***Warren v. Commissioner, 114 T. C. 343 (2000)***

The exclusion from gross income for a minister's housing allowance under Section 107(2) is not limited to the fair market rental value of the home.

**Summary**

Richard D. Warren, a minister, received compensation from Saddleback Valley Community Church designated entirely as a housing allowance. Warren used this compensation to provide a home, spending more than the home's fair market rental value. The IRS argued the exclusion under Section 107(2) should be limited to the lesser of the amount used for housing or the rental value. The Tax Court held that the exclusion is limited only by the amount used to provide a home, not by the fair market rental value, emphasizing the statutory language and legislative intent to treat ministers equitably regardless of whether they receive housing directly or as an allowance.

**Facts**

Richard D. Warren, a minister, founded Saddleback Valley Community Church and served as its ordained minister. For the tax years 1993-1995, the church designated all of Warren's compensation as a housing allowance. Warren and his wife used this allowance to purchase a home and cover related expenses, spending more than the home's fair market rental value each year. Warren excluded these amounts from his income on tax returns. The IRS challenged these exclusions, asserting they should not exceed the lesser of the amounts used for housing or the home's rental value.

**Procedural History**

Warren and his wife petitioned the U. S. Tax Court after the IRS determined deficiencies and penalties for the tax years in question. The case was submitted fully stipulated under Tax Court Rule 122. The Tax Court, in a majority opinion, ruled in favor of Warren, holding that the exclusion under Section 107(2) is not limited by the fair market rental value of the home.

**Issue(s)**

1. Whether the exclusion from gross income under Section 107(2) for a minister's housing allowance is limited to the lesser of the amount used to provide a home or the fair market rental value of the home.

**Holding**

1. No, because the statutory language of Section 107(2) specifies the exclusion is limited to the amount used to provide a home, without mention of a fair market rental value cap.

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## Court’s Reasoning

The Tax Court’s decision hinged on the statutory text and legislative history of Section 107. The majority opinion emphasized that Section 107(2) explicitly excludes the rental allowance to the extent it is used to provide a home, without any reference to a rental value limit, unlike Section 107(1). The court rejected the IRS’s arguments based on the statute’s title and the term “rental,” noting these do not override the clear statutory language. The court also dismissed concerns about unequal treatment among ministers, noting that imposing a rental value limit would create compliance burdens not faced by ministers under Section 107(1). The majority opinion was supported by extensive references to prior case law and legislative history, underscoring that Congress intended to treat ministers equitably, not identically, under the two subsections. The dissent argued that the majority’s interpretation could lead to abuse, but the majority found no statutory basis for adding a rental value limit to address these concerns.

## Practical Implications

This decision clarifies that ministers can exclude the full amount of their designated housing allowance from income, provided it is used to provide a home, regardless of the home’s rental value. This ruling simplifies tax compliance for ministers receiving housing allowances, as they do not need to estimate their home’s rental value annually. For tax practitioners, this case underscores the importance of understanding the specific language and intent of tax statutes when advising clients. The decision may lead to increased scrutiny of housing allowances by the IRS, particularly in cases where the allowance significantly exceeds typical housing costs. Subsequent cases have generally followed this interpretation, reinforcing the principle that statutory language governs over policy concerns not explicitly addressed in the law.

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