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Invent A Church, Skip Taxes, Enrage IRS, Go To Jail

Pass Christian is a city in Mississippi. The name seems fitting for a tax case about a church the feds say is pure tax scam. A Pass Christian physician named Timothy Dale Jackson was [found guilty of four counts of felony tax evasion](#) and one of obstruction of due administration of the internal revenue laws.

Prosecutors say the 50-year-old orthopedic physician funneled his practice income through the “Church of Compassionate Service,” a church the feds call a scam. Dr. Jackson took a ‘vow of poverty,’ claiming that as a minister, he was tax exempt. Despite his vow of poverty, he had a successful practice. Still, he hadn’t filed tax returns or paid any taxes since 2003.

Compassionate Service Church members “donate” to the church, renouncing all worldly possessions and transferred title to a Church trust. Ministers signed over their paychecks to the Church. In return, the Church provided debit cards for living expenses. The Church even paid their mortgage.

In fact, 90 percent of Dr. Jackson's income was returned to him, say the feds. On \$1.8 million of income just between 2006 and 2009, the doc owed the IRS \$650,000. When he is sentenced, Dr. Jackson could face five years and a \$250,000 fine for each count of tax evasion, plus three years and a \$250,000 fine for obstructing the IRS.

Depending on how religious you are or how much you hate taxes, this all may sound slick or stupid. The interaction of taxes and religion is strange. Take the so-called parsonage allowance, a tax break dating to the 1920s provided by [Section 107](#) of the tax code. That was the era of my favorite fictitious minister, [Elmer Gantry](#), a shallow, philandering hypocrite portrayed by [Burt Lancaster](#) in the movie.

The parsonage allowance says an ordained member of the clergy can live tax-free in a home owned by his or her religious organization. Alternatively, the clergy member can receive a tax-free annual payment to buy or rent a home. It makes being a minister or other member of the clergy sound pretty good, as does this list of [top ten clergy tax deductions](#).

There's money and principle at stake. [Phil Driscoll](#), an ordained minister and Grammy Award-winning trumpet player, went to prison for tax evasion. Later, because of the parsonage allowance, the [Tax Court](#) ruled he didn't owe federal income taxes on \$408,638 provided to him by his ministry. The [IRS appealed and the Eleventh Circuit](#) reversed. Mr. Driscoll asked the Supreme Court to review it, but the [Supreme Court refused to hear it](#).

The Church of Compassionate Service that got Dr. Jackson into such trouble also featured in [U.S. v. Hartshorn](#), where the IRS got an injunction to silence Head Minister Kevin Hartshorn. Mr. Hartshorn had 50 ministers under his wing, telling them not to pay the IRS. When the IRS had enough it went to court to enjoin the Head Minister from preaching his no-tax mantra.

After Mr. Hartshorn lost he appealed, but the appeals court ruled for the IRS so he failed to [shake the injunction](#). Mr. Hartshorn's claims about free speech didn't help him either. Even if the church was legit, the court said, Hartshorn's plan wasn't. What's more, Hartshorn's knew his "you-don't-have-to-pay-taxes" mantra was false. Even if he didn't, he *should* have known. To the IRS, this kind of speech is a little like yelling fire in a crowded theater.

You can reach me 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.