22 T.C. 566 (1954)

For a minister to qualify for a tax exemption on a housing allowance, the dwelling must be furnished to the minister, not acquired by the minister with funds provided by the church.

Summary

The United States Tax Court addressed whether a housing allowance paid to a minister was exempt from income tax under Section 22(b)(6) of the Internal Revenue Code, which excludes the rental value of a dwelling furnished to a minister as part of their compensation. The court held that because the minister owned his home and used the allowance to cover expenses, the dwelling was not "furnished" to him by the church. The court strictly construed the exemption, emphasizing that it applies only when the church provides the housing directly, not when it provides funds for the minister to acquire or maintain a residence. The dissenting opinion argued that the statute should be interpreted more broadly to include housing allowances.

Facts

Gideon B. Williamson, a minister, received a cash "house allowance" from the Church of the Nazarene as part of his compensation. Williamson and his wife owned their residence in Kansas City, Missouri, and held the title in their names. The Church of the Nazarene did not own the property nor was it involved in the purchase. The house allowance did not cover the full cost of the housing, and Williamson paid mortgage interest, principal, taxes, and insurance from his personal funds. Williamson claimed the housing allowance was excludable from his gross income under Section 22(b)(6) of the Internal Revenue Code.

Procedural History

The Commissioner of Internal Revenue determined a tax deficiency, disallowing the exclusion of the house allowance from the Williamsons' gross income. The Williamsons petitioned the United States Tax Court to challenge the Commissioner's ruling.

Issue(s)

1. Whether the cash "house allowance" received by Williamson constituted the "rental value of a dwelling house … furnished to a minister of the gospel as part of his compensation" under Section 22(b)(6) of the Internal Revenue Code.

Holding

1. No, because the dwelling was not furnished to the minister.

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Court’s Reasoning

The court focused on the meaning of the term “furnished” within Section 22(b)(6). The court stated that “Congress designated certain factual situations which must exist in order for the exclusion and exemption to arise.” The court reasoned that the dwelling was not “furnished to” the minister, but rather, was “furnished by him”. Because Williamson owned the property, paid for its acquisition, and controlled its disposition, the court concluded that the church did not “furnish” the residence. The court noted that the exemption provision is a special tax exemption and must be strictly construed. The court distinguished the case from those where a church directly provided a dwelling for the minister. The court cited that “Statutory provisions granting special tax exemptions are to be strictly construed.”

The dissent argued that the term “furnished” should be interpreted more broadly to include cash allowances, effectively arguing that the cash paid by the church did “furnish” the rental value to the minister, and the statute should be interpreted to reflect the substance of the arrangement, not just the form.

Practical Implications

This case clarifies the strict interpretation of the tax exemption for ministers’ housing allowances. Legal practitioners must advise their clients that simply providing a cash allowance is not sufficient to qualify for the tax exemption. The church must, at a minimum, provide the minister with a dwelling. This case also suggests that if a church leases a property and then allows a minister to live there, the rental value would be excludable under the section. Further, if a church owned property, and provided the minister with the use of the dwelling, the value would be excludable. This ruling underscores the importance of the precise nature of the housing arrangement. Subsequent cases continue to cite *Williamson* in support of the idea that the minister’s use of funds to acquire a residence does not meet the requirement of “furnished” to qualify for the exclusion.

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