would jeopardize the tax deductibility of a donation is stating that the scholarship donation is for a specific student.

According to the IRS, if a person wants to give a donation to a church and get a tax deduction, the donor must relinquish control and allow the church to use the donation as it deems best. Similarly, in order for a donor to receive charitable giving credit for tax purposes, the donor cannot stipulate how the funds are to be used, or receive a benefit from the donation (other than intangible religious benefits).

Consider the following examples:

- *If a donor makes a contribution to a scholarship fund and notes that the funds should be used to send any student to college, the donor can receive charitable contribution credit for the entire amount.*
- *If a donor gives money to a scholarship fund and says the money must be given to their own child, the donor can't claim a deduction, because they will receive a tangible and personal benefit from the donation.*

Continued on next page...

Scholarship Funds (cont.)

When soliciting funds for a scholarship fund, a church can help donors understand this idea by adding a statement similar to the following in any communications:

“While suggestions for scholarship recipients are welcome, the members of the scholarship committee will choose recipients based on the established scholarship criteria.”

If the church accepts a scholarship donation restricted for a specific student, and follows the donor’s advice by giving that donation to the student, the donation cannot be considered a tax-deductible donation. Any charitable giving receipts provided to the donor must not include this type of restricted donation.

Awards

Scholarship awards to students are nontaxable if the recipient meets the following requirements:

1. The recipient is pursuing a degree at a college or university.
2. The educational institution is accredited and authorized to provide a bachelor’s or higher degree, or a training program for gainful employment in a recognized occupation.

Further, the scholarship can only be used for tuition and “other fees” required by the educational institution. “Other fees” can include books, supplies, and equipment required for all students in the related courses.

However, scholarship committees need to be aware that some awards can result in taxable income to the recipient. For example, if the scholarship award is used:

1. For room, board, travel, teaching, or research services, the award will be taxable to the recipient.
2. To pay off the college debt of a student that has already graduated, the award will be considered taxable income, since the recipient is no longer pursuing a degree.

If the scholarship award results in taxable income, and the award is more than \$600, the church will need to issue an IRS Form 1099-Misc to the student at the end of the year.

Scholarship Committee Guidelines

In order to ensure that a church scholarship fund allows donors to receive charitable giving credit, results in nontaxable income for the recipients, and complies with IRS requirements, the church should consider implementing the following guidelines:

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Scholarship Funds (cont.)

1. Prepare a written document outlining the terms and conditions of the scholarship.
2. Define specific award restrictions, such as the scholarship must be used for tuition, fees, books, and supplies, if the church desires that the award will not result in taxable income. Specify whether the award is restricted for use at a religious institution or at any college or university.
3. Define the scholarship award criteria. Is the award based on academic accomplishments, financial need, charitable service, or a combination of all three? Will an essay be required? How will the scoring be accomplished?
4. Require an application process to ensure students meet scholarship requirements.
5. Require proof that the student is enrolled in an accredited educational institution, such as a college or university, and pursuing a degree. An academic transcript would be sufficient proof.
6. Create a team to review applications and make awards in accordance with the scholarship requirements. The team should be independent and disinterested from the applicants.
7. Pay the scholarship award directly to the educational institution. If the scholarship is supposed to cover 100% of tuition and fees, consider getting an invoice to confirm the total amount owed.

Additional Resources:

For more information on donations, designated giving, and charitable giving receipts, download a free pamphlet with frequently-asked questions about donations at <http://generaltreasurer.ag.org>.

For more information about scholarship awards, see [IRS Publication 970](#), *Tax Benefits for Education*.

About the Author

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Rollie is the author of *Integrity at Stake: Safeguarding Your Church's Honor*, available at MyHealthyChurch.com. Using real-life fraud cases, *Integrity at Stake* helps churches assess their internal controls and minimize the risk of fraud.