



Joint Committee on Taxation
April 18, 2002
JCX-30-02

**DESCRIPTION OF H.R. 4156,
THE “CLERGY HOUSING CLARIFICATION ACT OF 2002,”
AS PASSED BY THE HOUSE OF REPRESENTATIVES
ON APRIL 16, 2002**

Present Law

Section 107 of the Internal Revenue Code provides that a minister of the gospel’s gross income does not include: (1) the rental value of a home furnished as part of his or her compensation; or (2) the rental allowance paid as part of his or her compensation, to the extent used to rent or provide a home. The Internal Revenue Service’s position (Rev. Rul. 71-280, 1971-2 C.B.92) is that the amount of the section 107 rental allowance exclusion may not exceed the fair rental value of the home plus the cost of utilities.

In *Warren v. Commissioner*, 114 T.C. No. 23 (2000), the Tax Court ruled that the section 107 rental allowance exclusion is limited to the amount used to provide the home, and not the fair rental value of the home. That case currently is on appeal before the United States Court of Appeals for the Ninth Circuit.

Explanation of Provision

H.R. 4156, as passed, clarifies that the amount of the section 107 rental allowance exclusion may not exceed the fair rental value of the home (including furnishings and appurtenances) plus the cost of utilities.

Effective Date

The provision is generally applicable for taxable years beginning after December 31, 2001. The provision also applies to taxable years beginning before January 1, 2002, for which the taxpayer: (1) filed a tax return before April 17, 2002, indicating that the section 107 rental allowance exclusion is limited to the fair rental value of the home (including furnishings and appurtenances) plus the cost of utilities; or (2) files a return after April 16, 2002. Other tax returns for taxable years beginning before January 1, 2002, are not subject to the fair rental value limitation added by the bill.