

Congregation Gifts Received by Minister Are Taxable

This case involves congregational gifts to a minister and the denial of the parsonage exclusion due to lack of records.

CONGREGATION GIFTS

Reverend Mikel Brown was a minister for the independent church Christian Joy Center (CJC). During 2007-2009, CJC used an envelope system to collect and properly record offering from its members. The envelope had a place for the member to write their contact information and spaces for: tithe, offering, building fund, and special gift. CJC's bookkeeping testified that ALL checks and credit card offerings were put into the CJC account and then one check was written for the total and given to Reverend Brown. However, the bookkeeper also testified that only checks made out to CJC were put into the CJC account and that any checks made payable to Reverend Brown were given directly to Reverend Brown. Naturally the bookkeeper did not have knowledge of any checks that were given from members directly to Reverend Brown.

IRS analysis of Reverend & Mrs. Brown's bank statements showed a difference in deposits for 2007, 2008, and 2009 of \$150,000, \$200,000, and \$120,000, respectively. These were the amounts that the Browns were unable to identify and prove were from nontaxable sources, such as loans, insurance proceeds, etc.

The Browns argued these amounts were "love gifts" from the congregation members and were nontaxable. Tax Court referred to many prior cases where "love gifts" and monies received by a minister through the congregation were taxable compensation to the minister. Tax Court agreed with IRS on the bank statement differences being income.

PARSONAGE EXCLUSION

During 2007 CJC gave Reverend Brown a check for \$1,750 twice a month with the notation "Comp and Parsonage" on the memo line. During 2008 there were a few such checks early in the year. During 2009 no such checks were identified.

The Browns did not provide any other verification of a parsonage allowance designation made by CJC, other than their own verbal testimony that the amount was determined at the beginning of each year and was based on the amount of the Brown's house payments. Due to lack of other verification, Tax Court determined the only amounts received for parsonage allowance were those checks that had "parsonage" noted on the memo line.

Further a parsonage allowance is only excludible from a minister's income up to the amount actually spent to provide the minister's housing. CJC paid the Brown's utilities and telephone costs directly. The Browns did not provide

documentation to show any amounts spent for housing. Tax Court denied the parsonage exclusion due to lack of records to support the claimed exclusion.

SIDE ISSUE – the Browns were also involved in a partnership involving a restaurant that failed. Tax Court agreed with IRS that the Browns did not meet the material participation requirements and therefore the losses were passive and not allowed in the current year.

Mikel & Debra Brown, TC Memo 2019-69. This case can be found by going to www.ustaxcourt.gov, clicking on the Opinion Search tab, and entering BROWN in the Case Name Keyword box.

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