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Church finance, the system of church funding and its legal regulation in an international perspective

Ildikó Szabó [1,*] and Bernadett Szólláth [2]

[1] University Adjunkt, Department of Financial Law, Faculty of Law and Political Science, Pázmány Péter Catholic University, Budapest, Hungary.
[2] PhD Student, Department of Financial Law, Faculty of Law and Political Science, Pázmány Péter Catholic University, Budapest, Hungary.

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Abstract

This study examines the complex relationship between the state and the church from the perspectives of financial law, management and church funding. It provides a detailed overview of the areas of public service provision, religious life and service to the common good, highlighting the development of historical church property and the fundamental principles of canon law. The authors systematise domestic and international models of direct and indirect state subsidies, income from religious activities, and supplementary business activities. They also address the indirect effects of European Union law, multi-level state and internal control mechanisms, and the changes brought about by digitalisation. In summary, they outline a sustainable, hybrid vision that combines a diversified revenue structure, modern ethical management and a public-private partnership centred on the common good.

Keywords: Church financing; Relationship between the state and the church; Church financial management; Church assets; The church's pastoral duties

1. Introduction

This article first examines the complex system of relations between the state and the church from a financial and legal perspective. The authors divide this relationship into three key areas: the provision of public services, the church's religious activities, and the common good and the exercise of power. With regard to the provision of public services, they demonstrate how churches take on secular educational, social or healthcare tasks from the state, with sector-neutral funding. In relation to religious activities, the text analyses the importance of state neutrality and the fundamental differences between direct and indirect funding. The paper illustrates the intertwined roles of the state and the church, as well as their service to the common good, using a structured table. The study then continues with a historical review, which outlines the main legal and economic sources of the development of church property through a diagram. Following this historical overview, the work provides a detailed account of the theological background to church finance, as well as the four most important financial principles of canon law. The next section discusses the types of church financing ( ), with particular reference to direct and indirect state subsidies, income from religious activities and commercial enterprises. The article also provides a comprehensive international overview, presenting the German-Austrian church tax system, the Latin coupon model and the American model based on radical separation. The final third of the study examines the indirect effects of European Union law, multi-level control mechanisms, and the current 21st-century challenges posed by digitalisation and ethical investment. The study concludes with a summary, an outline of the vision for a sustainable hybrid church model, a drawing of conclusions, and a bibliography.

* Corresponding author: Ildikó Szabó

2. The Relationship between Church and State

The relationship between the state and the church is one of the most complex, historically deep-rooted structural issues in modern legal systems and political philosophy. This system of relations is not organised solely along the lines of abstract theological or public law dogmas, but takes concrete form in tangible economic, institutional and financial realities. The cornerstone of the functioning of modern secularised or semi-secularised states is the institutional separation of state and church, the nature and extent of which vary from culture to culture and from legal system to legal system. However, the principle of the separation of state and church rarely implies complete isolation; rather, we can speak of a system of functional cooperation in which the two entities share certain tasks with one another in the interests of social cohesion and the common good.

At the heart of effective and fruitful cooperation between the state and the church lies the provision of public services, the safeguarding of the autonomy of religious life, and an optimal balance between the exercise of power and social utility. [1] On this basis, the points of economic interaction between the state and the Church naturally give rise to the financial and legal framework governing church funding and church financial management, the aim of which is to guarantee the financial basis for the collective exercise of religious freedom.

Within the wide-ranging subject of a general examination of the relationship between the state and the church, this study focuses on three key areas: the performance of public functions, the church's religious duties, and the common good and the exercise of power.

2.1. The performance of public functions

Modern welfare states undertake extensive social, educational and cultural obligations towards their citizens. However, in many cases, the state apparatus is unable or unwilling to operate the full spectrum of these services directly through its own institutional system; this need creates an opportunity for ecclesiastical legal entities to take on part of these public duties as recognised and proven providers of public services. In this case, schools, nurseries, universities, hospitals, care homes and charitable organisations maintained by the churches do not perform religious duties, but rather public tasks in a purely public-benefit, secular sense. [2]

There are serious efficiency and social arguments behind entrusting the provision of public services to the churches, which are as follows:

- Added value,
- The funding rationale and
- Capacity expansion.

Church institutions provide a unique, value-based and community-building benefit, which secular, bureaucratic state institutions are, by their very nature, less well suited to providing. At the same time, from the state's perspective, delegating a task does not constitute an evasion of its funding obligation; if a church institution performs the same public function as a state one, then, in accordance with the principle of sector-neutral funding, the state is obliged to provide the statutory funding necessary for its operation. Furthermore, by involving church infrastructure and the civil society volunteer base, the state mobilises significant infrastructure and human resource capacity for the common good without having to assume direct managerial responsibility.

The legal framework for the Church's performance of public tasks is generally set out in bilateral agreements, concordats or specific statutory provisions, which precisely define the scope of the tasks undertaken, the limits of state oversight and the mechanisms for financial transfers.

2.2. The Church's religious duties

Whilst the performance of public functions constitutes the external, secular interface between the Church and the state, religious activities form the internal, immanent essence of the Church's existence. Religious duties include the celebration of worship services, the administration of the sacraments, pastoral care, missionary work, religious education (catechesis) and the organisation of internal community life. [3]

The financing and legal management of religious life differ markedly from those of public functions, so it is important to emphasise the significance of state neutrality in this area, since a modern, democratic state, based on the principle of ideological and religious neutrality, may not, in principle, interfere in the internal matters of religious life, nor may it directly fund purely religious dogmas or rituals. At the same time, the state has a positive obligation arising from the fundamental human right to freedom of religion and the practice of religion; that is, it must ensure the minimum infrastructural and legal conditions for the individual and communal practice of religious freedom. It is this duality that gives rise to the greatest tension in models of church funding, since

if the state withdraws completely from religious life (the American model), churches rely solely on donations from the faithful,

if the state supports the salaries of clergy or the construction of churches through direct or indirect channels (e.g. in Hungary, grants for religious purposes or the 1 per cent system), it must strike a careful balance so as not to violate the principles of denominational equality and state neutrality.

2.3. Service to the common good and the purpose of the exercise of power

The relationship between the Church and the state – beyond the scope of public service provision and the Church's religious duties – also plays a significant role in relation to the common good, since the concept of the common good (bonum commune) is a central category in both secular legal philosophy and Catholic social teaching, linking the ultimate existential aims of the state and the Church. Through the legitimate exercise of power, the state is called upon to create the conditions for social peace, legal certainty, economic prosperity and justice. The Church, through its transcendent and moral mission, likewise aims at human fulfilment, moral integrity and the assistance of those in need. [4]

In the exercise of its power, the state recognises that churches generate social capital, networks of trust and mechanisms of solidarity which would be impossible to produce through purely administrative or market-based means. Consequently, the aim of the exercise of power is not the suppression of the churches or their complete bureaucratic control, but the establishment of a partnership in which, whilst respecting ecclesiastical autonomy, common social goals – the common good – can be realised most effectively.

The intertwined, mutually supportive roles of the church and the state in the relationship between the exercise of power and the service of the common good can be summarised in three main dimensions, as illustrated in Table 1.

In the dimension of legitimacy and morality, the state's primary task is to provide the legal and institutional framework necessary for its functioning, whilst, in parallel, the Church's role focuses on reinforcing social norms and moral foundations. The state is thus responsible for formal regulation, whilst the Church supports the internal, spiritual value system. Together, the two sides thus lay the solid theoretical and practical foundations for social coexistence.

The dimension of resource allocation details the mechanisms for the distribution and structuring of material and non-material resources. In this area, the state employs the instruments of official taxation and budgetary redistribution, which means that it redistributes central government revenue to society as a whole through legislative means. The Church's involvement, by contrast, is based on voluntary donations and targeted grants, as it is the Church's responsibility to use these resources transparently and extremely efficiently for the benefit of those in need.

Table 1 The three main dimensions of the relationship between the exercise of power and the service of the common good

	State role	**The role of the Church**
Legitimacy and morality	Provision of legal and institutional frameworks	Strengthening social norms and moral foundations
Resource allocation	Taxation and fiscal redistribution	Effective use of donations and targeted grants
Community organisation	Territorial and administrative integration	Cohesion of local and spiritual communities

Source: Compiled by the author.

The dimension of community organisation deals with the organisational structure of society and community building, in respect of which the state implements community organisation through territorial and administrative integration.

This structure ensures the nation's unified geographical and administrative cohesion. At the same time, the church strengthens the cohesion of local and spiritual communities.

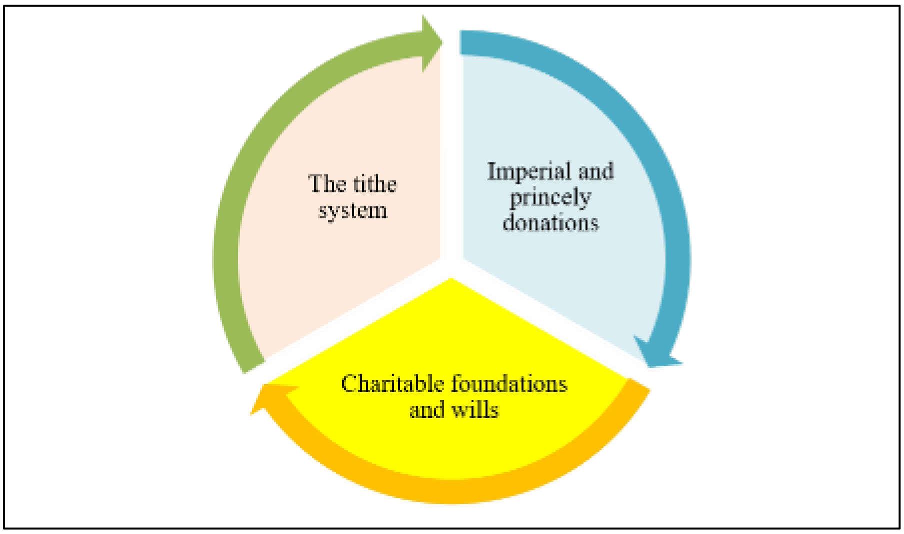
Ultimately, Table 1 highlights that public administration and religious life serve the common good in a complementary manner; that is to say, the common good is not a concept that can be monopolised by either the state or the church, but rather a general objective which the two institutional systems must serve jointly.

Following this general and theoretical overview of the relationship between the state and the Church, it is necessary to briefly touch upon the historical foundations as well.

3. Historical Retrospective: The Development of Church Property

The historical development of church property is closely intertwined with the development of the state and the law in Europe. As a religion that was persecuted or merely tolerated during the first three centuries, the early Christian Church did not possess recognised legal personality and therefore had no independent, legally held property. Its finances consisted of voluntary, secret donations from the faithful, contributions in kind, and the internal solidarity of the Eucharistic communities. [5]

A radical turning point came with *the Edict of Milan* of 313, by which Emperor Constantine I guaranteed freedom of religion and recognised the right of Christian communities to own property. Subsequently, the growth of church property became explosive, fuelled by a number of legal and economic factors (Figure 1).



Source: Compiled by the author.

Figure 1 Legal and economic sources contributing to the growth of church property

The legal and economic sources contributing to the growth of ecclesiastical wealth can be categorised as follows:

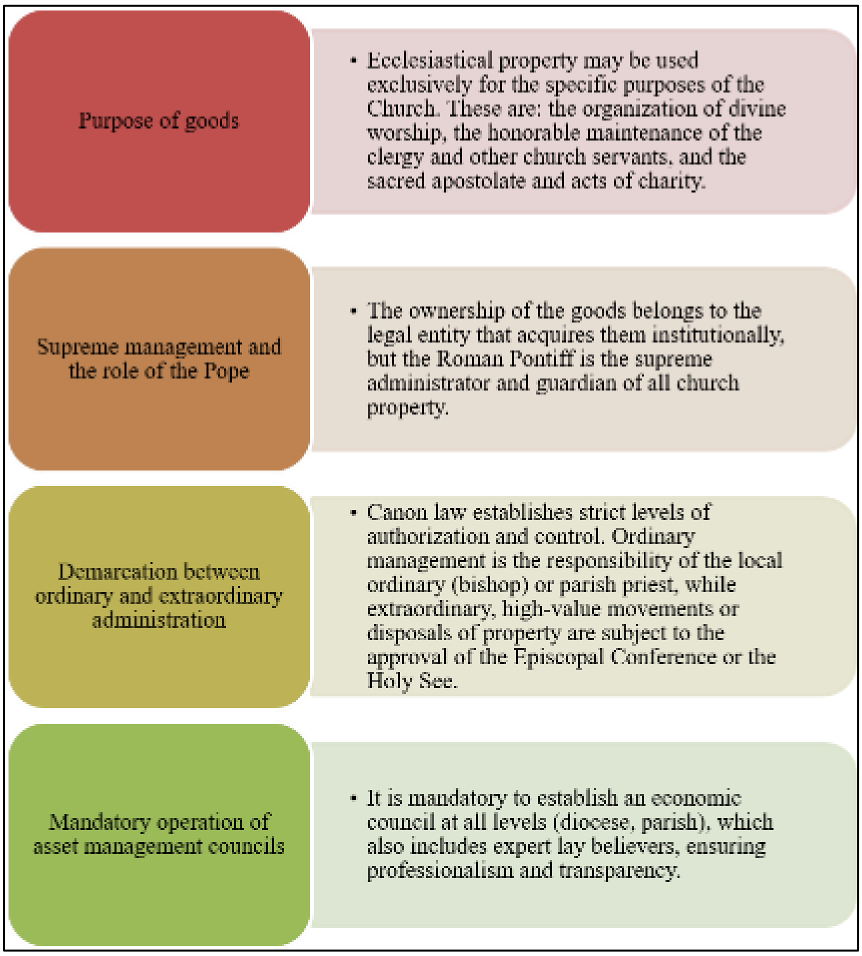
- rulers transferred vast estates, palaces and administrative rights to the Church to ensure the sacred legitimacy of the empire (**imperial and princely donations**), [6]
- It was common practice amongst private individuals to bequeath property, land or annuities to the church for the salvation of their souls (pro remedio animae) (**pious foundations and wills, piae causae**), [7]
- The tithe, which became institutionalised in the middle ages, evolved into a compulsory public levy enforceable by the state, channelling ten per cent of agricultural produce towards the maintenance of the ecclesiastical hierarchy and the care of the poor (**the tithe (decima) system)**. [8]

Thanks to the legal and economic sources shown in Figure 1, which served to increase ecclesiastical wealth, the Church became the largest landowner in medieval Europe, which in turn made it a defining element of the feudal economic structure. However, ecclesiastical wealth was not uniform; under the system of benefices, separate, distinct estates were attached to individual ecclesiastical offices (bishoprics, abbeys, parishes). However, the ecclesiastical wealth that had been established in the early days underwent significant transformation as a result of historical changes.

The early modern and modern periods brought waves of secularisation, that is, the transfer of ecclesiastical property into state hands. During the Reformation in Northern Europe, Protestant rulers confiscated Catholic ecclesiastical property. Subsequently, the most severe and systematic blow to church property in Germany was dealt by the French Revolution, followed by the *Reichsdeputationshauptschluss* (1803) during the Napoleonic Wars, when entire ecclesiastical principalities and estates were dissolved and incorporated into state assets. Modern state systems of church funding and the modern state's obligation to compensate the churches arose as compensation for these historical events and forced losses of property, and these continue to shape European legal practice and the relationship between state and church to this day. At the same time, it should be noted that the financial and legal relationship between the state and the church has developed differently from country to country and across historical periods. [9]

Following this brief historical overview, it is necessary to examine the theological and canon law foundations of church finance, as well as the four most important financial principles of canon law in this context.

4. The theological and canon law foundations of church finance



Source: Compiled by the author.

Figure 2 The four most important financial principles of canon law

The management of church property and financial activities is not the result of economic rationality as an end in itself, but is based on strict theological principles and detailed internal legal – canonical – norms. From a theological perspective, the Church's stewardship of its earthly possessions is based on the concept of stewardship; that is to say, the Church is not the absolute owner, but merely the custodian of the material assets entrusted to it, which ultimately originate from God and are intended to serve the work of salvation and the practice of love for one's neighbour. [10]

The current legal system of the Roman Catholic Church, the 1983 **Codex Iuris Canonici** (CIC), devotes a separate book (Book V: The Church's Material Goods) to the regulation of financial management. Canon law clearly stipulates that the

Church has an inherent right to acquire, retain, administer and dispose of temporal goods in order to achieve its own ends. [11]

Protestant churches (Reformed, Lutheran) maintain similarly strict internal regulations in their own synodical-presbyterian constitutions, which emphasise transparency, congregational autonomy, and accountability and transparency before elected bodies. [12]

5. Types of church financing: State, self-supporting and mixed systems

Based on the structure of church financing systems, three broad macroeconomic categories can be identified according to the source of revenue: state funding, the self-supporting (internally funded) system, and the mixed system resulting from a combination of the two. Most modern European states – including Hungary – apply the mixed funding model , which seeks to combine budgetary stability with voluntary contributions from the faithful. [13]

5.1. Direct state support: Normative top-ups and targeted subsidies

Direct state subsidies are financial transfers that flow directly from the central budget into the accounts of ecclesiastical legal entities. Their legal basis and function are essentially twofold:

- **Standardised grants:** These are intended to fund the public services undertaken by the churches (education, social care). The legislator's aim here is to ensure sector neutrality: the state grant per pupil at a church school is exactly the same as that for a pupil at a state or local authority school. As church-run schools do not have tax revenues (unlike local authorities), the state also provides supplementary per-pupil funding to ensure equal opportunities.
- **Targeted subsidies:** Funds allocated for a specific purpose, based on individual government decisions or long-term agreements. These include investment grants for the restoration of listed churches, support for church cultural events, and income supplements for pastors serving in small communities (support for the pastoral career model).

5.2. Indirect state support: Tax relief, exemptions from duties, and tax donations

This form of indirect support does not involve a direct transfer of funds from the budget; rather, the state waives certain tax revenues in favour of the churches, thereby providing them with significant savings and a liquidity advantage. [14]

The most important indirect benefits under Hungarian and European law:

- **Corporation tax exemption:** The religious and public-interest activities of ecclesiastical legal entities, and the income derived therefrom, are entirely exempt from corporation tax.
- **Exemption from local taxes:** Churches are not required to pay building tax or land tax to local authorities on buildings and plots of land used for religious or public purposes.
- **Exemption from stamp duty:** The acquisition, inheritance or donation of property relating to church activities is fully exempt from stamp duty.
- **Tax deductibility of donations:** Donations made by businesses to the public-benefit activities or foundations of churches may, subject to certain conditions, reduce the business's tax base, thereby encouraging corporate patronage.
- **The system and operation of donations amounting to one per cent of personal income tax:** One of the most innovative elements of church funding in Hungary is the system for donating a specified proportion of personal income tax, the essence of which is that, when completing their tax return, citizens may decide independently to which recognised, registered church with a technical number. As the amount received from these donations would not in itself be sufficient to maintain the church's structure, the legislation stipulates that the state shall supplement this amount from the budget, based on the number of donors and the multipliers set out in the relevant budget act, thereby stabilising the church's financial resources. The tax authority only discloses to the churches the total number of donors and the final amount; the details of specific individuals remain confidential, thereby protecting special categories of personal data relating to religious beliefs.

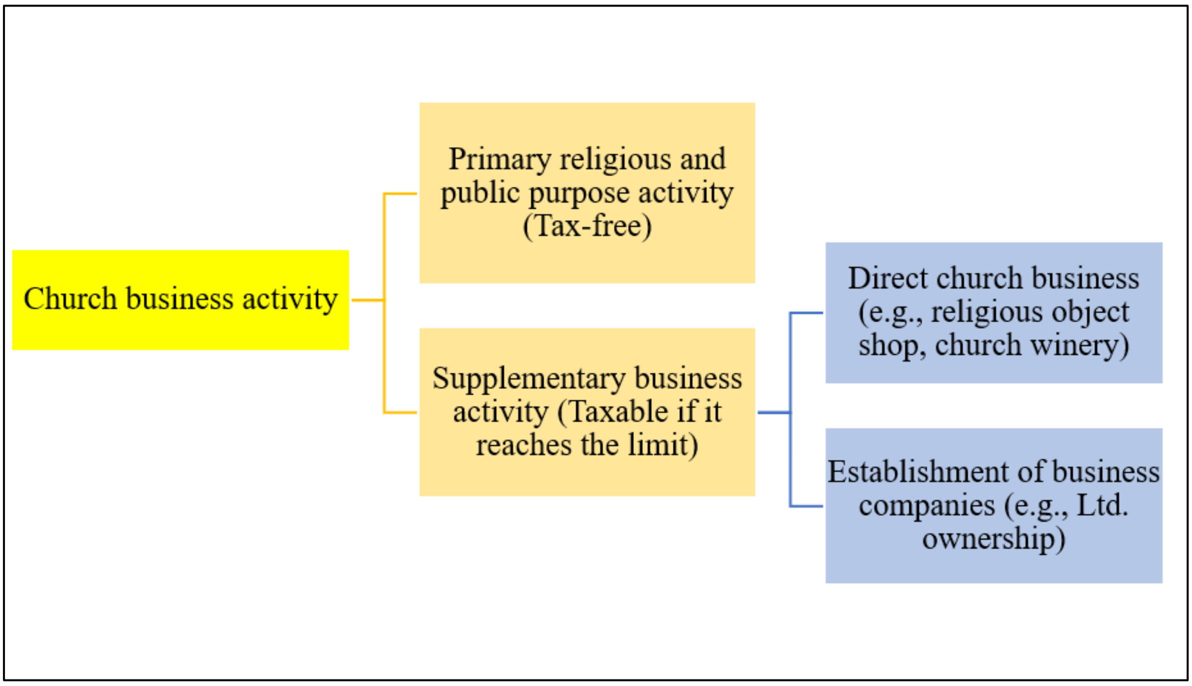
Among indirect state subsidies, the system of donations amounting to one per cent of personal income tax is considered the most democratic form of funding, as the level of support depends directly on the church's integration into society and the activity of its members and supporters.

5.3. Religious income: Management of donations, collection plate money and altar fees

As we have seen in our historical overview, religious revenues constitute the oldest and most direct basis of church finances. Religious income is linked to religious ceremonies and voluntary contributions by the faithful, and – based on their legal and accounting classification – may take the form of: collection money, designated donations or altar fees. Collection money is the amount offered by the congregation during services or Masses, either in cash or in a modern form (electronic collection), which is paid into the parish's direct religious fund; in legal terms, it constitutes an immediate, unconditional gift. In contrast, designated donations are sums given for a specific purpose (e.g. organ restoration, care for the poor), which must be kept strictly separate in accordance with accounting rules and may only be used for the purpose specified by the donor. Service fees are sums paid for certain church ceremonies (weddings, funerals, baptisms, Mass offerings), in relation to which it is important to emphasise that, theologically speaking, the sacraments cannot be purchased (the prohibition against simony); the service fee contributes towards the technical and infrastructural costs of the ceremony, as well as towards the pastor's decent livelihood. Under current tax law, these revenues are entirely tax-exempt, but they are subject to strict internal church oversight: collection box proceeds and donations must always be counted and recorded in the presence of a committee comprising several members. [15]

5.4. Business Activities within the Church: Constraints and Opportunities

Although the primary aim of the church is not to make a profit, in the modern economic environment, ecclesiastical legal entities are entitled to carry out business and economic activities on a supplementary basis to support the achievement of their main objectives. [16]



Source: Compiled by the author.

Figure 3 The legal and economic framework for business activities

Church legal entities constitute a completely unique, sui generis category from the perspective of legal personality under civil law. Registered religious communities and their internal organisational units (dioceses, religious orders, parishes, church communities) possess legal personality. In contrast to traditional civil organisations (foundations, associations) or commercial companies, the internal organisational structure, right of representation and decision-making mechanisms of an ecclesiastical legal entity are determined not by the Civil Code (Ptk.), but by the church's own internal law (e.g. canon law, synodal laws). An ecclesiastical legal entity has its own name, registered office and assets separate from those of its members. The superior ecclesiastical body (e.g. a diocese) is liable for the debts of internal ecclesiastical legal entities (e.g. a parish) only if internal law or a specific guarantee so provides. Church legal entities are not registered with the Companies Registry or the High Court, but are recorded in a specific church register maintained by a minister appointed by the government.

The legislation requires strict accounting separation, meaning that the church must keep separate accounts for the income and expenditure arising from its religious and commercial activities. If the income from commercial activities exceeds the statutory threshold, the church becomes liable to pay corporation tax and other public charges on these activities. For this reason, in order to minimise risks, churches have organised their larger commercial ventures (e.g. church-owned breweries, major publishing houses, property management companies) into independent but church-owned commercial companies.

5.5. The legal background to church property settlement and compensation processes

One of the most critical and protracted chapters in church policy following the change of regime in Hungary was the resolution of ownership rights over church properties nationalised by the communist regime. The cornerstone of this process was laid by Act XXXII of 1991 on the settlement of the ownership status of former church properties. In contrast to the compensation of private individuals, where only partial financial compensation vouchers were issued, in the case of churches the Act allowed for restitution in kind (restitutio in integrum). However, this was strictly functional in nature: only those properties could be reclaimed which had served religious, educational, healthcare, charitable or cultural purposes prior to nationalisation, and which would continue to serve such purposes in the future. There were many properties (e.g. large hospitals, universities, buildings housing government offices) which could not be returned in kind without jeopardising public services. In return for these properties, the churches waived their right to reclaim them in kind, and the state, in turn, pays them a perpetual annuity (property settlement annuity), which is incorporated into the current central budget and ensures the financing of religious life in a manner that keeps pace with inflation. The property settlement process lasted for decades and concluded with a series of bilateral agreements between the individual historical churches and the Hungarian State. In recent years, the legislature has, through further individual decisions and amendments to legislation, transferred state- or local authority-owned property to the churches, provided that the church carries out social or educational functions on such property.

5.6. Assumption of public functions: Funding of educational, healthcare and social institutions

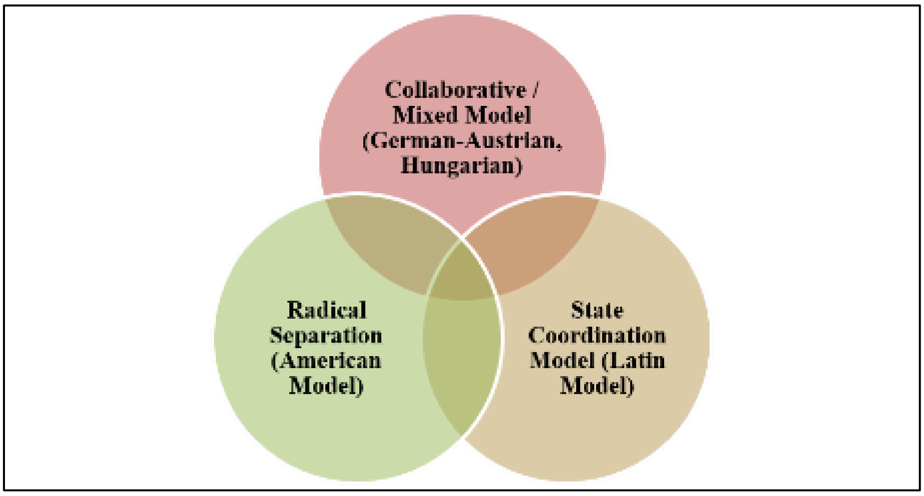
The explosive growth of the church institutional system over the past decade and a half has been most evident in the area of the assumption of public functions. Churches have now become an indispensable, structural pillar in public education, higher education, specialised social care (care for the elderly, homes for people with disabilities) and child protection.

The funding mechanism for these institutions is extremely strictly regulated; under this system, the church sponsor and the relevant ministry enter into a long-term contract which guarantees that the church will operate the institution to a professional standard in accordance with statutory requirements. Funding is based on a state-funded per-pupil grant linked to performance indicators, as well as supplementary church funding, which together are intended to cover staff costs and operating expenses. There is an ongoing policy and public debate surrounding the funding of public services provided by the church. Critics often argue that, due to supplementary support from the church sector, these institutions may enjoy hidden advantages compared to state-run institutions, whilst church operators argue that, due to a lack of local authority and tax revenue, this supplementary funding is an essential prerequisite for genuine equality and operational viability.

6. International perspective

Theoretical models of the institutional separation of state and church result in marked economic and financial differences in practice. From an economic perspective, the degree of separation determines the extent to which the church can rely on the state budget, and the extent to which it is forced to operate purely on a market or donation-based basis.

In international practice, three basic models are distinguished, as illustrated in Figure 4.



Source: Compiled by the author.

Figure 4 Economic models of the relationship between the state and the church: an international overview

The sustainability of these economic models is closely linked to the degree of religiosity in society and the tax-paying culture of citizens. Radical separation is viable where a culture of giving is deeply embedded, whilst systems requiring state coordination provide a more stable and predictable institutional framework for the church's performance of public functions.

An international comparison of church funding systems clearly illustrates how historical traditions and constitutional arrangements determine financial models. There is no uniform regulation in Europe; based on the principle of subsidiarity, each Member State shapes its own economic relationship with the churches.

6.1. The church tax (Kirchensteuer) system in Germany and Austria

The German and Austrian model is one of the world's most stable, best-organised, yet also most controversial church financing systems, based on the compulsory church tax (*Kirchensteuer*).

In Germany, the church tax is levied on the basis of personal income tax (Einkommensteuer), amounting to approximately 8–9 per cent, depending on the federal state. The tax is collected by the state tax authorities from wages and transferred to the churches in return for a commission. Only those who formally leave the church through legal means (*Kirchenaustritt*) are exempt from paying the tax. [17] However, the system in Austria differs slightly; there, the churches themselves operate the contribution offices (*Kirchenbeitragsstelle*). The church tax rate is approximately 1.1–1.5 per cent of taxable income. The church levies the tax directly on citizens based on their registered address details and can also enforce payment through the state courts. [18]

This model provides the German and Austrian churches with enormous financial wealth, enabling them to operate extensive charitable networks (Caritas, Diakonie) on a global scale. At the same time, it faces a serious structural crisis: every year, hundreds of thousands of people officially leave the churches to avoid paying tax, which in the long term threatens the sustainability of the system.

6.2. The voucher system of the Latin model (Italy, Spain)

The Latin or Mediterranean model breaks with the principle of compulsory church tax and has introduced a much more flexible system based on individual choice, founded on concordats between the state and the Holy See.

Under the Italian *'Otto per mille'* (8‰) system, every Italian taxpayer may allocate 0.8 per cent (eight per thousand) of their personal income tax. They may donate this amount to the Catholic Church, other recognised religious denominations, or to the state itself (for secular or humanitarian purposes). A distinctive feature of the system is the distribution rule: 0.8 per cent of the tax paid by those who do not make a declaration is distributed amongst the eligible recipients in proportion to the number of those who have made a declaration. [19] Meanwhile, under the Spanish *'Asignación tributaria'* (0.7%) system, taxpayers may allocate 0.7 per cent of their personal income tax to the Catholic Church or to other social or cultural causes. There is no distribution rule here; if a taxpayer does not make a declaration, that amount remains in the general fund of the central budget. [20]

This model does not force citizens to pay additional tax (as the German system does), but allows them to decide how their tax, which has already been paid, is to be used, resulting in greater social acceptance.

6.3. The American model – complete separation and fundraising

The United States' model of church funding is a textbook example of a radical, purely market-based and voluntary system. The First Amendment to the Constitution prohibits any institutional entanglement between the state and the church; thus, the state may not directly support religious life or church structures with a single cent.

A characteristic of the American model is that 100 per cent of churches' income comes from voluntary donations by the faithful, the practice of biblical tithing, and fundraising campaigns organised by local communities. Although there is no direct state funding, the state provides extremely generous indirect support. Churches automatically enjoy tax-exempt status, and donations made to churches by individuals or companies are fully deductible from federal and state tax bases. This system fosters a kind of religious entrepreneurial spirit and fierce competition amongst churches, which has led to the emergence of 'megachurches' and professional religious marketing. [21]

7. The impact of European Union law on church finances

The European Union has no direct competence to regulate the internal functioning or financing of churches; this area falls squarely within the national sovereignty of the Member States. Article 17 of the Treaty on the Functioning of the European Union (TFEU) expressly states that the Union shall respect and not prejudice the status under national law of churches and religious associations or communities in the Member States. [22]

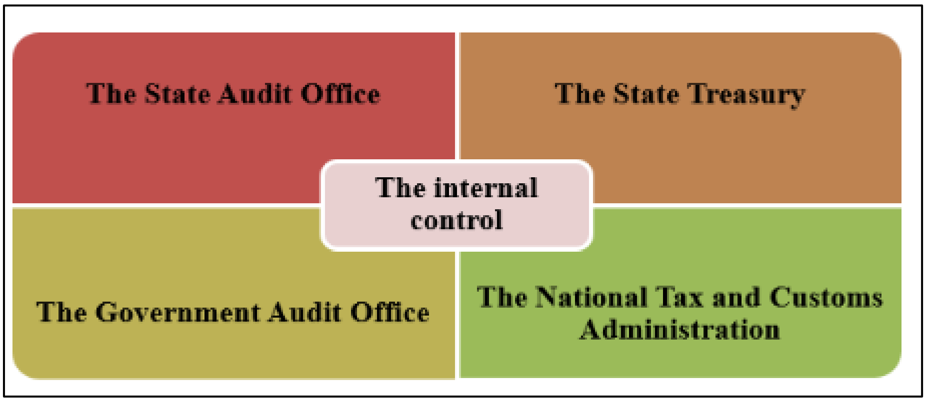
However, the substantive and procedural rules of EU law are having an increasingly profound indirect impact on the financial management of churches:

- **State aid law (Prohibited state aid):** The EU strictly monitors the integrity of market competition. If a church legal entity engages in economic or commercial activities that compete directly with market operators (e.g. church-run hotels, wineries, private healthcare services), state tax concessions or direct subsidies granted to the church may constitute prohibited state aid. Church and market activities must therefore be kept strictly separate in financial terms.
- **Public procurement obligations:** Where churches carry out high-value investment projects (e.g. school construction, church renovation) funded predominantly from state or EU sources (through grants), they are also fully subject to the strict procedural rules of public procurement law.
- **Employment law and non-discrimination:** EU directives prohibit discrimination in the workplace. However, the case law of the Court of Justice of the European Union (e.g. the Egenberger case) recognises that churches may require loyalty and religious identity from their employees, but this right is limited: it may only be applied proportionately to positions where religious identity is genuinely essential to the performance of the role (e.g. a pastor or a religious education teacher), whereas it is not lawful to discriminate on religious grounds against an accountant or a maintenance worker at a church-run hospital.

8. Oversight mechanisms: State Audit Office and internal church controls

The responsible use of vast amounts of public funds and donations from the public requires the operation of multi-tiered, rigorous control mechanisms. [23] The auditing of church finances is fundamentally based on two main pillars: external state control and internal church control.

The state's right of audit is based on the principle that the flow of public funds must be tracked from the budget to their final use. The State Audit Office carries out comprehensive or targeted audits at church-run institutions at regular intervals. The focus of these audits is on the lawful, appropriate and efficient use of state per capita grants, earmarked subsidies and property settlement allowances. The State Audit Office does not audit religious practices but rather verifies whether educational or social resources have in fact been spent on the operation of the institution in question. The Hungarian State Treasury verifies the accuracy of the data and the validity of standardised claims (e.g. actual pupil numbers) on site, whilst the Government Audit Office may monitor the implementation by churches of priority government investment projects. The National Tax and Customs Administration audits the business activities of ecclesiastical legal entities, VAT returns and social security contributions for employees in accordance with standard tax law.



Source: Compiled by the author.

Figure 5 External state and internal church controls

In many cases, the internal control system is even more multi-layered than that of the state, as it must comply not only with legal requirements but also with theological and moral expectations. Churches operate their own internal auditors and audit committees, which are required to conduct annual audits of the cash books, bank statements and asset inventories of parishes and church communities. In the case of larger church institutions, universities or national church offices, both internal regulations and secular laws require the involvement of an independent external auditor (chartered accountant) to certify the annual balance sheet. Modern church leadership places increasing emphasis on being transparent towards the faithful; detailed breakdowns of income and expenditure are regularly published in Sunday announcements or on parish websites, thereby strengthening community trust. [24]

9. Current challenges: Digitalisation, ethical investment within the Church

Church financial management cannot remain isolated from the economic and technological megatrends of the 21st century. Secularisation, the decline in the use of cash and the global environmental crisis are forcing church financial management to adapt radically. [25]

Digitalisation is fundamentally changing the collection of church donations and church administration, as digital collection boxes that accept contactless bank card payments are appearing in an increasing number of churches, both in developed countries and here in Hungary. [26] Church websites and mobile apps are integrating direct credit card (Barion, Stripe) or instant bank transfer (QR code) donation channels. Parish and congregational administration have shifted away from isolated Excel spreadsheets towards unified, cloud-based church ERP systems, which enable real-time centralised financial control and automated data reporting to state authorities. [27]

When it comes to investing church assets (foundation assets, pension funds), the sole aim is no longer simply to maximise profit. As moral authorities, churches must take the lead in the field of responsible investment; thus, a prudent approach is an essential requirement when considering potential investment in crypto-assets.[28] The Holy See and the major Protestant world alliances set out exclusion lists (negative screening) in detailed documents. It is strictly forbidden to invest church capital in companies associated with arms manufacturing, the extraction of fossil fuels, gambling, pornography, technologies related to abortion, or child labour. Churches actively seek out funds certified as environmentally conscious (Environmental), socially responsible (Social) and having good corporate governance ( ). Following Pope Francis's encyclical *Laudato si'*, church investments have come to focus on the protection of creation, renewable energy and green bonds.

10. Summary and Outlook: The Framework for a Sustainable Church Model

The system of church management and financing faces a critical crossroads amidst current social and economic realities. The traditional, cumbersome property portfolios of the historic churches, combined with a shrinking active congregation, create a squeeze that may render systems reliant solely on donations or church tithes unsustainable in the long term.

A sustainable vision is taking shape in the form of a hybrid model capable of flexibly balancing partnership with the state, social utility and internal economic innovation:

- **Diversified revenue structure:** The church of the future cannot rely on a single pillar of funding. Stability is ensured jointly by state funding for public services, smart and ethical management of its own assets (e.g. green energy production on church-owned land), and micro-donations from local communities.
- **Value-based professionalism:** Church management must master the tools of modern corporate finance, transparency and efficiency without losing its spiritual identity and charitable ethos.
- **Public-interest-centred partnership with the state:** The relationship between the state and the Church must continue to be based on mutual respect and functional cooperation. The state recognises the Church's irreplaceable role in community-building and social welfare, and ensures a stable legal and financial environment, whilst the Church guarantees that the public funds entrusted to it and the trust of society are used in a transparent, efficient manner that serves the good of the entire nation.

11. Conclusions

In future, the long-term financial sustainability of modern churches can only be ensured by a diversified, hybrid model that builds equally on partnership with the state, ethical management of its own assets and micro-donations from the faithful. The educational, social and cultural roles played by church institutions are indispensable to welfare states; therefore, the state must continue to guarantee the normative funding necessary for their operation, in accordance with the principle of sector-neutral funding. In order to comply with domestic and European Union legislation, churches must, in a financially and accounting transparent manner, clearly separate their tax-exempt religious activities from the financial operations of their market-based, taxable enterprises. In response to the challenges of the 21st century, it is essential for church financial management to introduce digital donation channels and to invest capital and endowment assets in strictly environmentally conscious and socially responsible (ESG) funds. Ultimately, the institutional separation of state power and the Church does not mean isolation, but rather a form of functional cooperation in which the parties complement one another in the effective service of social cohesion and the common good.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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