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Tax Alert



Robert W. Wood
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If 47% Don't Pay Taxes, Let's Tax Churches

With all the talk about who pays taxes, it's worth shaking up conventional wisdom. Re-examining fundamentals—like the tax exemption afforded churches—can be downright liberating. We may have a hard time criticizing a church or religion, but taxing them might be different.



St. Ignatius Loyola Catholic Church - Pennsylvania (Photo credit: Doughtone)

For generations, churches have been exempt from income taxes. What's more, all 50 states and the District of Columbia give them a pass on property taxes too. Ever since our founding fathers, it's hands-off for federal income taxes, property taxes and more.

Of course, we all get tax deductions when we donate, and that encourages churches to grow **bigger and wealthier still**. But in debt-ridden and cash strapped Europe, the Catholic Church is emerging as an unlikely treasure trove just ripe for the tax collector. See [Financially Troubled Parts of Europe Consider Taxing Church Properties](#). More broadly, there's a modicum of talk about taxing these sacred institutions.

Prime Minister Mario Monti of Italy has called for assessing taxes on church properties. In Italy, that could produce a pretty penny. The European Union has also investigated taxes and the Catholic Church. What constitutes a legitimate church?

Churches reap a vast array of tax advantages, even including special limits on IRS audit powers. See [Special Rules Limiting IRS Authority to Audit a Church](#). With church status being so desirable, how does the IRS police it? The term “**church**” isn’t even defined in the tax code. See [IRS Publication 1828, Tax Guide for Churches and Religious Organizations](#). Yet the IRS looks for:

1. Distinct legal existence;
2. Recognized creed and form of worship;
3. Definite and distinct ecclesiastical government;
4. Formal code of doctrine and discipline;
5. Distinct religious history;
6. Membership not associated with any other church or denomination;
7. Organization of ordained ministers;
8. Ordained ministers selected after completing prescribed study;
9. Literature of its own;
10. Established places of worship;
11. Regular congregations;
12. Regular religious services;
13. Sunday schools for religious instruction of the young; and
14. Schools for preparing its members.

The IRS generally considers all facts and circumstances in assessing whether an organization qualifies. See [Tax Basics For Exempt Organizations](#). But unlike **other** exempt organizations, a church need not apply for an IRS ruling. See [FAQs About Applying For Tax Exemption](#). Most churches do but they are not actually required to, more proof church status is the gold standard.

Will churches get taxed here or abroad? In the case of property taxes, perhaps its conceivable. But income taxes? Not hardly.

*Robert W. Wood practices law with [Wood LLP](#), in San Francisco. The author of more than 30 books, including *Taxation of Damage Awards & Settlement Payments* (4th Ed. 2009 with 2012 Supplement, [Tax Institute](#)), he can be reached at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*