IRS-sanctioned Secrecy for Religious Nonprofits: Stepstone or Stumbling Block?

Mark W. Smith  
*University of San Francisco, mwsmith2@usfca.edu*

Follow this and additional works at: [https://repository.usfca.edu/capstone](https://repository.usfca.edu/capstone)

Part of the Nonprofit Studies Commons, Other Religion Commons, and the Social Justice Commons

**Recommended Citation**  
Smith, Mark W., "IRS-sanctioned Secrecy for Religious Nonprofits: Stepstone or Stumbling Block?" (2023).  
*Master's Projects and Capstones*. 1553.  
[https://repository.usfca.edu/capstone/1553](https://repository.usfca.edu/capstone/1553)

This Project/Capstone - Global access is brought to you for free and open access by the All Theses, Dissertations, Capstones and Projects at USF Scholarship: a digital repository @ Gleeson Library | Geschke Center. It has been accepted for inclusion in Master's Projects and Capstones by an authorized administrator of USF Scholarship: a digital repository @ Gleeson Library | Geschke Center. For more information, please contact repository@usfca.edu.
IRS-sanctioned Secrecy for Religious Nonprofits: Stepstone or Stumbling Block?

by

Mark W. Smith
mwsmitih2@dons.usfca.edu

Capstone Research Report Submitted in Partial Fulfillment of the Requirements for the Master of Nonprofit Administration Degree in the School of Management directed by Dr. Richard Greggory Johnson III

San Francisco, California
Spring 2023
Abstract

Internal Revenue Service code automatically confers 501(c)3 nonprofit charity status on religious nonprofits which appear to be “A church, convention of churches, or association of churches described in section 170(b)(1)(A)(i),” as labeled in the IRS Form 990. Additionally, religious charities functioning as a part of a church have no requirement to report any financial information or policies to the IRS or anyone else. This acquiescence to secrecy keeps most of the data on these nonprofit organizations unavailable for research or to inform legislative action or agency policies. This automatic status may also lead to complacency in organizations in financial accountability, use of recent research and tools to help nonprofits be more effective, and the development of policies which protect vulnerable people. A small survey of a niche category of “church” nonprofits which endorse ministers to the federal government to serve as chaplains demonstrates this concern. Literature reviewed affirms the value of transparency and nonprofit improvement tool use, as well as raises concern about possible changes to legal and agency standards. Both transparency and legal standing also affect the ability of these nonprofit organizations to raise money, particularly at a time when religious donations are flat or constrained, and church affiliation is falling. Substantive recommendations are offered to better place religious nonprofits in these arenas and contribute to balanced societal progress.
Acknowledgments

I first want to express my appreciation to the organizations who participated in the research survey. Their leaders are colleagues from my long military career and I continue to value and respect them. (Please note, these organizations have been randomized throughout the paper to prevent connections between data and organization.)

- **ASSEMBLY OF CANONICAL ORTHODOX BISHOPS OF THE U.S.A. (ACOBUSA)**
  - Rev. William Bartz

- **PRESBYTERIAN AND REFORMED COMMISSION ON CHAPLAINS AND MILITARY PERSONNEL (PRCC)**
  - Rev. (Dr.) James R. Carter

- **NATIONAL JEWISH WELFARE BOARD (JWB)**
  - Rabbi Irving A. Elson, CAPT, USN (Ret)

- **PRESBYTERIAN FEDERAL CHAPLAINCIES (PFC)** (formerly "The Presbyterian Council for Chaplains and Military Personnel")
  - Rev. Dennis Hysom

- **CHAPLAINCY FULL GOSPEL CHURCHES (CFGC)**
  - Dr. Klon K. Kitchen, Jr.

- **COALITION OF SPIRIT-FILLED CHURCHES INC. (CSC)**
  - Rev. David B. Plummer

Special thanks to the two lawyers, Gene Takagi and Jaime Jordan, who freely shared their valuable time to aid my journey and verify my results.

The faculty of the Nonprofit Administration program of the University of San Francisco have contributed extensively to my ability to create this project, and I will be forever indebted to them for the new chapter of my life they have opened.

Not unrelated, but just a bit dearer, are the people with whom I have shared this program. From our cohort’s small-group work to our classroom discussions, to our team presentations, to our social times, and especially for the large and small ways we have participated in each other’s lives, I will not forget you. In fact, I can’t wait to see what you do for our society in the very near future. I will be cheering for you!

My journey continues with the generous support of my favorite reader, my loved and loving wife, Jan. Thank you.
# Table of Contents

List of Figures ................................................................................................................. ii

Section 1. Introduction ........................................................................................................ 1

Section 2: Literature Review ............................................................................................... 3

Section 3: Methods and Approaches .................................................................................. 9

Section 4. Data Analysis ...................................................................................................... 12

Section 5: Implications and Recommendations ............................................................... 17
  Recommendations ............................................................................................................ 18

Section 6: Conclusions ........................................................................................................ 20

List of References ............................................................................................................... 22

Appendix A: Religious Nonprofit Survey .......................................................................... 24

Appendix B: Bridgespan Tool Survey ................................................................................ 28

Author’s Bio ....................................................................................................................... 29
List of Figures

Figure 1: Church Membership Among Adults Now Below 50% .................................................. 7
Figure 2: Fundraising? ........................................................................................................... 12
Figure 3: Average # Tools used and projected ..................................................................... 13
Figure 4: Comparison of two charts ...................................................................................... 13
Figure 5: Strategic Planning Tools and Policies ................................................................. 14
Figure 6: Tool use by org. and total possible ....................................................................... 14
Figure 7: Number of each tool used ...................................................................................... 15
Figure 8: The Policies held by these organizations ............................................................. 16
Section 1. Introduction

For as long as history remembers, the temple and palace relationship has affected the laws of the land (King, 1999). From early tribal cultures to modern Western governments, there have always been political leaders and religious or medicinal leaders who had to work their relationship out, and each tended to guard their boundaries carefully. Whether healers and tribal leaders, popes and kings, or religious refugees and their congress, their priorities have been negotiated, and the rules carefully, if not superstitiously, laid down. The king in the palace and the priest in the temple knew what to keep secret from one another. This report examines a modern iteration of the relationship between secular and sacred in the public sphere.

The debate has often been about whether the temple or the palace benefits more from any one system, and the effect on the populace is sometimes of much lower concern. It can be argued in the case of the United States Internal Revenue Service the temple has some advantages. It can also be argued those advantages are justifiable and benefit the populace, but that is not my intent here. I am interested in whether the built-in favoritism the IRS shows to religious institutions is actually a help or hindrance to the religious organizations providing social support in our society. My focus is not on churches themselves – “church” being the word the IRS uses to mean any recognized, organized form of religious expression regardless of what they call their gathering. I am interested in the social service organizations that exist based on the religious faith of their organizers, and how they determine their nonprofit status. Religious charities which address social needs of society ostensibly enjoy options in the way they claim their IRS 501(c)3 nonprofit status. In essence, these entities may claim to be a part of their "church," using the parent organization’s nonprofit status, or file separately as a charitable organization receiving public or government support.

To understand this choice, I focus on a specific niche where temple and palace must cooperate – chaplaincy in federal institutions.

Weary of their treatment under various unions of temple and palace, the earliest new inhabitants of the American continent sought to keep church and state separate by enshrining what is usually called the Establishment Clause of the First Amendment in the U.S. Constitution, along with its companion, the Free Exercise Clause. But the new nation they founded ran into a bit of a dilemma in the fight they waged to gain their independence from their colonial sponsors-cum-oppressors. Being devout Christians, they needed ministers to care for their warriors. Though chaplains were quickly dispatched on land and sea from the ranks of local clergy, this tension eventually had to be resolved in law.

In order to form a more perfect chaplaincy, the federal government could not be seen as establishing a religion or anointing one as the "official" religion. The solution was for
the leaders to acknowledge the right of its warriors to practice their faith while serving their country. To provide the separation required, civilian faith leaders needed to put forward, or endorse, religious ministry professionals from their own ranks whom they deemed qualified to function within federal service while meeting the religious needs of those serving there. This solution, which continues to this day, keeps the two realms separate: religious credentials provided by faith leaders allow chaplains to be employed by the federal government. Today, some of these endorsing bodies may choose to claim nonprofit status in the same way a religious nonprofit does.

Using the subset of endorsers who have a demonstrable choice of status, I explore the benefits to both faith organizations, and society in general, of the IRS favoritism afforded religious charities, as well as some of the impediments created by the exceptionalism. Based on this analysis, I make recommendations to help religious social service charities achieve their goals while availing themselves of the latest advances in nonprofit effectiveness.

The danger religious nonprofits face in a constrained environment during a period when religious donations are on the decline (Giving USA, 2022), is that of missing opportunities secular nonprofits have already discovered. One example is the lack of requirement for religious nonprofits (identifying as part of a church or association of churches) to report their financial status and policies publicly. They reject transparency just as funders are seeking to most effectively allocate their philanthropic dollars. Another is neglecting the tools successful nonprofits use: by undertaking a disciplined analysis of their mission and values, their social and political environment, and their stakeholders’ needs and interests, these secular organizations gain efficiency in achieving their mission.

The history and standing of IRS favoritism, as well as views on proposed changes to the status, are explored in a literature review. Methods and the research question follow. Results of data collected, both interview and survey, accompanied by illustrative graphs are in the next section. Recommendations follow, with the conclusion addressing the initial goals of the study.
Section 2: Literature Review

“by definition, empirical research in ‘secret’ organisations is scarce.”

Robbins & Lapsley (2015) quote a 1969 paper by Hazelrigg which illustrates the challenge of researching literature on religious organizations. It is difficult to study what cannot be seen. A not unrelated corollary is identified by Razaki, Drougas & Askar (2022), who propose the integration of religious concepts into business training, identifying religion as the missing Diversity, Equity, and Inclusion (DEI) piece. In the former, the temple keeps their secrets in the back room while their spiritual product is ignored in a decreasingly religious society, while in the latter some researchers are recognizing spirituality, if not religious devotion, as an essential part of human existence which needs to be considered in business. There is certainly truth in both views, and taken together, the two trajectories argue for greater transparency and honest dialogue.

King (1999) alluded to the uneasy relationship between temple and palace resulting in non-interference to keep the peace, specifically mentioning “ancient Egypt, Sumeria, Babylon, and Persia.” Modern examples show this distrust but leave some open space for changing this historical détente. Robbins & Lapsley (2015), in noting the biggest adjustment in transitioning a hospital in Ireland from a religious order to a public hospital was the movement from secrecy to transparency, pointed out that the sacred has historically maintained a level of secrecy. This often served several purposes – uniting the few against the unbelievers, protecting the identity of the members, even guarding against change or decay by limiting knowledge to a handful of loyal insiders. But the last reason they identified is perhaps most relevant today – the desire to control the flow of information.

Walter Dillingham’s commentary in the Nonprofit Times (2022) argued a different approach when he touted the success and numerical growth of Roman Catholic Foundations in keeping donations to the church high while attendance was throttled during the pandemic. He credited greater transparency through disclosures to their donors as key to that success. Haynes & Lindsay (2022) also talked about the growing significance of foundations, but even more, how the ‘Big Donors’ were having an impact in religious giving. ‘Big Donors’ don’t like secrecy, agreeing with Mahadi, Sariman & Ali (2022) on the “asymmetrical accountability” and trust when only some religious charities report, leading them to vote with their dollars for transparency.

Mahadi, Sariman & Ali (2022) proposed research into the motivations of organizations that chose to report their financials even when it was not required. They posited that
the transparency might be motivated by a desire to engender trust with their stakeholders. The authors identified recent reports of a significant growth in cases of mismanagement of funds and other fraudulent activities in Malaysia that may have motivated organizations to differentiate themselves from these scandals. These motives include: to improve accountability, gain more financial support, and increase a sense of religious fulfillment. An editorial in The New Nation in Bangladesh (Ensuring transparency..., 2014) raised the identified sense-of-religious-fulfillment element to a requirement in their Muslim faith. The article praised the ease of new technology to enable giving, but noted this convenience came with a dangerous lack of transparency resulting in an inability for practicing Muslims to know that their giving reached the intended needs. And in fact, there was reason to believe that the “fees” might be excessive, and the donations might be sent anywhere, as opposed to helping the poor still living in Bangladesh as desired. Because the money goes abroad, the UK Financial Services Authority and Charity Commission can do little about these donations. The piece concluded that since donating to the poor is an obligation of faithful Muslims, the need for transparency is even greater, and the government should safeguard the expression of their faith. Donors deserve full disclosure regarding where their faithful giving goes and are more likely to give when this is clear.

The U.S. has seen its share of religious charity scandals, but the protections from the government make those investigations difficult. If U.S. religious organizations are motivated to be more transparent, they must do so voluntarily. Secrecy is encoded in the U.S. Internal Revenue Service in several locations. Churches & Religious Organizations / Internal Revenue Service. (2019) lists multiple pages of tax information for churches and religious organizations. As noted in the first link, “churches, integrated auxiliaries, and conventions or associations of churches” are automatically considered tax exempt without applying for the status. Most important for this research, however, these institutions have no filing requirements. They can file an information return if they desire, but there is no penalty if they do not. Other links delineate the requirements for exemption under Internal Revenue Service Code Section 501(c)3, restrictions against campaign interventions, and the limitations on IRS ability to examine churches. The protections allowing religious organizations to remain opaque are significant. IRS (2015) Tax Guide for Tax Exempt and Government Entities handbook includes a section on special rules for compensation of ministers. These rules include that a church is not required to withhold income tax for its ministers and may subtract housing costs from taxable income. While withholding for income tax is not required, paying social security taxes, with limited exceptions, is mandatory. The result of these instructions is that a minister may be considered self-employed for income tax purposes and an employee for social security payment. These are options, however, and a minister may choose to be a W-2 employee or a 1099 contractor, required to submit their own quarterly tax estimates. These instructions are specific to ministers serving a church, or, as previously
noted, whatever terminology for similar roles and entities are used for other religious faith groups.

Two other governmental guidelines apply to the research at hand, one from the IRS and the other from the US Department of Labor. *Independent Contractor Self Employed or Employee / Internal Revenue Service.* (2019) is a website that delineates the rules organizations must follow to determine their workers as employees or contractors, and notes tax liability if a worker is misclassified. U.S. Department of Labor (n.d.) *Misclassification of Employees as Independent Contractors* states that their own Wage and Hour Division is responsible for determining if an employee has been misclassified and denied benefits and protections. The site leans heavily on the side of, ‘if a person functions as an employee, they are an employee, regardless of paperwork claims.’ While exceptions are noted, ministers are not specifically excluded. Blazek (2020) is a tax guide with some additional insight and case law support. While the definition of a minister receiving the benefits mentioned above is usually tied to the performance of “sacerdotal functions and the conduct of worship services,” Blazek further confirmed that individuals performing maintenance of religious organizations and integral agencies of such organizations do qualify as ministers. This ostensibly allows clergy serving in organizations that provide endorsement to the government for ministers to serve in federal institutions to fall under the employment rules for ministers. Blazek also noted that though endorsers are considered ministers, chaplains serving in the Veterans Administration and Armed Services are not considered ministers for tax purposes due to their government employment.

For the purposes of the present research a particular niche of the temple and palace relationship is identified in a Department of Defense website. *Ecclesiastical Endorsing Agents.* (n.d.) is the website for the Under Secretary for Personnel and Readiness, U. S. Department of Defense, where the Armed Forces Chaplaincy Board resides in the hierarchy of DoD. The link is the official listing of agents authorized to endorse religious ministry professionals to the federal government for service as chaplains. A subset of that list includes agents who function as endorsers for more than one denomination or group of independent churches. These organizations must choose how to represent their IRS 501(c)3 status, whether as a part of one of their constituents, or claiming the status for themselves. A scan of the list of agents or a quick google search, identifies all agents as former military leaders.

Fundraising is not a leadership skill gained in military service, and the religious fundraising picture is changing in the United States. Guidestar (2023), now known as Candid, demonstrated the complexity of understanding the breadth of religious nonprofits, as small differences in search terms can yield widely different results. A recent search revealed 405,903 religious nonprofit organizations, and 47,930 religion charities specifically involved in “service and other,” a number too great for this study,
but providing an environmental backdrop to the need to fundraise. Haynes & Lindsay (2022) discussed the explosive growth of nonprofit giving reflected in the Giving USA 2022 report. They noted giving was initially strong in healthcare, which was later surpassed by donations toward racial equity, animal welfare and the arts. The growth continued despite fears of the weariness of donors after years of pandemic. But giving to religion remained flat. Haynes & Lindsay also noted the growing significance of ‘Big Donors’ and foundations. Giving USA Special Report on Giving to Religion (2017), from the Giving USA Foundation noted that while the number of donors giving to religion had declined, giving remained fairly steady because younger donors gave more to religion. This report also made clear that while the annual report on giving uses a more specific definition of giving to religion as “giving to congregations, religious media, mission organizations, and denominational bodies,” this religion special report also adds faith-based human service organizations. Giving USA: The Annual Report on Philanthropy for the Year 2021 (2022) reported on more recent statistics, and the section on Giving to Religion (pg. 169 ff) is where Haynes & Lindsay (2022) reported the statistics revealing relatively flat giving to religion. This section also noted, “Though religion is still by far the largest subsector, its share of total giving has slowly contracted over time: in 2011, religion received 34 percent of total giving, while in 2021, giving to religion comprised 27 percent of the total” (Page 171). The report also described self-reporting by the Presbyterian Church U.S.A. (PCUSA), The Southern Baptist Convention (SBC), and Nazarene congregations in the U.S. and Canada all reported declines in membership of around three and four percent.

Further demonstrating a reduced benefactor audience is the overall decline in religious identification in the United States. Jones (2021) reported on recent Gallup polls that indicate U.S. church membership has dropped below fifty percent for the first time (see figure 1). Much of the drop was identified as caused by the growth of the no-religious-preference category, although some is tied to people who claim a religious preference but are not members of a church. Given the need for religious nonprofits run by former military chaplains to learn how to fundraise in a constrained environment begs the question of whether or not those organizations should consider becoming reporting nonprofit organizations.
Figure 1: Church Membership Among Adults Now Below 50%

Source: Jones, J. (2021, March 29).

A side effect of religious organizations not having to report is that their leadership may be uninterested in the wealth of research available to help nonprofits be successful. Laurett & Ferreira (2018) documented through a literature review more than thirty-five years of growth in the research and development of tools for strategic planning for organizations – demonstrating an explosion of expertise and insight. Lindquist & Markham (2015) [with a video by Paul Carttar, a senior advisor to The Bridgespan Group] surveyed nearly 500 leaders from a multitude of nonprofits regarding their use of strategic planning tools and resources. Their findings note that tool use is widely spread throughout the sector, and that those who put greater effort into using those tools saw satisfaction rates of nearly 80% (see Figure 3 in next section). Those who gave the tools less effort saw diminishing satisfaction. Notably, this survey listed 25 tools (Appendix B), while the present research used only 10 tools in the survey (Appendix A).

King (1999) argued the religious exemptions in the United States of America do not violate the Establishment Clause but may raise questions of equal treatment and religious gerrymandering depending on the current legislative environment. King argued for scrutiny of “purpose and effect” of any future legislation narrowing or broadening the exceptions. Added to the Razaki, Drougas & Askar (2022) suggestion that religious concerns be seen as a DEI issue, there appear to remain some fairness issues related to the current legal standards. Aprill & Mayer (February 2, 2023) is a forthcoming paper.
from the University of Notre Dame Law School, provided by one of the interviewed lawyers, Mr. Gene Takagi. The authors discussed the benefits and burdens of favored status from the IRS for religious organizations. The authors dispelled some concerns about favoritism, particularly in clarifying how the benefits cause no effectual harm to anyone, but also raised what they consider to be legitimate concerns and proposed legal changes to address those concerns.
Section 3: Methods and Approaches

A search of Guidestar (2023) and Charity Navigator (https://www.charitynavigator.org/), as well as the Nonprofit Explorer from ProPublica (https://projects.propublica.org/nonprofits/) revealed a field both too large for a one-semester capstone project, while also displaying the scarcity of information on religious nonprofits who did not file IRS Form 990s. These organizations don't show up in those databases.

As a retired navy chaplain and former co-director of a nonprofit organization endorsing ministers for service as chaplains in the federal sector, I had both expertise and connections that might increase my ability to gain data from similar organizations.

The federal requirement of endorsement for religious ministry professionals by their own faith groups gives a unique view into charities that may choose how to claim their religious nonprofit status. Do those who claim their own nonprofit status take advantage of the latest research and tools to better their organizations, or do they instead operate based on the relative safety of the IRS-favored treatment of church charities? Are there other concerns created by the automatic status? Should religious nonprofit organizations reconsider their strategic planning as they look to the future?

There are 175 faith groups represented to the federal government for the endorsing of chaplains to federal service as of February 6, 2023 (Ecclesiastical Endorsing Agents, n.d.). Of these 175 faith groups, 134 maintain the endorsing function within their "church" structure. (Note: the IRS uses the term church to designate any individual faith group even if they don't use the word "church.") The remaining forty-one faith groups are represented by nine different “Administrative Organizations/Executive Agents,” as listed by the Armed Forces Chaplains Board on February 6, 2023. It is reasonable to assume that endorsing agents representing their own faith group use the nonprofit status and governance of their own faith group. The nine organizations that represent multiple faith groups have a choice to either register as a nonprofit on their own or to claim one of their constituent faith groups as a 'home base' and use its nonprofit status, while still performing the endorsing function for other faith groups as well.

Surveying these nine aggregating endorsing agents, who are normally retired military officers themselves, provides a unique opportunity to explore the benefits and challenges of choosing nonprofit status over assuming the status based on being a "church or association of churches" (IRS standard). I use the survey responses to identify the claimed status as a church vs. as a “general public support” charity; the need to fundraise vs. being church-funded; categories of employees; the use of strategic planning tools and consultancy; and the use of policies to control conflicts of interest, whistleblower protection, document retention, and diversity, equity and inclusion (see Appendix A).
The ten strategic planning tools, addressed in Anheier (2014) chapter 12 and fully detailed in Newcomer, Hatry & Wholey (2015), were chosen as the most accessible for the survey. These tools, briefly described below, could be a start for any organization seeking to improve their effectiveness:

- **Stakeholder analysis and management:** Stakeholders are not only the organization’s staff members and leadership team. Stakeholders are also the people the organization seeks to benefit, as well as the funders who believe in the organization’s cause. Stakeholder analysis is specific research into each stakeholder’s needs, wants, interests and involvement in the organization, potential concerns, and the work an organization may need to accomplish to gain and cultivate their interest.
- **Power/Interest Grid, or, Support/Influence grid:** These grids are plots that show where each stakeholder resides on these continua and both versions allow deliberation over plans and actions an organization needs to take with all stakeholders.
- **SWOT analysis:** This analysis of organizational strengths, weaknesses, opportunities, and threats should be more than a quick brainstorming, but an invested and focused imagining and distillation of the identity and positioning of an organization.
- **A PESTEL analysis:** This tool systematically examines multiple factors of the environment in which an organization resides, and often brings new insight to the way forward.
- **Logic modeling:** This tool is a comprehensive guide to conducting a whole-scale analysis to better understand what an organization actually does.
- **Strategic Marketing:** This process is not fundraising, but rather an analysis of an organization’s mission, its messaging, the desired audience and the ways to reach that audience.
- **Donor research:** This process is a targeted investigation into the level of interest potential donors have in an organization’s mission, combined with careful research in public records of the potential donor’s capacity to give and their history of giving. This analysis allows the creation of solicitations targeted to donors who can and want to give.
- **DEI consultancy:** Particularly in the last few years, the need for diversity, equity and inclusion has been revealed to all, as people long oppressed call for a voice in society, an opportunity to contribute, and most tellingly, to enjoy the same chance at life, liberty and justice available to others. The attitudes that constrain this cultural systemic exclusion are deep in the individual psyche, and most
organizations are ill-equipped to approach improvement without outside consultancy.

The Bridespan survey (Lindquist & Markham, 2015) used 25 tools, but in many instances the ten tools of this survey develop the same insight as several of the tools of the Bridegspan survey. While this survey cannot be said to be statistically significant, it is nonetheless indicative of trends. It does remain that having 25 choices as opposed to ten could inflate the totals.

The nine endorsing agents were asked to complete the survey, and five returned completed surveys. In addition, one agent initially declined to respond, but when reminded that theirs was the only organization of the nine to file IRS form 990s as a public support charity (and therefore many of the answers were already available), the agent provided a few more answers, though did not complete a full survey. Results are calibrated based on the varying number of responses. There was no further collaboration with any of these endorsing agents.

Interviews were conducted with two lawyers to gain insight into the issues involved in the research questions. Gene Takagi (personal communication, Feb 9, 2023) is the principal at NEO Law Group in San Francisco (www.neolawgroup.com | www.nonprofitlawblog.com). They are a law firm that practices in the areas of nonprofit corporate, tax-exemption, and charitable trust laws. Takagi was also a guest speaker in the University of San Francisco graduate course Strategic Nonprofit Governance in the fall of 2022. Takagi explained the nuanced distinctions between churches and religious organizations and posited motivations for churches to apply for 501(c)3 status and file information returns. He also raised the specter of changes in legal requirements for reporting at some future point. James (Jaime) Jordan (personal communication, April 6, 2023), a partner at Guenther, Jordan & Price in Nashville, TN (https://www.giplaw.com/james-d-jordan) provided the insight of an attorney who has worked with religious nonprofits most of his career. He explained the advantages and limits of religious exemptions and brought clarity to the confusing array of labor issues involved in the employment of ministers who have exceptional options for status of their income. He also noted a confounding factor for religious nonprofits -- their boards are often composed of fellow ministers who have limited experience with business, tax law, and the oversight of corporate boards.
Section 4. Data Analysis

Only one of the nine organizations solicited to answer surveys files information returns with the IRS (IRS form 990). On a related note, while the other 134 organizations representing ministers to the federal government were not examined, one stands out as filing 990s as a public support charity. Notably though, that organization is a large social services nonprofit, and chaplaincy is one of its many services. In the present study, with only one surveyed organization choosing to publicly report, no comparison can be made on choice of 501(c)3 status, but the remaining research questions still apply.

The responses to the second survey question, essentially asking whether the organization needed to conduct fundraising to fulfill their mission, demonstrate a clear need to understand and employ the best tools of fundraising (see Figure 2). Even the military chaplains’ required church experience would expose them to a significantly different kind of fundraising. Four of six endorsing agents report a need to fundraise.

**Figure 2: Fundraising?**

But this fundraising need is also complicated by the fact that the targets for fundraising are declining, as the Gallup poll and Guidestar statistics demonstrated.

Responses to the third survey question appeared to raise the issue of how regular staff are paid – as employees or contractors. Bold warnings from the IRS and Department of Labor about the penalties of misclassification of employees as contractors (Internal Revenue Service, 2019; U.S. Department of Labor, n.d.) raise questions when executive directors and other arguably permanent positions are classified as contractors. Out of 15 total staff members across the six organizations, three were IRS reporting form 1099 contractors. But Jaime Jordan, a lawyer for religious nonprofits (personal communication, April 6, 2023) clarified that the special status of the pay options of ministers (Internal Revenue Service, 2019; Internal Revenue Service, 2015) rendered the differences between W-2 employee and 1099 contractor moot for ministers serving as an agency of the church, as Blazek also appeared to indicate (Blazek, 2020). The
essential difference is whether the church withholds income tax on behalf of
the minister, or the minister submits quarterly estimated payments to the IRS.

The fourth survey question approaches the benefit these nonprofits are gaining from
the significant tools available to nonprofits today. Laurette & Ferreira (2018)
documented the exceptional growth in tools and research for nonprofits over more than
35 years. The nonprofit Bridegspan Group study of 481 nonprofit leaders (Lindquist &
Markham, 2015) demonstrated the uptake of these tools in the sector and showed the
intentions of these organizations to use even more tools in the coming year. Even the
smallest organizations used an average of 9 tools out of 25, and most organizations
planned to use nearly twice as many tools the next year (see Figure 3). The satisfaction
level for the organizations that put the most effort into these tools approached 80%.

Figure 3: Average # Tools used and projected

Source: Data from “Bridgespan Nonprofit Management Tools and Trends 2014 survey,”
https://www.bridgespan.org/insights/nonprofit-management-tools-and-trends-report-
2015

Figure 4 is the same Bridgespan chart with a throughline at the 9-tools-used bar of
similar sized organizations. The chart on the right has all nonprofits on the left, and the
endorsing agent organizations’ tool use on the right. The endorsers use significantly
fewer tools.

Figure 4: Comparison of two charts
The survey results for questions four and five showed a range of responses that have a story to them, with significant peaks and surprising lows (see Figure 5).

**Figure 5: Strategic Planning Tools and Policies**

The total use of tools from the present survey is not broken down by organization size in the manner of the Bridgespan study, but instead displays the total number of tools used by each organization, and the total possible number of tools if all organizations had used all tools (bar on the far right), and the total number of tools actually used by all organizations (second bar from right) (see Figure 6).

**Figure 6: Tool use by org. and total possible**
This is the story of tools used (see Figure 7).

**Figure 7: Number of each tool used**

The three tent poles in this graph are Mission, Vision, and Values statements (MVV), Strengths, Weaknesses, Opportunities, and Threats analysis (SWOT), and Strategic Marketing and Planning. MVV was the only tool recorded from the one publicly available organization making this the only bar that has six as the highest possible; the remaining results are from five survey responses. Adding this one to the five survey responses means all organizations claimed MVV. This is not unusual for former military members since most of the assignments in which they served, particularly as they grew in rank over time, would have required some of this work. The same is true of the SWOT analysis. Strategic planning in the military is Problem Framing; Courses of Action Development, Gaming, and Deciding; followed by Order Development; then Evaluation, and starting the process again with Problem Framing. That said, military problem framing is most often performed as a battlefield assessment in a different nation and culture. These leaders may not have much experience assessing the environment in their own nation, especially in the nonprofit sector. Most military officers will state they know how to conduct strategic planning, but that claim does not mean they know how to conduct strategic planning in nonprofit research.

The other element at the same level of four out of five is ‘strategic objectives,’ another term that has slightly different meaning in the military. In the nonprofit world, to claim
to have accomplished strategic marketing and planning, and even met strategic objectives, yet with half or less of the respondents conducting stakeholder analysis or power/interest grid seems to miss the point. When only one claims to have done donor research, and none have performed either logic modeling or an analysis of the political, economic, sociocultural, technological, environmental, and legal environment (PESTEL), it can be argued these organizations can gain a great deal from the field of nonprofit research – where knowing the environment and donor base makes all the difference.

When it comes to policies, the one reluctant organization is back in the graph, since organizations that file IRS form 990s indicate which of these policies they possess, making the totals for this chart again out of six (see Figure 8).

**Figure 8: The Policies held by these organizations**

![Chart showing policies held by organizations]

Less than half of the organizations hold policies on whistleblower protections, document retention and destruction, or diversity, equity and inclusion (DEI). And only four of the six claim to have conflict of interest policies. And again, it is only the one publicly-reporting organization that has these policies on display in Guidestar, Charity Navigator and ProPublica. This lack of transparency does not serve the other organizations well.
Section 5: Implications and Recommendations

The “constrained environment” facing religious nonprofit organizations is not just a catchphrase, but a dual causality wake-up call. The Gallup Poll and Giving USA papers point to both having fewer members that can give – those within the temple walls, but also a smaller set of prospects outside the temple walls to solicit. The smaller numbers interested in religious groups adds to the perennial challenge of taking spirituality seriously. As described above, Razaki, Drougas & Askar (2022) identified the challenge as a change needed in training for business. Specifically, they identify it as an element of diversity, equity and inclusion that has been ignored. Despite growing awareness of the value of spirituality in the wholeness of a person, philanthropic dollars in support of religious charities do not follow. Most current survey respondents identified themselves as needing fundraising expertise. Many religious nonprofits face an uphill battle to win over donors and therefore need to be aware of the current research and use the latest technology. As whole-person training including spirituality gains credibility the representative organizations might attract more philanthropic dollars with greater transparency.

One of the greatest obstacles to reaching a broader audience is religious Institutions’ dependence on secrecy over transparency. Despite the advantages of transparency noted in the literature review, only one of the nine aggregating endorsers provides financials and protective policies in searchable public databases. In conversation, Gene Takagi, principal at Neo Law group, explained why they may want to reconsider this status.

Churches can self-declare that they are tax-exempt under 501(c)(3) so long as they meet the requirements of IRC Section 501(c)(3). That means they don’t have to file a Form 1023, but some donors (especially those who may be thinking of making a big donation) may feel insecure about getting a charitable contribution deduction if a church doesn’t have an IRS determination letter stating that the church is exempt under 501(c)(3). So, many churches actually file the Form 1023 to get an IRS determination letter. (personal communication, Feb 9, 2023).

If these religious charities want to reach a broader support base, they need to make their case with transparent information made available to those who might give to their cause even without being members. The era of ‘controlling the narrative’ no longer exists in hiding data, it resides in making good work accessible and obvious to all. Significantly, the greatest benefit to society of lowering the veil of secrecy is that the organization’s data would be available to researchers, who then create the studies that can inform legislative change.
The available tools are still only as valuable as the effort the organization invests in using them. Organizations without internal expertise would be well served by investing in targeted consultancy.

Ericka King (1999) argued the special exemption status for religions and clergy did not violate the Establishment Clause of the First Amendment of the U.S. Constitution but did raise the possibility of unequal treatment depending on the legislative environment at the time. More recently, Aprill & Mayer (2023) talked about the effects of recent court cases both broadening the Free Exercise Clause and narrowing the Establishment Clause, the pausing and reexamining of approvals of group extensions, the confusion over who authorizes audits on religious organizations, and the lack of enforcement of the prohibition of campaign intervention, all of which led them to propose some changes. While any of these concerns are worth monitoring, one of Aprill & Mayer’s proposals in particular affects the organizations in this study “Limiting Conventions or Associations of Churches to a Single Denomination” (2023, pg. 54).

Recommendations

**Transparency.** Religious nonprofits should work in partnership with the government – not by accepting their tacit approval of secrecy, but rather by taking advantage of the nonprofit information-reporting vehicle of IRS Form 990. This will make financials and policies available to all nonprofit databases examined by thoughtful funders.

File an IRS form 1023 for the organization and submit yearly 990 reports

Institute all recommended policies regarding:

- Conflict of interest
- Whistleblower protections
- Document retention and destruction
- Diversity, equity and inclusion

Make financials and policies-held available on organizational websites

**Strategic Tools.** Religious nonprofits should use applicable tools to strategically position the organization:

Conduct significant research into the needs and wants of those supported by the organization’s work to strategically plan effective programming

Perform disciplined analysis of the environment within which the organization resides, and to which it responds. This analysis must include the reality of the changing landscape of government interaction with faith groups of the country, and particularly requires an exploration of possible legislative
and agency changes that may impact the organization’s structure and standing.

Set strategic objectives based on research and analysis completed

**Fundraising.**

Provide leaders with appropriate fundraising courses and seminars in keeping with the overall plan, knowing that soliciting charitable giving is not begging for donations – it is connecting people who have the capacity to give with causes they believe in.

Create an annual and long-term fundraising plan

Develop donor research capabilities to identify donors at all levels, especially the sometimes-missed ‘Big Donors’. These donors – and others, too – have an often underestimated need to know where their philanthropic dollars will make changes that matter in the world.
Section 6: Conclusions

The IRS favors religious nonprofits and hesitates to question them. The favoritism is undoubtedly historically rooted in the relationship between temple and palace (King, 1999). The question explored here is whether that favoritism creates helpful stepstones for the religious nonprofits or stumbling blocks that impede their progress.

Favoritism has created stepstones for small religious groups to form and gather, organize to do good work in the world, and care for their people with a minimum of governmental involvement, while requiring little expertise in reporting and administration. It also allows donors to take tax deductions for their charitable contributions, which both encourages giving and makes the religious organization receiving the funds more sustainable.

Favoritism has also created stumbling blocks from unintended side effects of the policy. Since church-connected religious nonprofits are not required to file returns reporting their financials and protective policies, the government tacitly affirms the historical veil of secrecy long afforded the religious. This means that donors who wish to give even in an environment of decreased contributions to religion cannot find information that might provide the validity they require before donating to a religious charity. It may also be true that because religiously affiliated organizations are automatically granted nonprofit status, they may become complacent about taking advantage of tools and implementing policies already in place in the secular nonprofit arena.

Leaders of religious nonprofit organizations would be wise to avoid these stumbling blocks by choosing to make public their people-protecting policies as well as demonstrating their good stewardship by providing their financial reports. These leaders would also profit greatly, as have other nonprofits, from the many tools available to support their mission—from fundraising to strategic planning to gaining a better understanding of the recipients of their efforts. In the former, the government can help in the form of the IRS Form 990 Information Return. In the latter, the third sector of society is a rich community of knowledge and help for organizations desiring greater effectiveness.

When religious nonprofit organizations choose to make their financial records and policies public, it necessarily drives them to improve these areas. Taking advantage of government-enabled transparency also benefits society at large, as an entire category of the third sector plows their data into research aimed at finding and meeting the needs of people that are not filled by government or business. I am not saying the temple and the palace should be friends, but they should certainly keep a watchful eye on each other. More important, they both should pay seriously helpful attention to those they serve. But the most significant benefit of dropping the religious veil of secrecy is not the nonprofit’s improvement or even improved care for the recipients of the organizations’
service, as desirable and important as those are. The greatest benefit, however, is to nothing less than society itself – which needs to see a complete and authentic picture of need so that the brightest minds and most caring hands might guide our world toward a better place.
List of References


time.aspx#:~:text=The%20decline%20in%20church%20membership%20is%20primarily%20a


Appendix A: Religious Nonprofit Survey

1) Type of 501 (c) 3 charity on IRS Form 990 (Schedule A, part 1) *(Whether or not the organization files)*

- □ Line 1: A church, convention of churches, or association of churches described in IRS Revenue Code 170 (b) (1) (A) (i).
- □ Line 7: An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in IRS Revenue Code 170 (b) (1) (A) (vi). (Called the public support test)
- □ Another Line, Please name: _________________________________

2) Do you conduct fundraising beyond the funding provided by your churches or religious organizations?

- □ Yes
- □ No

3) What categories of paid staff do you have? Please check all that apply:

- □ W-2 employees, for whom employment taxes are withheld and reported
- □ 1099 contractors, for whom taxes are not withheld
- □ Executive Director
- □ Board members
- □ Program directors or program leads
- □ other staff

4) Please check all forms of strategic planning development in which you have invested significant resources, including any time, money, consultancy, or staff deliberation, etc.

- □ Mission, Vision, Values
- □ Strategic objectives
- □ Stakeholder analysis
- □ Power/interest grid
- □ Strengths, weaknesses, opportunities, threats (SWOT) analysis
- □ An operational context study looking at political, economic, sociocultural, technological, environmental, and legal (PESTEL) issues
Logic modeling
Strategic marketing planning
Philanthropic donor research and goal planning
Diversity, equity, and inclusion (DEI) consult, training, or programs

5) Do you have written policies for any of these issues? Please check all that apply.

- Conflict of interest
- Whistleblower protection
- Retention and destruction of documents
- Diversity, equity, and inclusion (DEI) policy

Permission to be cited: For the organization’s answers that are beyond the publicly available data, is the organization willing to be identified in the final paper, which will be searchable in the University of San Francisco archives, or does the organization specify a requirement to remain anonymous? Please sign the appropriate attached form and return with the survey.
(Organization)

gives permission for its answers in the Religious Charity Survey that are beyond the publicly available data to be cited and identified by organization name in the final paper being submitted in partial fulfillment of a Master of Nonprofit Administration degree, which will be searchable in the University of San Francisco archives.

Signed,

____________________________________________

Position in the organization

____________________________________________

____

Date

____________________________________________
Request for Anonymity

(Organization)

____________________________________________________________ does not give permission for its answers in the Religious Charity Survey that are beyond the publicly available data to be cited or identified by organization name in the final paper being submitted in partial fulfillment of a Master of Nonprofit Administration degree, which will be searchable in the University of San Francisco archives. The organization’s non-public responses will be used in the aggregate or listed as anonymous.

Signed,

________________________________________________________________________

Position in the organization

________________________________________________________________________

____

Date

________________________________________________________________________
## 25 management tools

<table>
<thead>
<tr>
<th>Category</th>
<th>Management tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting clear on your goals and strategy</td>
<td>Strategic Planning</td>
</tr>
<tr>
<td></td>
<td>Intended impact and theory of change</td>
</tr>
<tr>
<td></td>
<td>Program contribution analysis</td>
</tr>
<tr>
<td></td>
<td>Scenario and contingency planning</td>
</tr>
<tr>
<td></td>
<td>Mission and vision statements</td>
</tr>
<tr>
<td>Running an effective enterprise</td>
<td>Leadership succession planning</td>
</tr>
<tr>
<td></td>
<td>Talent assessment and development</td>
</tr>
<tr>
<td></td>
<td>Decision-making processes</td>
</tr>
<tr>
<td></td>
<td>Organizational effectiveness diagnostics</td>
</tr>
<tr>
<td></td>
<td>Full cost analysis</td>
</tr>
<tr>
<td>Understanding your environment</td>
<td>Constituent engagement</td>
</tr>
<tr>
<td></td>
<td>Funding models</td>
</tr>
<tr>
<td></td>
<td>Benchmarking</td>
</tr>
<tr>
<td></td>
<td>Market mapping and landscape analysis</td>
</tr>
<tr>
<td></td>
<td>Beneficiary and donor segmentation</td>
</tr>
<tr>
<td></td>
<td>Big-data analytics</td>
</tr>
<tr>
<td>Taking advantage of new opportunities</td>
<td>Collective impact collaborations</td>
</tr>
<tr>
<td></td>
<td>Social media programs</td>
</tr>
<tr>
<td></td>
<td>Partnerships and collaboration</td>
</tr>
<tr>
<td></td>
<td>Design thinking</td>
</tr>
<tr>
<td>Measuring and extending your success</td>
<td>Performance measurement and improvement</td>
</tr>
<tr>
<td></td>
<td>Program evaluation</td>
</tr>
<tr>
<td></td>
<td>Donor relationship management</td>
</tr>
<tr>
<td></td>
<td>Beneficiary satisfaction measurement</td>
</tr>
<tr>
<td></td>
<td>Knowledge management systems</td>
</tr>
</tbody>
</table>
Author’s Bio

Mark Smith is a Presbyterian minister, retired navy chaplain, former co-director of Presbyterian Federal Chaplaincies, and a nonprofit consultant. Smith received his Master of Divinity from Fuller Seminary and pastored in Washington State before joining the navy. He has served aboard ship, at Boot Camp, in Antarctica, at a Naval Medical Center, spent a year with Marines in Iraq, and supervised chaplain ministry in the Pacific for the US Coast Guard and navy surface ships. After earning a Master of Theology in Ethics at Princeton, he taught ethics at the Naval Postgraduate School, and later served as the Commanding Officer of the Naval Chaplaincy School.