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**Inurement to Insiders**

Churches and religious organizations, like all exempt organizations under IRC Section 501(c)(3), are prohibited from engaging in activities that result in inurement of the church’s or organization’s income or assets to insiders (such as persons having a personal and private interest in the activities of the organization). Insiders could include the minister, church board members, officers, and in certain circum­stances, employees. Examples of prohibited inurement include the payment of dividends, the payment of unreasonable compensation to insiders and transferring property to insiders for less than fair market value. The prohibition against inurement to insiders is absolute; therefore, any amount of inurement is, poten­tially, grounds for loss of tax-exempt status. In addition, the insider involved may be subject to excise tax. See the following section on Excess benefit transactions. Note that prohibited inurement doesn’t include reasonable payments for services rendered, payments that further tax-exempt purposes or payments made for the fair market value of real or personal property.

***Excess benefit transactions.*** In cases where an IRC Section 501(c)(3) organiza­tion provides an excess economic benefit to an insider, both the organization and the insider have engaged in an excess benefit transaction. The IRS may impose an excise tax on any insider who improperly benefits from an excess benefit transac­tion, as well as on organization managers who participate in the transaction know­ing that it’s improper. An insider who benefits from an excess benefit transaction must return the excess benefits to the organization. Detailed rules on excess benefit transactions are contained in the Code of Federal Regulations, Title 26, sections 53.4958-0 through 53.4958-8