

How You Can Help Your Pastor Avoid an IRS Audit

In a recent episode of *Mastery Talks* on the Charisma Podcast Network, Dr. Nathan Culver sat down with retired certified public accountant and former IRS agent Sherry Jackson to discuss pitfalls and situations for pastors to avoid in their ministries.

Here are some highlights from the conversation with Sherry Jackson:

“In my two-plus years auditing pastors as an internal revenue agent, I learned a lot about the government as well as about churches. First, the government is *broke*, and they want to get resources from anywhere they can. They know that the church has special privileges written into law, so they attempt to circumvent those privileges. It takes all but an act of Congress to audit a church because of the perception of separation of church and state (which, by the way, is nowhere in the Constitution). However, instead of auditing the church, the IRS goes in the back door and audits the pastor.

“If the IRS finds that the pastor’s personal tax returns have ‘irregularities,’ then they often make a public mockery of him/her, and the agent on the case may get cash rewards. IRS agents love to audit ministers and politicians because these high-profile figures can get them promotions if they cash in big on audit adjustments.

“If during the audit of a pastor or minister, ‘fraud’ is found, not only is that person likely to be brought up on charges and prosecuted, but also the agent will have the ammunition needed to request an audit of the church.”

“When I was an agent, I was selected to head up what was loosely called ‘The Preacher Project.’ The IRS noticed that

there were specific areas of ministers' tax returns that yielded them large sums of money during audits. I received tax returns from all over Georgia and sent the ones outside Metro Atlanta to various satellite IRS offices for audit. Before I sent a tax return to another city and before I audited the ones from the Atlanta area, I tested them for 'audit worthiness.'

"It may come as a shock to you, but the main way a pastor's tax return was selected for audit was because an informant 'turned him or her in.' Yes, disgruntled congregants or employees would either call in to the 1-800-hotline or write a detailed letter about 'what the pastor is up to.' If the person called the hotline, an IRS employee would try to get the person to tell their name, but if they didn't, the employee would write down all of the information given by the informant.

"Once the information from the call was placed on paper or once the letter was secured, that pastor's tax return was pulled, and the write-up/letter along with the tax return was sent to me. From there I would read the information and see if the tax return was audit worthy. 'Audit worthy' meant that what the person accused the pastor of would affect the tax return in that the pastor would owe more in taxes. For example, if the letter accused the pastor of using drugs (which happened in one of my cases) and that was the only accusation, it was not audit worthy unless lots of drugs were involved, and his income was not enough to pay for a drug habit. Another example is if the pastor were accused of sleeping with multiple women in the church, that tax return got sent back because that was a God issue and not an IRS issue.

"About 98% of the cases I received were audited. Here are some of the main reasons pastors were audited when I was an agent:

- Treating funds received from the church on a weekly basis as

nontaxable “love offerings.”

- Receiving a small salary but a large housing allowance.

- Not reporting funds from speaking engagements.

- Using church funds for personal endeavors (private inurement).

“These were not the only reasons, but these were the most frequent reasons pastors were audited.”

For more on how to best support the pastors in your life, (and their tax audit) listen to the full interview here. {eoa}