Driscoll v. Commissioner, 135 T. C. 557 (2010)

In Driscoll v. Commissioner, the U. S. Tax Court ruled that an ordained minister could exclude from gross income under IRC Section 107 the portion of a parsonage allowance used for a second home, alongside a principal residence. This landmark decision clarified that the term “a home” in the statute could include multiple residences, thus broadening the scope of the parsonage allowance exclusion. The ruling has significant implications for ministers and religious organizations regarding tax treatment of housing allowances for multiple properties.

Parties

Philip A. Driscoll and Lynne B. Driscoll (also known as Donna L. Driscoll) were the petitioners. The Commissioner of Internal Revenue was the respondent. The case was heard in the United States Tax Court under Docket No. 1070-07.

Facts

Philip A. Driscoll, an ordained minister, worked for Mighty Horn Ministries, Inc. , later known as Phil Driscoll Ministries, Inc. , an organization exempt from tax under IRC Section 501(a). During the years 1996 through 1999, the Ministries paid Driscoll a parsonage allowance which he used to maintain both his principal residence in Cleveland, Tennessee, and a second home at Parksville Lake Summer Home area near Cleveland, Tennessee. The second home was used solely as a personal residence and was not used for any commercial purposes. Driscoll excluded the entire parsonage allowance from his gross income on his tax returns for those years.

Procedural History

The Commissioner of Internal Revenue issued a notice of deficiency to Driscoll for the years 1996 through 1999, determining that the portion of the parsonage allowance related to the second home should be included in gross income. Driscoll and his wife petitioned the Tax Court to challenge the Commissioner’s determination. The case was submitted fully stipulated under Tax Court Rule 122, and the court’s decision was to be entered under Rule 155.

Issue(s)

Whether, under IRC Section 107, petitioners are entitled to exclude from gross income the portion of the parsonage allowance paid to Philip A. Driscoll with respect to a second home?

Rule(s) of Law

IRC Section 107 provides that gross income of a minister of the gospel does not include: (1) the rental value of a home furnished to him as part of his compensation;

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or (2) the rental allowance paid to him as part of his compensation, to the extent used by him to rent or provide a home. The statute's legislative history and regulations under Section 107 use the phrase "a home," which, according to 1 U. S. C. Section 1, can include more than one home unless the context indicates otherwise.

Holding

The Tax Court held that the petitioners were entitled to exclude from gross income under IRC Section 107 the portion of the parsonage allowance used with respect to their second home. The court's decision was based on the interpretation that "a home" in Section 107 could include more than one residence, as supported by the statutory language and the Dictionary Act.

Reasoning

The court's reasoning centered on the interpretation of the phrase "a home" in IRC Section 107. The majority opinion rejected the Commissioner's argument that "a home" limited the exclusion to a single residence, noting that 1 U. S. C. Section 1 provides that singular words may include the plural unless the context indicates otherwise. The court found no context in the statute, its legislative history, or the regulations that would suggest a limitation to one home. The court also considered the plain meaning of the statute and its consistency with the legislative intent to provide a broad exclusion for housing allowances to ministers. The majority opinion emphasized that the parsonage allowance was used to provide a home, as stipulated by the parties, satisfying the requirements of Section 107. The court dismissed concerns about potential abuse as speculative and not relevant to the facts before it. The concurring opinion supported the majority's decision but highlighted the narrow scope of the stipulated facts and the absence of consideration for regulatory issues related to the reasonableness of the allowance. The dissenting opinion argued for a narrow construction of exclusions from income, contending that "a home" should be interpreted as a single residence and that allowing exclusion for multiple homes would serve no evident legislative purpose.

Disposition

The court's decision was to be entered under Tax Court Rule 155, reflecting the holding that the petitioners were entitled to exclude the parsonage allowance related to their second home from gross income.

Significance/Impact

Driscoll v. Commissioner significantly expanded the interpretation of IRC Section 107 by allowing ministers to exclude from gross income parsonage allowances used for multiple homes. This decision has doctrinal importance as it clarifies the scope of the exclusion under Section 107, impacting the tax planning and reporting of

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ministers and religious organizations. Subsequent treatment by other courts and IRS guidance will likely further define the boundaries of this exclusion. Practically, this ruling may encourage religious organizations to structure compensation packages more favorably for their ministers, potentially increasing the financial benefits of the parsonage allowance.

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