How to succeed at a church renovation project, despite two painful realities of construction.

By Kevin A. Miller

Three months after I began pastoring full-time, our church, which had been renting facilities for nearly 20 years, did the improbable: it won an auction for a deserted plastics factory. Suddenly, the church needed someone to manage the renovation process, to immerse himself in parking substrates and asbestos removal and sprinkler heads. I was chosen.

Realizing my knowledge of construction, on a good day, registered exactly zero, I called Dave, the executive pastor at a nearby church. “You’ve built two church buildings,” I said. “What do I need to know about building a church?”

Dave paused, I think weighing whether I was ready to hear the truth. “The six months before you move in and the six months after will be hideously expensive.”

I hung up and stared at the wall, overcome by the two painful realities of church construction.

Paintful Reality 1: A building project will require knowledge you don’t have.

Most church construction projects are led by pastors (like me), not by professional construction managers. Here’s how I turned my ignorance into an asset:

• Play the “I’m new at this, so I was just wondering” card. When talking with potential lenders, contractors, or city officials, I freely acknowledged, right up front, “You’re a professional at this, and I’m brand-new, so can I ask some questions?” I did that over and over—getting second, third, and even fourth opinions on major decisions—until common wisdom emerged. (And yes, this takes a lot of time. You will need to offload some pastoral responsibilities during the building phase.)

• Hire a great general contractor. Look for these three things:
  1. Experience in building your type of building. Since we were renovating a factory, we chose a contractor who had built large, high-ceiling industrial spaces, like Home Depot, and who had also built churches.
  2. Honest. You need to trust your GC implicitly, and several people in our church had good experiences working with the one we chose.
  3. Chooses subcontractors well. The subs do the actual construction, so you want reliable, high-quality trades people. Ask your potential GC which subs he or she has worked with on other projects. Then ask people in the trades to recommend subs.
if these are reliable. Resist the urge to overrule your GC and ask him to use mom-and-pop subcontractors from your friendship circles. The two subcontractors we chose, rather than letting our GC do it, were two we had difficulty with.

- **Stand strong in what you do know.** Lenders may be experts on loans, and contractors may be experts on construction, but you are the only person who knows two important things: what your congregation needs, and how much money you have. Frequently during construction, you will be told, “If we do this extra work now, it will be a lot cheaper than if you have to do it later.” That’s true, but if you don’t have the money in your construction budget, you don’t have it. As I like to say, “You can go broke saving money.”

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**Tax Calendar**

**Important Tax Deadlines in June 2013**

*In addition to the regular semiweekly and monthly withholding requirements, churches should note the following dates for this month. If the regular due date falls on a Saturday, Sunday, or legal holiday, file by the next business day.*

**June 15**
- Ministers (who have not elected voluntary withholding) and self-employed workers must file their second quarterly estimated federal tax payment for 2013 by this date. A similar rule applies in many states to payments of estimated state taxes. Non-minister employees of churches that filed a timely Form 8274 (waiving the church’s obligation to withhold and pay FICA taxes) are treated as self-employed for Social Security purposes, and accordingly are subject to the estimated tax deadlines with respect to their self-employment (Social Security) taxes unless they ask their employing church to withhold an additional amount of income taxes from each paycheck that will be sufficient to cover self-employment taxes (use a new Form W-4 to make this request).

**June 30**
- Now is a good time to review the 2013 housing or parsonage allowances designated for all ministers on staff. If an allowance designated for 2013 is clearly below actual housing expenses, then the church board should consider declaring a larger portion of the minister’s remaining compensation as a housing or parsonage allowance. A church is free to designate any portion of a minister’s compensation as a housing allowance, but remember that clergy who own or rent their homes may never claim a housing allowance exclusion greater than the fair rental value of the home (furnished, including utilities). Therefore, the allowance ordinarily should not be significantly more than this amount.

- A church must make quarterly estimated tax payments if it expects an unrelated business income tax liability for the year to be $500 or more. Use IRS Form 990-W to figure your estimated taxes. Quarterly estimated tax payments of one-fourth of the total tax liability are due by April 15, June 15, September 15, and December 15, 2013, for churches on a calendar-year basis. Deposit quarterly tax payments electronically using the EFTPS system.

- **No matter how careful your estimate of costs, increase it.** Why?
  - **Unknown conditions.** Only God is omniscient, so allow money for surprises. For example, we’d been told we could just resurface a parking lot, but later learned it would have to be replaced. When replacement digging began, the lot’s substrate was found in woeful state, and that required more expense. Total upcharge: about $200,000.
  - **City requirements.** Even after your municipality has approved your building plans, they can and will ask for further changes: remove this tree, replace the right-of-ways with concrete, add a sidewalk, install fire signs. Late-in-the-game code requirements added at least $30,000 to our project.
  - **Even free isn’t free.** We were blessed with a donation of office furniture—desks, partitions, chairs, probably worth $40,000—but it still cost us more than $10,000 to move the furniture, store it, and reinstall it.

- **Include an ample contingency fund.**
  Our lender required a contingency fund of 3.7 percent of the project costs. I tried to talk the bank’s vice president into lowering that. Thankfully, she is a veteran banker and insisted we’d need it. We did. In hindsight, I wish we’d increased it to 5 or 6 percent.

- **Move planned items to the wish list.** Many items you’d hoped for and planned for will need to be placed on the Phase 2 wish list. We moved things to this list that we would dearly have loved, including a grand piano, a rear entry sign, and window shades for the sanctuary, but this
kept our costs $500,000 lower, and we can add these items later.

- **In construction years, try to keep other costs down.** In 2012, our main construction year, we were able to save 6 percent of our budgeted expenses, and this helped when construction costs increased.

- **Match up the numbers.** During construction, three parties are tracking expenses: the bank, the contractor, and the church. I didn't know, going in, that each party tracks those slightly differently. To avoid surprises, meet regularly to get updates and ask questions.

- **Time equals money, so keep things moving.** Every week of construction, you are paying just to have the contractor on site (what's called "general conditions"). Therefore, keep things moving. What I did well: Bring a detailed project list to each building team meeting, to keep discussion on track and make sure nothing got missed. Then after the meeting, I emailed each person—architect, contractor, interior designer, etc.—their to-do items. This saved time and cost. What I did not do well: I did not realize, a few times, that shop drawings were being held by our architect or interior designer; and until those were returned to the contractor, that part of construction could not proceed.

**Pleasant Reality: It's worth it.**
I've provided cautions, for your protection, but I'd be remiss if I left you afraid to move forward with a needed construction project. We love our new church building. After 20 years of setting up and taking down each Sunday, it feels so good to be home. The local newspaper featured our renovation on the front page, and we've welcomed hundreds of visitors and guests because of the building. Fellowship, evangelism, and children's ministry have all greatly improved, simply because we now have spaces that better support them. Facilities really do facilitate.

Plus, during the project, our faith grew. As we came to each hurdle—zoning, capital campaign, environmental testing, cash flow—we were forced to depend more deeply upon God. As Scripture says, "Is anything too hard for the Lord?"

How did we do, bringing the building project in on budget? We came close. Final bills come in this month, but we estimate we went over by only 2 or 3 percent. Keeping construction costs in check may not be easy, but it is possible.

Kevin A. Miller is associate pastor of Church of the Resurrection in Wheaton, Illinois.

To learn more about church building projects, see these downloadable resources on YourChurchResources.com:
- Financing a Church Building Project
- When Your Church Buys Property

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**AVOIDING PROPERTY TAXES**

**Is it legal to transfer the pastor's title to his home to our church?**

_by Richard R. Hammar_

**Q:** Our pastor owns his home. He would like to transfer the title to the home to our church, but continue to treat it as his residence. The goal is to avoid paying property taxes on the home. In the event that he moves to another church in a different community, he wants the church to reconvey the home back to him so that he can sell it and realize any gain or equity. Is it legal to do this?

**A:** There are a number of problems with such an arrangement, not the least of which is the fact that it may be viewed as unlawful tax evasion for which criminal penalties may be assessed. Theoretically, your pastor can purchase a home and donate it to the church. So far so good. However, the amount he can claim as a charitable contribution deduction is limited to 50 percent of his adjusted gross income, although any balance can be carried forward for up to five years. Beyond that, any deduction is lost.

Assuming title to the home is transferred to the church, it may or may not be exempt from property taxes. That depends on your state law. If the pastor continues to live in the home, it becomes, in effect, a church-owned parsonage. In about 15 states parsonages are exempt from property taxes. If your state law does not exempt parsonages from taxation, then there is no point in the pastor transferring title to his home to the church, if his only purpose is to avoid paying property taxes.

If parsonages are exempt from tax in your state, the pastor must live in the home (or another pastor must do so) for it to qualify as a tax-exempt parsonage. The problem then becomes what to do with the home if and when the pastor wants it back, since this is what is intended. In other words, the objective is for the pastor to avoid paying property taxes on the home while it is his residence, and then for the church to transfer the home back to him when it ceases to be his residence due to retirement or accepting a call in another community. This way the pastor can sell the home and receive any gain or equity.

Conveying the home back to the pastor raises significant problems under the federal tax code unless the church reports the entire net value of the home as taxable income in the year the home is reconveyed. If this does not happen, then the pastor has received an "excess benefit transaction" for which substantial penalties can be assessed under section 4958 of the tax code. These penalties are known as "intermediate sanctions," and they can be up to 225 percent of the value that is transferred to the pastor and not reported as taxable income.

Also, the church's tax-exempt status under federal law is jeopardized because this arrangement may be viewed by the IRS as prohibited "inurement" of a church asset for the benefit of a private individual. The assets of tax exempt ("501(c)(3)"") organizations, including churches, cannot inure to the benefit of private individuals other than as reasonable compensation for services.

The bottom line is that the arrangement you are considering creates a minefield of legal and tax issues that would be impossible to navigate in the way you desire. The assistance of a local tax professional is essential.

To submit a question for consideration in a future Q&A, email: CTeacher@ChristianityToday.com.
ANNUAL DEADLINE LOOMS FOR CHURCH-RUN SCHOOLS

Racial nondiscrimination certificate is one of the most neglected federal reporting requirements.

Does your church operate a preschool? An elementary school? A secondary school? A college? If you answered “yes” to any of these questions, then you are required to submit Form 5578—a certificate of racial nondiscrimination to the IRS each year. Form 5578 is easy to complete, and yet it is one of most commonly ignored federal reporting requirements.

Filing Form 5578

The certificate is due by the 15th day of the fifth month following the end of the organization's fiscal year. This is May 15th of the following year for organizations that operate on a calendar year basis. This means that the Form 5578 for 2012 is due May 15, 2013.

A church official simply identifies the church and the school, and certifies that the school has “satisfied the applicable requirements of section 4.01 through 4.05 of Revenue Procedure 75-50.” These requirements are explained in the instructions to Form 5578, and relate to racially nondiscriminatory policies in the school's charter, bylaws, catalogs, admissions, and programs. In some cases schools are required to publicize their racially nondiscriminatory policies in the local media.

Private schools. A “private school” is defined as an educational organization that normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly conducted. The term includes primary, secondary, preparatory, or high schools, as well as colleges and universities, whether operated as a separate legal entity or an activity of a church.

Key point. The term “school” also includes preschools, and this is what the reporting requirement relevant for many churches, since many churches operate a preschool program. Private religious schools that are not affiliated with or controlled by a church also must file the form.

Chances that operate private schools (including preschools), and independent schools, may obtain a Form 5578 by calling the IRS forms number (1-800-829-3676) or by downloading a copy from the IRS website (irs.gov).

KEY POINT. Some independent religious schools that are not operated or controlled by a church or other religious organization are required to file Form 990 with the IRS each year. Form 990 is an annual information return. Churches and some other religious organizations are exempt from this filing requirement. Schools that are required to file Form 990 make their annual certification of racial nondiscrimination directly on Schedule E of Form 990, and not on Form 5578.

AMERICAN TAXPAYER RELIEF ACT OF 2012

What every church needs to know about the new tax laws

Congress enacted major tax laws in 2012, and many of these laws contain provisions of direct relevance to churches and church staff. These developments, plus dozens of recent IRS rulings and court cases, are explained fully in the 2013 edition of Richard Hammar's Church & Clergy Tax Guide. Be sure to have this year-round guide handy as part of your church reference library. To stay up-to-date on the most recent tax law changes affecting your church and its employees, order this resource by calling 1-800-222-1840 or by visiting YourChurchResources.com.