

## **Tuition Payments: Can They Be Disguised?**

Can a parent give a donation to a church and have the school bill the church for the amount of tuition owed to the school by the parent? An IRS Chief Counsel Advisory addressed this issue in June 2006. The IRS looked at “member-families” (members of a number of churches) that made a series of contributions to their churches in a way that disguised tuition payments. Under these payment programs, a member-family contributed to the church an amount equal to or exceeding the amount of each child’s tuition at a private school unrelated to the church. The school billed the church for that tuition, and the church paid it. The church kept the contributed funds from each of the member-families separate, and required each member-family to contribute to the church an amount at least equal to each child’s tuition plus the member-family’s “regular” contribution to the church’s general fund. At the end of the year, the church provided to the member-family a statement that reflected the total contributions for the year without any reduction for tuition the church had paid. The statement also says that the member-family received nothing in exchange for the contributions except intangible religious benefits.

Schools must understand that payments for tuition are usually not tax-deductible. The IRS is very clear when it comes to making a donation and receiving a tangible benefit, such as a child’s education. In this case, the church should have deducted the amount paid to the school from the donation receipt that it gave to the member-family. Each member-family that gave a donation to the church, and in turn had the school bill paid by the church, received a tangible benefit from the gift to the church.

**Is there a way for a school to give donation receipts for donations that pay for tuition?** Parents and relatives do not qualify for tax-deductible contribution receipts if they donate to benefit their own children, adopted children, grandchildren, or children of their extended family, such as nieces and nephews. However, if individuals donate to the school’s financial aid fund or scholarship fund and (1) the school has *full control* over how the money will be spent, and (2) it follows truly *objective standards*—written and understood by everyone—in the awarding of the funds, the answer is *yes*. Schools are urged to adopt and follow objective financial aid programs. The school should also consider having a neutral third party complete the financial need evaluation, which shall include the ranking of the families applying for financial aid.

A tax-deductible receipt can be provided to an individual who donates and suggests that the school *consider* a particular non-related needy child. However, if the person designates the funds to a particular child

without the school having full and final discretion in the spending of the funds, no tax-deductible receipt should be given. For more detailed information about contribution issues, see IRS Publication 1771, *Charitable Contributions*.

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