



The Most Reverend Charles C. Thompson
Archdiocese of Indianapolis
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**Decree of Promulgation of the
Scrip Policy for the Archdiocese of Indianapolis**

I, the undersigned, the Most Reverend Charles C. Thompson, D.D., J.C.L., Archbishop of Indianapolis, in accordance canon 8 §2 of the 1983 Code of Canon Law and after consultation with the priests and parish life coordinators of the Archdiocese of Indianapolis,

hereby decree that,

the following attached *Scrip Policy for the Archdiocese of Indianapolis*, is to be implemented on 1 January 2018 as particular law for the Archdiocese of Indianapolis.

Furthermore, this particular law is to be communicated to the parties directly affected as well as being posted to the website of the Archdiocese of Indianapolis.

Dated this 5th day of December, 2017.

+ Charles C. Thompson
Most Reverend Charles C. Thompson, D.D., J.C.L.
Archbishop of Indianapolis

Annette "Mickey" Lentz
Annette "Mickey" Lentz
Chancellor

SCRIP POLICY FOR THE ARCHDIOCESE OF INDIANAPOLIS

A. Definition: Scrip programs raise money through rebates from retailers, represented as discounts from the face value of the gift card. Other programs may involve rebates by the retailers. Most schools that conduct these programs do so with the assistance of a third-party vendor.

B. Background: The Office of Accounting Services has received several inquiries as to the appropriate way to administer scrip and other fundraising programs. There are essentially two ways to conduct a scrip program. Each process though has significant rules to follow to not jeopardize the Archdiocese and the schools not-for profit exempt status recognized by the Internal Revenue Service (IRS).

C. Approved Programs:

Option 1: Program Rebates Retained at the Organization

One way to administer the scrip program would be to retain all the rebates for use at the organization; i.e. amounts are not credited to individual family's tuition accounts for rebates earned. This could be administered simply because it would not be necessary to track individual purchases.

These rebates would not be considered a charitable contribution unless there is a signed agreement with the participant (see example agreement attached).

The school or parish is not required to offer the charitable contribution opportunity to participants in the scrip program. Further the scrip program must be handled substantially by volunteers to avoid tax, see the section below on "Unrelated Business Income Tax Concerns".

Option 2: Program Rebates Shared

The more popular way to run the program is to share the rebates with the participants. For example, the school would retain a percentage of the rebate, including an administration fee, and the other portion of the rebate would be credited to the participant's tuition account (or other designated expense).

Administrative fees charged or held back from the rebate, should be reasonable and not excessive. We recommend the parish or school analyze the administrative time and cost spent to

run the program. That said we would recommend the administrative fee be 1%-2% and not exceeds 5% of program proceeds.

The organization must have a signed agreement with the participant in the scrip program that allows the participant to choose how the rebates will be allocated. The options to allocate the rebate need to include a cash back option. We have included a sample agreement for reference. Not just parents of students are eligible to participate in purchasing scrip. Grandparents, relatives, friends etc. can participate in a program and designate rebates earned via a signed agreement to a particular student's tuition account. Any rebates directed towards expenses such as participant tuition accounts, sports expenses or cash rebated back do not qualify for a charitable contribution deduction for the participant.

Please note that the IRS has concluded in a Private Letter Ruling** that the rebate returned to the purchaser, credited to a tuition account or gifted to the charity does not constitute income to the purchaser (scrip purchaser).

If the participant elects to direct some or the entire rebate to the school or parish then this does qualify as a charitable contribution eligible for deduction. These contributions need to be tracked and a written acknowledgement letter should be provided for receipt of the gift. Please visit the IRS website at <http://www.irs.gov/> publication 526 see the publication no. 526 "*Charitable Contributions*" for additional guidance. The scrip program must be handled substantially by volunteers to avoid tax, see the section below on "Unrelated Business Income Tax Concerns".

Should your parish choose to run the scrip program as a shared benefit with the participants, please note there are some issues to consider when opting for this method:

1. Increased administration for tracking the scrip rebates to the participant.
2. Distribute tax acknowledgement letters by January 31st the year following contribution.
3. If a significant number of participants choose to receive back 100% (less administrative fee) through tuition credits or via cash back, the income from the program may become unrelated business income (see section Unrelated Business Income Tax Concerns below).
4. Limit the number of options a participant can designate for the rebate, however, cash rebate back to the participant needs to be an option.

Scrip should never be used to compensate employees for hours worked in lieu of wages. It is permissible, however, to give scrip to employees as a thank-you gift or form of recognition. In these cases, however, scrip must be treated like other "cash equivalents" (such as gift cards), and taxes must be withheld from wages, as they would be for any other form of income.

Unrelated Business Income Tax Concerns

A scrip program administered by the school, Option #1, can be deemed taxable to the parish or school as unrelated business income tax or UBIT unless it meets the volunteer exception. Scrip Sales must be transacted through volunteers, and NOT held for sale by paid individuals. A trade or business that does not substantially relate to the exempt purpose of the organization and is

regularly carried on is subject to UBIT. Scrip programs meet these criteria, to avoid this taxation; the scrip program must be administered substantially all by volunteers. Scrip programs should only be handled by compensated individuals (i.e. parish/school secretary) a de minimus amount of time, 5% or less. To be considered a volunteer, the person cannot be compensated for their time spent selling scrip by any means such as cash, gift cards, tuition credits etc.

We recommend that parishes and schools do not require participants, via the signed agreement, to specify a certain percentage of the rebate to be retained by the parish or school, where a "required" rebate amount will not be considered a charitable contribution. Programs that mandate a specific percentage will be suspect as not being a voluntary contribution.

If a scrip program is being offered where most of the rebates are not directly benefitting the school or parish, there is not a good reason for the school or parish to engage in the program. The purpose of the programs is to benefit the school or parish, not to allow parents to disguise tuition payments in the form of charitable contributions, through scrip rebates. Programs operated for the benefit of participants may jeopardize the organizations tax exempt status.

"Majority" is defined as more than half. Therefore, in the scrip agreement we suggest including wording that recommends (not requires) that purchasers donate a minimum of 50% of the rebates back to the parish or school program.

Our main focus is ensuring that the scrip program does not affect our exempt status. Therefore, if the scrip program at the school or parish has any one of the following happening:

1. Administered substantially by paid staff or
2. Scrip is sold by paid staff or
3. A majority (over 51%) of the total rebates are returned to the purchaser via tuition credit or cash.

Then the parish will need to complete the necessary annual tax returns, the form 990, to account for taxes that should be remitted for unrelated business income. This return will be all encompassing, meaning it is not strictly a tax return only documenting income and expenses for the scrip program. The return shall report all income and expenses for the parish for the year. For additional guidance on how to complete the form 990, please visit the IRS website at <http://www.irs.gov/> .

**Private Letter Rulings in general are "private" or pertain only to the identified tax payer and a specific fact pattern presented by the party requesting the ruling. Such rulings are usually very fact specific and are not very instructive or authoritative for dissimilar fact patterns.

D. Implementation of Approved Programs.

1. Scrip programs will be operated on a school year basis. On or before July 15 of each school year, each school intending to offer scrip shall submit the following application to Erich Bangert, in the Office of Schools for approval of the scrip program.
2. Upon approval, the parish/school may proceed with the scrip program for the school year.

Effective as of the 1st day of January, 2018.

+ Charles C. Thompson
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Parish or School XX
Example Scrip Program Agreement

Parish XX sponsors a scrip program. This scrip program allows you to purchase scrip (i.e. gift cards or certificates) that generates rebates from the participating retailers. Parish XX requires written documentation from the scrip purchaser on how the rebates generated from the scrip program are to be distributed. Several options for distribution are noted below, including tax deductible donations to Parish XX and tuition support for a specified family which is non-tax deductible.

In making your election Parish XX asks that you keep in mind that this program is operated by volunteers for the primary purpose of raising funds to support the parish mission. Designating a significant portion of your rebate as a donation is essential to the program's success. Your donation allows us to cover important educational and parish expenses that are beyond the normal budgets (e.g. computers, playground equipment, etc.). Your donation may also be considered a tax-deductible charitable contribution subject to IRS rules and regulations governing such donations. For all donations received, annually Parish XX will provide a contribution letter for use in your personal tax preparation.

The parties agree as follows:

1. Parish XX operates this program on your behalf from such retailers and in such quantities as you designate from time to time.
2. Parish XX will retain ___% of all rebates to cover administrative expenses of the scrip program.
3. Parish XX will apply your rebates (net of the above fee) as you elect below (please check A, B, or C):
 - A. ___ 100% Parish XX Fund (Tax Deductible)
 - B. ___ 50% Parish XX Fund (Tax Deductible) / 50% Tuition (_____ Family Name)
 - C. ___ Custom Election (insert percentages below totaling 100%)
 - _____ % Parish XX Fund (Tax Deductible)
 - _____ % Tuition (Not Tax Deductible) (_____ Family Name)
 - _____ % Cash Back (Not Tax Deductible)

You agree and acknowledge as follows: (i) no legal employment or partnership arrangement is created as a result of the scrip relationship; (ii) you are the owner of the scrip purchased on your behalf; (iii) you have limited rights to return the scrip we purchase on your behalf, based on the return policy of our scrip supplier; (iv) you shall indemnify Parish XX and its representatives against any loss incurred in connection with there being insufficient funds in your account to cover checks or ACH transfers you issue to pay for your scrip; and (v) Parish XX or its representatives make no representations or warranties of any kind with respect to the scrip. This agreement is effective upon signing and shall continue indefinitely unless terminated by either party upon 60 day's advance written notice to the other party, or a new agreement is subsequently executed.

Please sign and date below to indicate your acknowledgement of this agreement.

Purchaser's Signature

Date

Printed Name

Address

Phone

SCRIP PROGRAM APPLICATION

Name of School/ Parish: _____

The School intends to use: _____ Option 1. _____ Option 2.

Names of volunteers who will be operating the Program:

Type of Scrip: Rebates: _____

Gift Cards: _____

Other: _____

Third Party Vendor Administrator: _____

Names of participating retailers: _____

Do scrip purchasers donate a minimum of 50% of the rebates back to the parish or school program. _____ Yes. _____ No. If no, please describe the percentage that the parish of school receives. _____ %.

Did the school/parish send tax exempt contribution acknowledgement letters to scrip purchasers by January 31st the prior year for the charitable contribution? _____ Yes. _____ No.

Total Gross Scrip revenues in prior year \$ _____.

Net Scrip Revenue donated to the school/parish \$ _____.

Please attach a copy of the Scrip Program Agreement used in the program.

Signature Principal: _____ Date: _____

Printed Name: _____

APPROVED by Office of Catholic Schools:

Signature: _____ Date: _____

Printed Name: _____