Toavs v. Commissioner, 67 T. C. 897 (1977)

Parsonage allowances are not excludable from income unless the minister's services are performed under the authority of a church or church denomination.

Summary

In Toavs v. Commissioner, ordained ministers employed by Challenge Homes, Inc. , sought to exclude parsonage allowances from their income under IRC section 107. The Tax Court held that these allowances were not excludable because the ministers did not perform services under the authority of the Assemblies of God Church, despite operating within its "fellowship. " The court emphasized the need for objective manifestations of church control over the organization, which were absent in this case. This decision impacts how ministers employed by non-church organizations can claim tax exemptions for housing allowances.

Facts

Challenge Homes, Inc. , a nonprofit corporation, operated nursing homes and was recognized by the Assemblies of God Church as operating within its "fellowship. " Petitioners, ordained ministers, worked for Challenge and received payments designated as parsonage allowances. These allowances were excluded from their income tax returns. The IRS disallowed these exclusions, asserting that the payments did not qualify as parsonage allowances under IRC section 107.

Procedural History

The IRS determined deficiencies in the petitioners' federal income taxes for the years 1970, 1971, and 1972, leading to the petitioners filing cases in the U. S. Tax Court. The court consolidated the cases due to common issues and ultimately ruled in favor of the Commissioner, denying the exclusion of the parsonage allowances from income.

Issue(s)

1. Whether the payments received by the petitioners from Challenge Homes, Inc. , as parsonage allowances are excludable from their gross income under IRC section 107.

Holding

1. No, because the petitioners did not perform services under the authority of a church or church denomination, as required by the regulations interpreting IRC section 107.

Court's Reasoning

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The court applied three tests from the regulations to determine if the petitioners' services qualified for the parsonage allowance exclusion. First, it examined whether the services constituted religious worship or sacerdotal functions but found no evidence of such activities. Second, it considered whether the services were performed pursuant to an assignment or designation by the church, which was also unsupported by evidence. Third, it assessed whether Challenge Homes operated under the authority of the Assemblies of God Church, concluding that despite operating within the church's "fellowship," there was no objective manifestation of control by the church over Challenge Homes. The court emphasized that the absence of legal or financial ties and the lack of any church influence over the organization's operations meant that the petitioners' services did not qualify for the exclusion. The court relied on the regulations and previous case law to support its interpretation of IRC section 107.

Practical Implications

This decision clarifies that for a parsonage allowance to be excludable from income, the minister must perform services under the direct authority of a church or church denomination. It impacts how ministers employed by non-church entities can claim tax exemptions for housing allowances, requiring a clear demonstration of church control over the organization. Legal practitioners should advise clients to ensure that any organization claiming to operate under a church's authority can show objective evidence of such control. This ruling may also affect nonprofit organizations associated with religious groups, prompting them to reassess their governance structures to align with tax regulations. Subsequent cases, such as *Warren v. Commissioner*, have further clarified the requirements for parsonage allowances.

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