

**EXCLUSION FROM INCOME OF RENTAL VALUE OF PARSONAGE FURNISHED TO SURVIVING SPOUSE OF MINISTER; SOCIAL SECURITY COVERAGE OF CERTAIN NONPROFIT ORGANIZATIONS**

SEPTEMBER 28 (legislative day, SEPTEMBER 24), 1976.—Ordered to be printed

Mr. LONG, from the Committee on Finance,  
submitted the following

## REPORT

[To accompany H.R. 8046]

The Committee on Finance, to which was referred the bill (H.R. 8046) to amend section 107 of the Internal Revenue Code of 1954 to provide that the rental value of a parsonage furnished to the surviving spouse of a minister shall be excluded from gross income, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

### I. SUMMARY

The House-passed bill extends the present exclusion from gross income of the rental value of a home furnished to a minister of the gospel (the "parsonage exclusion"), so as to exclude rental value for up to one year where the home is furnished to the surviving spouse of the minister.

The committee agreed to the House-passed bill and added an amendment dealing with social security coverage of nonprofit organization employees.

### II. GENERAL STATEMENT

#### A. EXCLUSION FROM INCOME OF RENTAL VALUE OF PARSONAGE FURNISHED TO SURVIVING SPOUSE OF MINISTER

##### *Present law*

Present law (sec. 107) permits a minister of the gospel to exclude from his gross income that part of his compensation which consists of the rental value of a home furnished to him or the allowance paid to him for housing.

This provision applies to anyone who is an ordained, licensed, or commissioned minister of the gospel and performs such services as are normally considered functions of such a person. The exclusion does not apply to the surviving spouse of a deceased minister.

*Reasons for change*

The committee understands that there are circumstances where, after the death of a minister of the gospel who had been furnished a home by his employer (the rental value of the home having been excludable from gross income under present law), the surviving spouse continues to be furnished that home by the employer even though the surviving spouse is not a minister of the gospel. The committee believes that the rental value of such a home furnished to the surviving spouse generally should be treated under the normal rules (i.e., generally includable in income). However, the committee has concluded that it is appropriate to provide a transitional period of up to 1 year after the death of the minister during which the rental value of the home is not includable in the surviving spouse's income.

*Explanation of provision*

The bill provides that if the surviving spouse of a deceased minister of the gospel continues to be furnished a home after the death of the minister and if the rental value of that same home was excludable from the minister's gross income, then the surviving spouse may likewise exclude from gross income the rental value of that home. The exclusion by the surviving spouse, however, is to apply only with respect to the 1-year period beginning with the date of the minister's death. The exclusion is to apply only if the home is furnished to the surviving spouse, and not to any allowance which might be furnished in lieu of the home. Also, the exclusion period is to end on the date of the remarriage of the surviving spouse, if that occurs within 1 year after the minister's death.

*Effective date*

This provision is to apply with respect to taxable years ending on or after the date of enactment.

**B. SOCIAL SECURITY COVERAGE OF NONPROFIT ORGANIZATIONS**

Nonprofit organizations are generally exempt from taxation and this exemption extends to social security taxes also. In order to make it possible for nonprofit organizations to provide social security protection for their employees, the law includes a provision under which nonprofit organizations can waive their immunity from social security taxes. In order to do this, an organization files a certificate with the Internal Revenue Service indicating that it wishes its employees in the future to be subject to social security taxes. This certificate is accompanied by a list of those present employees who wish to be covered. Those employees and all employees of the nonprofit organization are subject to social security taxes in the same way as employees of private businesses.

It has recently been discovered that many nonprofit organizations were unaware of the need to formally waive their immunity from social

security taxes in order to obtain coverage for their employees. These organizations have been simply paying the applicable social security taxes, and no attempt had been made by the Internal Revenue Service to determine whether or not a valid certificate waiver of immunity from those taxes was filed. As a result of this situation, many employees of nonprofit organizations who have had social security taxes withheld from their salaries over a period of years now face the possibility that the organization could file for a refund of the social security taxes paid over the past three and one-quarter years. This would terminate their social security coverages retroactive for that period and into the future. Some organizations have already filed for such refunds and a recent GAO study indicates that many other organizations could conceivably file for similar refunds in the future. If they did so, a very substantial drain on the social security trust funds could occur. In addition, such action could imperil the social security benefits of many employees.

While it appears likely that many affected organizations would voluntarily file the necessary waiver certificates, the committee believes that the wisest course is to eliminate the potential problem by legislative action. For this reason, the Committee has adopted an amendment which would deem a valid waiver certificate to have been filed in cases where a nonprofit organization has been paying social security taxes for its employees. If no refund has yet been requested by the organization, the Committee amendment would simply deem the appropriate waiver of immunity from social security taxes to have been filed by the nonprofit organization on behalf of all those employees for whom it has been paying social security taxes. If a refund has already been obtained, the Committee amendment would give the nonprofit organization 180 days in which to file a waiver certificate designating the employees who wish to be reinstated to social security coverage. The refunded social security taxes paid with respect to those employees would have to be paid back to the Federal Treasury. If the organization does not file such a waiver certificate within the 180-day period it would be deemed to have filed such certificate and to have requested reinstatement of social security coverage for all the employees involved. Again, any applicable social security taxes related to the past coverage would have to be repaid. Because the amendment may result in a reasonably large liability on the part of some nonprofit organizations which have previously obtained a refund the Committee amendment allows the Treasury Department to provide for the repayment of the refunded taxes in installments over a reasonable period of time.

### III. COSTS OF CARRYING OUT THE BILL AND VOTE OF THE COMMITTEE IN REPORTING H.R. 8046

#### REVENUE COST

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the costs incurred in carrying out H.R. 8046. The committee estimates that the provision relating to the exclusion from income of the rental value of

a parsonage furnished to the surviving spouse of a minister will have at most a small effect (\$500,000) on the revenues. The Treasury Department agrees with this statement.

The committee estimates that the provisions of H.R. 8046 dealing with social security coverage of non-profit organization employees will have a negligible impact on revenues and costs.

In accordance with section 403 of the Congressional Budget Act of 1974, the Director of the Congressional Budget Office has not made an estimate or comparison of the estimates of the cost of H.R. 8046, but has examined the committee's estimates and agrees with the methods and the dollar estimates resulting therefrom.

*Vote of the committee*

In compliance with section 133 of the Legislative Reorganization Act of 1946, the following statement is made relative to the vote by the committee on the motion to report the bill. H.R. 8046, as amended, was ordered reported by a voice vote.

IV. CHANGES IN EXISTING LAW

In the opinion of the committee, it is necessary in order to expedite the business of the Senate, to dispense with the requirements of subsection 4 of rule XXIX of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, as reported).

