Church Finance Today
WHAT'S NEW

IRS: Tax Returns Must Address Health Coverage
Churches need to let their employees know that the Internal Revenue Service won't accept electronically filed tax returns that fail to indicate whether or not the filer has met the health coverage requirements of the Affordable Care Act.

Further, “returns filed on paper that don’t address the health coverage requirements may be subject to the receipt of additional information and any refunds may be delayed,” Accounting Today reported.

It is the first time the IRS has refused to process returns without ACA information.

FEMA Reconsiders Policies Denying Aid to Churches
Churches and other religious faiths “are routinely denied aid by the Federal Emergency Management Agency… to repair or rebuild their damaged sanctuaries,” reported OrlandoSentinel.com. However, “FEMA is rethinking its policies in the face of a federal lawsuit... by three Texas churches hit by Hurricane Harvey,” said the online news site.

Further, four Republican senators have introduced legislation that would allow churches to receive disaster relief money—adding further pressure to change FEMA policy.

CHARITY Act Introduced
US Senators John Thune (R-S.D.) and Ron Wyden (D-Ore.) have introduced the Charities Helping Americans Regularly Throughout the Year (CHARITY) Act, a bill that would encourage charitable giving and make it easier for foundations and other tax-exempt organizations to conduct their charitable mission. If enacted, the bill would authorize the Treasury Department to adopt regulations that align the simplified standard mileage tax deduction rate for personal vehicle use for volunteer charitable services with that for medical/moving purposes. This would mean elevating the mileage rate from its current 14 cents per mile.

—Richard R. Hammar

IN THE NEXT ISSUE
What Churches Must Know About Vehicle Insurance

Facing a Future Without the Clergy Housing Allowance

Ways churches can prepare should this tax benefit ever go away.

Interview by Chris Lutes

The latest constitutional challenge to the clergy housing allowance brought by the Freedom From Religion Foundation (FFRF) cleared its first significant legal hurdle in October, when a federal district court judge ruled the religious line for ministers to be an unconstitutional preference for religion. The parsonage allowance pertaining to church-owned housing remains unaffected.

The decision may now head to the Seventh Circuit Court of Appeals. Were the Seventh Circuit to affirm the lower court’s decision (a decision is expected to come during the second half of 2018), it would apply only to ministers in that circuit (Illinois, Indiana, and Wisconsin). It would become a national precedent binding on ministers in all states if (1) such a decision is ever affirmed by the United States Supreme Court, or (2) the Internal Revenue Service follows a Seventh Circuit affirmation to promote consistency in tax administration nationwide. Because the Supreme Court accepts less than 1 percent of all appeals, it is uncertain that the Court will agree to hear the case and, moreover, uncertain how the Court would rule. Absent a Court decision, it’s unclear how other federal circuits would address future litigation as well.

With the situation for certain, churches nationwide should think through preparations now that would help ready their pastors were the clergy housing allowance ever to go away. Senior Editor Richard Hammar identifies three immediate implications of such an outcome that churches can address now:

1. Compensation. The sudden elimination of this tax benefit would immediately thrust many clergy into a dire financial position with a mortgage loan based on a tax benefit that no longer is available. Many church leaders would want to reduce the impact of such a predicament by increasing compensation, likely through some type of phased approach.

2. Tax payments. Many ministers would need to increase their quarterly estimated tax payments or voluntary withholding to reflect the increase in income taxes in order to avoid an underpayment penalty.

3. Future home purchases. Ministers currently considering the purchase of a home should not base financing decisions on the availability of a housing allowance unless and until the courts conclusively rule in favor of the constitutionality of the allowance or their congregation is able to assure them that their compensation will be increased to compensate for the loss of the allowance.

We asked Ted Batsos, tax attorney and CPA with the accounting firm CaplinCrouse, to evaluate the financial and administrative aspects of these three implications, and provide additional recommendations as churches and pastors navigate this uncertain situation.

Let’s assume for a moment that the housing allowance is suddenly a lost benefit for all clergy. What would happen?

Many pastors who currently take advantage of the benefit will quickly figure out that they can’t make it on their current salaries. So churches will need to plan for the potential need to increase their pastor’s compensation. This includes asking the congregation to give more generously to support the increase. However, if the churches can’t increase their pay, these pastors will decide whether they have to (1) become biocasional, (2) find an opportunity at a church that will pay more, or (3) leave the ministry.

If a pastor chooses either of the last two options, it will put the current church in a bind because it is less likely to afford to replace the pastor who has left or may have to accept a less qualified candidate. It could lead to other options for the church. For instance, a church could decide to consolidate with another church or hire a pastor.

Let’s say a church wants to do what it can in terms of compensation, to retain that pastor. How would it implement Hammar’s first recommendation?

If the housing allowance is invalidated in 2018,
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With the situation far from certain, churches nationwide should think through preparations now that would help ready their pastors were the clergy housing allowance ever to go away. Senior Editor Richard Hammar identifies three immediate implications of such an outcome that churches can address now:

1. Compensation. The loss of an entire year of housing deductions would thrust many clergy into a dire financial position. A new way to save will have to be found, possibly by increasing compensation, likely through some type of phased approach.

2. Tax payments. Many ministers would need to increase their quarterly estimated tax payments or voluntary withholdings to reflect the increase in income taxes in order to avoid an underpayment penalty.

3. Future home purchases. Ministers currently considering the purchase of a home should not base financing decisions on the availability of a housing allowance unless and until the courts conclusively rule in favor of the constitutionality of the allowance or their congregation is able to assure them that their compensation will be increased to compensate for the loss of the allowance.

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Many pastors who currently take advantage of the benefit will quickly figure out that they can’t make ends meet on their current salaries. So churches will need to plan for the potential need to increase their pastor’s compensation. This includes asking the congregation to give more generously to support the increase. However, if the church can’t increase their pay, these pastors will decide whether they have to do (a) become biocultural, (b) find an opportunity at a church that will pay more, or (c) leave the ministry.

If a pastor chooses either of the last two options, it will put the current church in a bind because it is likely to suffer from the replacement pastor who has left or may have to accept a less qualified candidate. This could lead to other options for the church. For instance, a church could decide to consolidate with another church or share a pastor.

Let's say a church wants to do what it can, in terms of compensation, to retain that pastor. How would it implement Hammar’s first recommendation?

If the housing allowance is invalidated in 2018,
If the housing allowance goes away, pastors will need to rethink their personal budgets. Some pastors will say, "I can't afford this 2,500-square-foot home, I'm now going to have to sell this one and buy a 1,900-square-foot home, because that's all the mortgage I can afford with the loss of the housing allowance."

To afford their current house, pastors may have to supplement their income with a second job or their spouse may have to find another job. Pastors also may have to give up plans to construct an addition to their current home. They may decide not to renovate or buy new furniture. Maybe the lawn-care service will need to go. They may give up cable.

Again, there are a number of choices pastors will need to make—and some of them will be difficult. They may say, "We like this house. We like the neighborhood. We like the schools. Our children have friends here. We're going to stay in this house even though it will stretch us financially. We're going to give up other things. We won't eat out as much. We will take less-expensive vacations."

On top of that, it will affect other critical areas, like saving for retirement or for their children's education. Pastors might not be able to put away as much for these future expenses as they want to.

It creates some challenging financial management issues, doesn't it?

Yes—for both the pastor and the church. If the housing allowance goes away, pastors will have to learn to manage their finances without this tax benefit.

Without the housing allowance, churches will be trying to come up with ways to help their pastor afford a home in the neighborhood where the church is located, because there is value in having the pastor live in the same community as the church. This might cause some churches to consider increasing compensation for the pastor as we have discussed. It also might cause some churches that don't have a parsonage to consider purchasing one.

This also means pastors currently looking to buy should make a decision that keeps the possibility of this lost benefit in mind, right?

If you're going to make an expenditure tied to the availability of the housing allowance, think carefully.

Pastors will have to weigh a number of lifestyle choices besides whether or not to take out a big mortgage.

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**Find Help Setting Compensation**

Along with comparisons according to income, the 2018 Compensation Handbook for Church Staff captures key comparison figures for locations, church sizes, years of employment, and more—all presented in easy-to-follow charts. Available on ChurchLawAndTaxStore.com.

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**Important Tax Guidance**

Current tax laws contain several provisions of direct relevance to churches and church staff. These laws, plus dozens of recent IRS rulings and court cases, are explained fully in the 2018 edition of Richard Hammar's Church & Clergy Tax Guide. To stay up-to-date on the most recent tax law changes impacting your church and its employees, order this resource by calling 1-800-222-1840 and ask for Item L118. Or find it on ChurchLawAndTaxStore.com.
Notes & Numbers

Generosity Starts with Generous Leaders

Like any vision or mission you want your church to embrace, it's crucial that the pastor is surrounded by a team who advances a culture of generosity. Your leadership team must make generosity a personal priority and share it… They are on the forefront line supporting the vision, answering questions, and often times, defending against pushback. Staff members who share their giving stories and encourage the conversation around giving will further weave generosity into the fabric of your church...

In staff meetings, regularly ask team members to share their stories. It's great practice, and it emphasizes the conversation around generosity as a priority.

—ChurchExecutive.com

Make Expense Reporting Easier

Gathering receipts and getting people to provide you with the account and reason for each expenditure can be frustrating. You need to find a way to make expense reporting easier for nonaccounting team members yet still provide the accounting details you need. Thankfully, technology can help.

Consider using a mobile app that allows staff members to take a picture of their receipt, select which account code applies (meals, fuel, office supplies, etc.), and submit it for reimbursement. Concur and Expensify offer mobile apps that can streamline the expense-reporting process.

A no-cost option is to have team members take a picture of their receipts using an app like TurboScan (the company offers a free version) and email the PDF image to a central email address for accounting. This could at least reduce the number of lost receipts once they get into the habit of snapping a picture of receipts right away.

—MultiBriefs: Exclusive, adapted

Saving on Quality Sound and Lighting Systems

When purchasing a new sound or lighting system, it's important to get quality products that fit your budget. To help you shop wisely while comparing products, ChurchTechToday.com suggests working through the following questions:

- Does this equipment serve a core purpose for delivering the Word?
- How often will this device or system be used?
- What is the life expectancy of this product?
- When will the device or system need to be repaired/replaced, and at what cost?
- Are there service agreements or other licensing costs that need to be added in?
- Does the technology require professional design or installation at additional cost?
- What are the training requirements for operating and maintaining the equipment?
- Who will support the equipment when there is a question or technical problem?

Watch Out for Flood-Damaged Cars

To help anyone on church staff looking for a used vehicle at a great price, you might want to issue this warning some of these incredible deals right now might be too incredible to be believable. In fact, an estimated 500,000 severely water-damaged cars could be on the market as a result of last year’s hurricanes, reported Kiplinger’s Personal Finance Adviser. Here are additional details from Kiplinger worth passing along to church employees:

You may encounter such cars at auto auctions, where vehicles with salvage titles (meaning repair costs more than the car is worth) often wind up to be sold legally, as long as the sellers disclose the salvage title. Or respectable sellers may try to swindle customers. An extremely low price compared with prices for similar vehicles is the first tip-off—especially if the car is listed on Craigslist or is for sale at a shadily-looking used-car lot. Look up used-car prices at kbb.com (click on “Car Values”). CarFax recently rolled out a free flood-check tool (carfax.com/flood). To use it, you’ll need the vehicle identification number.