

Battershell & Nichols welcomes you

Owning or Living in a Parsonage/Rectory

The presentation will begin shortly...

CPE needed?

Within one week, send an email requesting CPE, complete the course evaluation and provide a list of CPE codes given during the presentation to:

info@battershellnichols.cpa

(Only available for those attending live)

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BATTERSHELL & NICHOLS
A PROFESSIONAL SERVICE CORPORATION

Remote Accounting Services

We provide accounting services to churches and Christian nonprofits including:

- ❑ Produce a monthly financial report for leadership
- ❑ Process contributions and pay bills & payroll
- ❑ Record all transactions in the general ledger
- ❑ Reconcile bank accounts, credit cards, and close the books each month
- ❑ Process payroll and file all quarterly and annual payroll forms
- ❑ Provide budget and cash flow projection assistance
- ❑ Assist with internal controls recommendations



Remote Accounting Services

Why do we provide this service?

- ❑ With online software solutions dramatically improving, outsourced bookkeeping has become a popular alternative to in-house bookkeeping

- ❑ Top reasons our clients use our remote accounting services:
 - Managing finances distracts the organization from its mission
 - Leadership and members have increased confidence in their finances
 - Tax and accounting regulations are complex and changing faster than ever
 - They want a trusted advisor to provide CPA oversight



Remote Accounting Services

Career Opportunity

- ❑ We are seeking an individual who has an eye for detail, engages well with customers, and is a team player.
- ❑ This job requires transferring data from multiple sources and online sites as well as creating and keeping support documentation for transactions.
 - Associate's degree in accounting or equivalent experience
 - Prior experience as a bookkeeper preferred
 - Experience with QuickBooks Online preferred
 - Experience in church accounting preferred
- ❑ To see a complete list of duties and responsibilities, along with the requirements and qualifications, see our website:
 - <https://battershellnichols.cpa/career-opportunities/>



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DISCLAIMER:

- ❑ *The author is not engaged by this text or webinar in the rendering of tax, accounting, or similar professional services.*
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- ❑ *Before taking any action, all references and citations should be checked for accuracy and completeness, and updated accordingly.*



Owning or Living in a Parsonage/Rectory

February 21st, 2024

By: Rick Battershell

Taxation for Clergy, Caretakers, and Other Staff

Determine the rental value of the housing

- ❑ Fair rental value (may include utilities if paid for by the ministry)
- ❑ Ask realtor or property manager
- ❑ Online sources: Zillow, rent.com, etc.
- ❑ Shared living space with other clergy requires an allocation of the value



Taxation for Clergy, Caretakers, and Other Staff-- continued

Clergy taxation:

- ❑ Rental value of parsonage or rectory used
 - Subject to SE tax (if for services performed)
 - Not subject to income tax

- ❑ If a housing allowance is received in addition to Parsonage
 - Excluded from income tax to the extent of the lesser of:
 1. Amount received
 2. Amount spent for housing costs
 3. Rental value of clergy owned furnishings plus clergy paid utilities
 - Subject to Self-Employment Tax

- ❑ See webinar recording “Housing Allowance Tax Benefit for Ministers” at: https://battershellnichols.cpa/webinars_on_demand/

Taxation for Clergy, Caretakers, and Other Staff-- continued

❑ Caretaker taxation:

- If requirements under IRC section 119 satisfied:
 - Not subject to income tax
 - Not subject to Social Security or Medicare taxes
 - (discussed in next section)

❑ Other staff taxation:

- If not clergy nor convenience of employer
- Taxable amount = Fair rental value less amount paid by staff for rent



IRS Reporting & Requirements of the Church, Ministry or Other Organization

Form W-2 reporting

□ Clergy

- List rental value of parsonage in box 14 (optional)
- Cash housing allowance can be paid in addition to free lodging
 - W-2 box 14 reporting is optional
 - See webinar recording “Housing Allowance Tax Benefit for Ministers”

□ Caretakers

- Nontaxable (under IRC section 119) if:
 - Lodging is furnished for the “convenience of the employer”, on premises
 - The primary reason for providing the lodging is a bona fide business necessity
 - Applies only to employees, not independent contractors or tenants
 - They are furnished for a substantial noncompensatory business reason (i.e. the employee could not properly perform his duties without being furnished lodging)
 - Employee is required to accept the lodging as a “condition of employment”

IRS Reporting & Requirements of the Church, Ministry or Other Organization--continued

❑ Other staff

- If not clergy nor convenience of employer = taxable
- Taxable amount = Fair rental value less amount paid by staff for rent

❑ When the residence is no longer used for clergy or caretakers

- Taxation of rental income generated
 - **If** acquisition debt exists on the property = “unrelated business income”
 - Form 990-T to report income and pay tax
- If no acquisition debt exists on the property
 - Exception exists, generally no taxation for rental real estate
 - See webinar recording “Renting Property”
 - Potential loss of Washington State property tax exemption

Washington State Property Tax Exemption:

□ Requirements for exemption of the residence

(WAC 458-16-90)

1. Up to 5 acres may be exempt as church property
2. Parsonage or Rectory
 - Owned by a church
 - Not required to be on land contiguous to the church land
 - Occupied by a clergy person
 - Designated for a particular congregation
 - Who holds regular services for that congregation
 - Conducted on a routine and systematic basis at prearranged times, days, and places
 - Clergy may or may not pay rent to occupy the residence

Washington State Property Tax Exemption-- continued:

□ Requirements for exemption of the residence, continued

3. Caretaker's residence

- Residences located on church property
- Caretakers duties include regular surveillance and patrolling of the property
 - Duties include:
 - Not merely by his or her presence, but by regular surveillance and patrolling the grounds, locking gates if necessary, and acting in a manner to ensure the security of the property, or
 - Maintenance services provided on a daily basis to open and close the premises, activate or shut down environmental systems, and provide other maintenance and custodial services necessary for the effective operation and utilization of the facilities

Washington State Property Tax Exemption - continued

- Caretaker receives the use of the property
 - As part of his or her compensation
 - Does not pay rent
 - ❖ Reimbursement of utilities expenses by the caretaker will not be considered as rent
- The size of the residence is reasonable and appropriate in light of the caretakers duties

□ What happens when the residence is no longer used for clergy or caretakers?

- If the property is no longer used for church purposes, for more than 120 days, the exemption is lost. (WAC 458-16-130(3))

Washington State Property Tax Exemption - continued

- How to establish, maintain, or re-establish tax exemption that has been lost
 - New ownership or to re-establish property tax exemption?
 - File application with Washington State Department of Revenue within 60 days of acquiring the property and/or converting the property to an exempt use.
 - <https://dor.wa.gov/sites/default/files/legacy/Docs/forms/PropTx/Forms/63-0001.pdf>

Scan and email the completed application form along with the additional documentation to:
DORnonprofitapplication@dor.wa.gov or send by U.S. mail to:

Department of Revenue

Property Tax Division/Exempt Property

PO Box 47471

Olympia WA 98504-7471

Washington State Property Tax Exemption--continued

- Must meet requirements of property tax exemption for the entire year
 - After the exemption has been granted, any change in use or ownership must be reported to the Property Tax division of the Department of Revenue within 60 days of the change
- File annual renewal for property tax exemption
 - Due March 31st each year
- Late filing fees for retroactive exemption of property – up to 3 years of due date of the taxes. Late filing penalties apply.

Washington State Property Tax Exemption - continued

- Jeopardizing the exemption
 - Washington's laws and rules restrict the manner in which exempt property may be used. To qualify for and maintain exempt status, the property must be exclusively used to conduct the exempted activity. All other activities including commercial activities must be severely restricted. Property may be exempt in part if a portion of the property does not initially qualify, or fails to continue to qualify for the exemption.
 - See webinar recording "WA State Exempt Property Tax Issues"

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Next Webinar

Health Care: De-Complexing the Complex

March 20th, 2024

1:00 – 2:00 p.m.



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Thank you for joining us!

Please reach out with any questions:
info@battershellnichols.cpa
(253) 839-1620

