

PERFORMANCE AUDIT REPORT

Property Tax Exemption Of Church Parsonages

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
January 1986**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$6 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legislators or

committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

LEGISLATIVE POST AUDIT COMMITTEE

Senator August "Gus" Bogina, Jr., P.E., Chair
Senator Neil H. Arasmith
Senator Norma Daniels
Senator Ben E. Vidricksen
Senator Joe Warren

Representative Robert H. Miller, Vice-Chair
Representative Bill Buntin
Representative Duane Goossen
Representative Ruth Luzzati
Representative Bill Wisdom

LEGISLATIVE DIVISION OF POST AUDIT

Suite 301, Mills Building
Topeka, Kansas 66612-1285
Telephone (913) 296-3792
FAX (913) 296-4482

The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.

PERFORMANCE AUDIT REPORT

Property Tax Exemption of Church Parsonages

OBTAINING AUDIT INFORMATION

This audit was conducted by Leo Hafner, Senior Auditor, and Rick Riggs and Curt Winegarner, Auditors, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Hafner at the Division's offices.

TABLE OF CONTENTS

SUMMARY OF AUDIT FINDINGS

PROPERTY TAX EXEMPTION OF CHURCH PARSONAGES

How Many Church Parsonages Have Been Granted Tax Exemptions, And What is the Magnitude of Property Taxes Associated With These Parsonages?	2
How Are Tax-Exempt Parsonages Being Used?	2
In Addition To Providing Parsonages, What Provisions Do Kansas Churches Make For Housing Their Clergy?	4

APPENDIX A: Assessed Valuations and Potential Tax Revenues From Parsonages in the 65 Counties Responding To Legislative Post Audit's Survey of Kansas County Assessors.....	7
APPENDIX B: Legislative Post Audit Survey of Churches.....	9
APPENDIX C: Agency Responses.....	11

PROPERTY TAX EXEMPTION OF CHURCH PARSONAGES

Summary of Legislative Post Audit's Findings

How many church parsonages have been granted tax exemptions, and what is the magnitude of property taxes associated with these parsonages? In total, 65 counties, or about 62 percent of all counties in the State, were able to supply the auditors with accurate and up-to-date lists of tax-exempt church parsonages. The 65 counties reported having about 1,500 tax-exempt parsonages in 1985. The combined assessed valuation of these parsonages is \$6.4 million, which represents approximately \$874,000 in additional property tax revenues in those counties. The majority of churches maintain only one parsonage. There were, however, 25 churches in 14 counties that maintained two or more. The average assessed valuation for parsonages in the responding counties is about \$4,000, and the average tax liability is about \$550. The auditors estimated that Statewide for 1986 as many as 2,500 parsonages, representing \$1.4 million in additional property tax, are being returned to the tax rolls.

How are tax-exempt parsonages being used? A survey of churches showed that 91 percent of church-owned residential properties were used to house clergy while nine percent were used for other purposes. These other purposes included rental income, Sunday school classes, day care, a community thrift store, and housing for church employees other than clergy. It appears that some of these uses may not qualify for tax exempt status.

In addition to providing parsonages, what provisions do Kansas churches make for housing their clergy? Eighty-nine churches responded to a survey regarding provisions made for housing clergy. Nine of these churches reported having no clergy, six made no provision for housing clergy, 12 provided a housing allowance, and 62 provided a parsonage or some combination of a parsonage and housing allowance.

Property Tax Exemption of Church Parsonages

The Kansas Constitution provides a property tax exemption for "all property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent and charitable purposes... ." In 1872, the Kansas Supreme Court ruled that this provision did not exempt church parsonages from property taxation. In 1909, the Legislature provided specific statutory exemptions for certain property owned by churches. Parsonages were included among these exemptions. In 1929, the Legislature expanded the parsonage exemption to include the residences of district church officials as well as the residences of pastors of particular churches. These exemptions remained in effect until 1969 when the Legislature repealed the parsonage exemption as a result of an interim study of property tax exemptions conducted in 1968.

Even after the exemption was repealed, most jurisdictions continued to allow tax-exempt status for church parsonages. In 1984, Johnson County filed suit in district court challenging a Board of Tax Appeals order granting a tax exemption to a church parsonage. The court ruled that use as a residence for clergy does not qualify a property for a tax exemption under the "exclusive religious use" provisions of the Kansas Constitution. In 1985, as a result of the court's ruling, the Director of Property Valuation directed all county appraisers to review their tax rolls and to restore all church parsonages to the tax rolls for the 1986 tax year.

Legislative concerns have been raised about the impact of the Director of Property Valuation's directive. In particular, there are concerns about the number of parsonages that have been granted tax-exempt status by the Board of Tax Appeals, the amount of property tax that such parsonages represent to their counties, and the uses of parsonages across the State. On October 22, 1985, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a performance audit addressing the following questions:

- 1. How many church parsonages have been granted tax exemptions, and what is the magnitude of property taxes associated with these parsonages?**
- 2. How are tax-exempt parsonages being used?**
- 3. In addition to providing parsonages, what provisions do Kansas churches make for housing their clergy?**

To answer these questions, the auditors reviewed the history of legislation and appropriate court decisions affecting church parsonages. They talked with members of the Board of Tax Appeals and county appraisers and surveyed all 105 counties. In addition, the auditors surveyed a sample of 150 churches in three counties to determine what residential property they owned and how that property was used.

Based on survey results and projections, the auditors estimate that there are about 2,500 tax exempt parsonages Statewide. These parsonages represent a total valuation of nearly \$10 million and property taxes of about \$1.4 million. These and other findings are discussed in more detail on the following page.

How Many Church Parsonages Have Been Granted Tax Exemptions, And What is the Magnitude of Property Taxes Associated With These Parsonages?

To determine how many tax-exempt church parsonages exist in Kansas, the auditors initially contacted the Board of Tax Appeals. Although the Board has a record of all tax exemptions granted, these records are filed by the year the exemption was granted, and are not cumulative or filed by type of exemption. Because the time available for this audit was not sufficient to conduct an exhaustive search of the Board of Tax Appeals' records, the auditors contacted several county appraisers to determine whether they could provide a comprehensive listing of all parsonages in their counties.

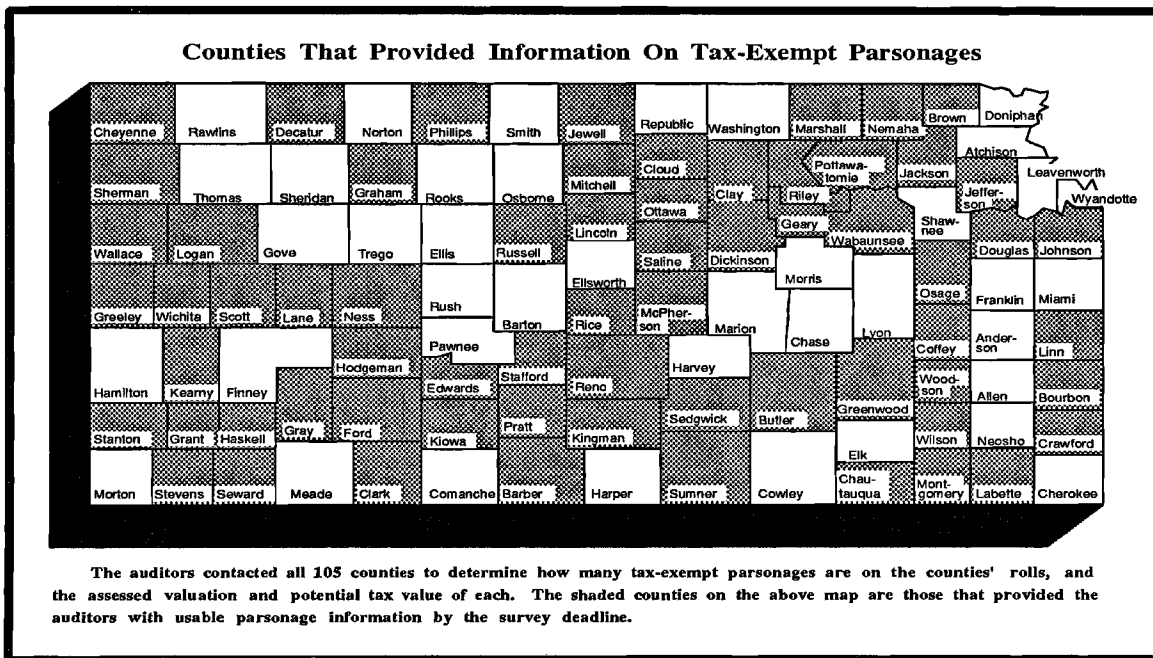
Most of the county assessors contacted by the auditors indicated that such a listing could be produced rather easily. However, some said they had not yet completed updating their records, so their records would not be accurate. Therefore, the auditors surveyed each county assessor to determine which could supply a complete and accurate listing of church parsonages. Those who could were asked to provide the following data:

- the number of parsonages that were previously tax-exempt
- the assessed valuation of each such parsonage, and the applicable mill levies
- the total potential property tax represented by each parsonage

In total, 84 counties responded in time to be included in the audit. Of those, 65 said they had accurate up-to-date records for tax-exempt parsonages. The remainder of the audit provides information on these counties.

In 65 Counties, There Were More Than 1,500 Tax-Exempt Parsonages, Representing \$874,000 In Property Tax Revenues

In response to the auditors' survey, 65 counties, or about 62 percent of all counties in the State, were able to supply the auditors with accurate and up-to-date lists of tax-exempt church parsonages. These counties are shown on the following map.



The 65 shaded counties shown on the map reported having 1,542 tax-exempt parsonages in 1985. The combined assessed valuation of these parsonages is \$6.4 million, which represents approximately \$874,000 in additional property tax revenues in those counties. The majority of churches maintain only one parsonage. There were, however, 25 churches in 14 counties that maintained two or more. The average assessed valuation for parsonages in the responding counties is about \$4,000, and the average tax liability is about \$550. Appendix A lists the number of parsonages and the assessed values in each county reported in this audit.

Statewide, There Appear To Be About 2,500 Tax-Exempt Parsonages Representing \$1.4 Million In Tax Revenues

Based on the number of parsonages and the assessed valuations supplied by the counties that completed the survey, the auditors estimated the total number of parsonages Statewide. The auditors grouped the counties into several categories based on population. Per-capita figures were computed for each county grouping, and were then applied to the similar-sized counties that were unable to supply exact figures. Using this process, the auditors estimated that there are as many as 2,500 parsonages, representing \$1.4 million in additional property tax dollars Statewide.

There May Be Additional Parsonages That Have Always Been Taxed

County appraisers have indicated some parsonages have always been taxed because they have not applied for a tax exemption. If a tax exemption for parsonages becomes law, it is likely that these parsonages will be removed from the tax rolls along with the parsonages summarized in this report that have enjoyed an unofficial exemption since the parsonage exemption was repealed in 1969. This would tend to increase the financial impact of granting an exemption to church parsonages. However, this problem may not be significant. Legislative Post Audit tried to determine how much this might occur, by surveying 50 churches that were not shown on county records as having a tax-exempt parsonage. The auditors' assumption was that some of these churches may have a parsonage that has always been taxed. Although eight of the 30 churches responding to the survey indicated that they owned taxable residential properties, none of these properties were currently being used as a parsonage.

How Are Tax-Exempt Parsonages Being Used?

To answer this question and the final question of this audit, the auditors mailed a survey to a sample of 150 churches in three counties. The counties selected were Johnson, Douglas and Jefferson. These counties were selected on the basis of population to provide data from a large, medium, and small county. There were two groups of churches in the survey. The first group of 100 churches were those that county tax records showed owned at least one tax-exempt parsonage. Surveys from these churches were used to determine how tax-exempt parsonages are used, and are discussed in the section that follows. The second group of 50 churches were those that did not appear to have a tax-exempt parsonage. The results from both groups are discussed under the final question on page 5 of the audit. A copy of the survey form can be found in Appendix B.

Most Churches Surveyed Indicate Tax-Exempt Residential Properties Have Been Used to House Clergy

Of 100 churches with tax-exempt parsonages surveyed by the auditors, 59 churches responded. Officials from those 59 churches indicated the churches owned 73 residential

properties, 66 of which were tax-exempt. A summary of the indicated uses of the tax-exempt properties is shown below.

Church Usage of Tax-Exempt Residential Property

<u>Type of Usage</u>	<u>Number of Residential Properties</u>	<u>Percent</u>
House Clergy	60	91.0%
House Church Staff	2	3.0
Sunday School Classes	1	1.5
Day Care Center	1	1.5
Thrift Store	1	1.5
Rental	1	1.5
	<hr/>	
Total	<u>66</u>	<u>100.0%</u>

Of the 66 tax-exempt residential properties, 60 (91 percent) were used to house clergy while six (nine percent) were used for other purposes. For the six properties not used as parsonages, the auditors reviewed county records to determine if they were exempted as parsonages or for some other reason. Two of the six were exempted as parsonages, four were exempted for other reasons. Of the two exempted as parsonages, one is being used for rental income, and the other is used to house a parish life director. The remaining four are used for Sunday school classes, day care, housing for a custodian, and a community thrift store. It appears that some of these uses may not qualify for tax exempt status.

In Addition To Providing Parsonages, What Provisions Do Kansas Churches Make For Housing Their Clergy?

The auditors learned from a survey of 150 churches in Johnson, Douglas, and Jefferson counties, that most provide one or more of the following: a church-owned parsonage, a housing allowance, or a rented home. Some churches make no provision for housing their clergy.

Of 89 total respondents, 74 (83.2 percent) indicated that they make some provision for housing their clergy. Six churches (6.7 percent) indicated they did not make any type of housing arrangement, while nine (10.1 percent) reported they did not employ any clergy. In all, the 89 responding churches reported employing 117 clergy. The following table shows the housing arrangements made for these clergy.

Church Provisions For Housing Clergy

<u>Type of Housing Provision</u>	<u>Number of Clergy</u>	<u>Percent</u>
Church-Owned Parsonage	63	53.8%
Housing Allowance	32	27.3
Parsonage and Housing Allowance	1	0.9
Rented House	1	0.9
No Housing Provision	20	17.1
	<hr/>	
Total	<u>117</u>	<u>100.0%</u>

As the table shows, 63 (53.8 percent) of the clergy were provided with a church-owned parsonage to live in. One was provided with a home rented by the church, 32 clergy (27.3 percent) were provided with a regular housing allowance, and one was provided with both a parsonage and a housing allowance. Housing allowances ranged from \$1,200 to \$15,600 per year. The average housing allowance was about \$ 8,700 per year. Twenty clergy (17.1 percent) were not provided with any type of church-sponsored housing.

In sum, approximately 2,500 church-owned residences were tax exempt before the recent district court ruling that parsonages did not qualify for a property tax exemption. For 1986, it appears that churches will pay an additional \$1.4 million in property taxes to the counties where those properties are located. County records indicate that most churches maintain only one parsonage; however, in the 65 counties providing information for this audit, 25 churches maintained two or more tax-exempt parsonages. A survey of churches in Douglas, Jefferson, and Johnson counties indicates that 91 percent of the residences that have been tax exempt are used to house clergy. The remaining nine percent were used for other purposes such as day care centers, thrift stores, rentals, or to house Sunday school classes. Some of these other uses would appear to be taxable regardless of whether a specific exemption is granted for parsonages. Eighty-nine churches responded to the auditors' survey regarding what provisions are made for housing clergy. Nine of these churches reported having no clergy, six made no provision for housing clergy, twelve provided a housing allowance, and sixty-two provided a parsonage or some combination of a parsonage and housing allowance.

APPENDIX A

Assessed Valuations and Potential Tax Revenues From Parsonages in the 65 Counties Responding To Legislative Post Audit's Survey of Kansas County Assessors

<u>County</u>	<u>Reported Number of Tax-Exempt Parsonages</u>	<u>Total Current Assessed Valuations</u>	<u>Total Potential Property Tax</u>
Barber	15	\$45,480	\$5,373
Bourbon	22	63,725	9,747
Brown	25	76,156	10,311
Butler	53	207,195	27,763
Chautauqua	9	14,050	2,195
Cheyenne	13	36,815	4,528
Clark	12	36,493	3,779
Clay	13	44,025	5,852
Cloud	21	99,240	16,325
Coffey	16	38,090	3,789
Crawford	33	73,090	10,784
Decatur	12	31,285	3,270
Dickinson	37	102,485	13,556
Douglas	36	158,860	20,947
Edwards	16	34,945	4,202
Ford	24	98,095	13,407
Gearry	18	88,915	9,011
Graham	12	29,120	3,707
Grant	8	52,810	4,441
Gray	12	53,505	7,488
Greeley	6	33,685	3,894
Greenwood	17	29,041	4,924
Haskell	13	61,810	5,904
Hodgeman	3	8,605	1,157
Jackson	16	47,060	6,615
Jefferson	24	149,270	20,765
Jewell	21	28,320	4,929
Johnson	65	481,185	69,458
Kearney	10	43,045	4,254
Kingman	22	51,240	6,297
Kiowa	8	29,156	2,643
Labette	52	167,860	26,872
Lane	5	20,925	2,136
Lincoln	15	31,530	3,898
Linn	12	17,980	2,236
Logan	10	45,910	5,395
Marshall	25	66,825	9,828
McPherson	20	98,785	12,176
Mitchell	17	53,460	7,933
Mongomery	69	279,270	37,695
Nemaha	18	45,300	5,419

<u>County</u>	<u>Reported Number of Tax-Exempt Parsonages</u>	<u>Total Current Assessed Valuations</u>	<u>Total Potential Property Tax</u>
Ness	17	63,590	8,788
Osage	14	39,125	4,599
Ottawa	18	43,880	5,574
Phillips	22	97,335	12,663
Pottawatomie	19	65,335	6,625
Pratt	22	92,015	10,738
Reno	69	252,870	37,550
Rice	21	88,740	10,244
Riley	15	86,480	10,996
Russell	18	57,471	7,190
Saline	29	109,770	15,673
Scott	9	34,080	4,710
Sedgwick	246	1,611,940	239,765
Seward	13	67,515	8,500
Sherman	16	55,560	8,202
Stafford	18	43,745	5,894
Stanton	7	29,580	3,003
Stevens	13	61,990	4,972
Sumner	37	114,000	19,014
Wabaunsee	12	28,380	3,627
Wallace	6	23,520	3,030
Wichita	8	48,515	6,221
Wilson	29	77,176	9,662
Woodson	9	16,730	2,324
TOTAL	1,542	\$6,383,983	\$874,469

NOTE: Dollar totals may not add due to rounding.

APPENDIX B

LEGISLATIVE POST AUDIT SURVEY OF CHURCHES

This survey is being conducted by the Kansas Legislative Division of Post Audit as part of a performance audit examining the use of church parsonages. The audit is designed to provide the Kansas Legislature with information about the impact of granting or repealing tax exempt status for church parsonages. We will not specifically identify you or your church by name in our report.

In order to meet our reporting deadlines, **we need to receive your response by no later than Monday, December 30, 1985.** A postage-paid return envelope is enclosed for your convenience. If you have any questions about the survey, please call Leo Hafner at (913) 296-3792. Thank you for your help.

Part 1: Information About You and Your Church

1. Name of Church: _____
2. Name of person completing this form: _____
Title (if appropriate): _____
Telephone No. (during working hours): _____
Date Completed: _____
3. How many clergy are employed by your church? _____
4. How many clergy reside in parsonages owned by your church? _____
5. For any clergy not housed in parsonages, please indicate what arrangements, if any, are made for their housing:

____ no provision for housing -
 number of clergy receiving no provision for housing _____

____ housing allowance (indicate amount) \$ _____ per _____
 number of clergy receiving a housing allowance _____

____ other (please specify) _____
 number of clergy affected _____

---continue on other side---

Part 2: Information about residential property owned by your church.

1. In the spaces provided below, please list the addresses of all **residential** properties owned by your church and indicate information about their use and tax status.
Note: List residential property only -- do not list church buildings, vacant lots, or cemeteries.

Location				1985 Tax Status		Type of Structure			Uses of This Property						
Street Address	City	Township	Zip	Tax Exempt	Non Tax Exempt	Free Standing Residential	Part of Church Building	Other	a) Is this property used to house clergy?		b) If not used to house clergy, please indicate the primary usage of the property (check only one):				
				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Vacant <input type="checkbox"/>	Rental for Income <input type="checkbox"/>	Day Care <input type="checkbox"/>	Other <input type="checkbox"/>	Specify: _____
Street Address	City	Township	Zip	Tax Exempt	Non Tax Exempt	Free Standing Residential	Part of Church Building	Other	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Vacant <input type="checkbox"/>	Rental for Income <input type="checkbox"/>	Day Care <input type="checkbox"/>	Other <input type="checkbox"/>	Specify: _____
Street Address	City	Township	Zip	Tax Exempt	Non Tax Exempt	Free Standing Residential	Part of Church Building	Other	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Vacant <input type="checkbox"/>	Rental for Income <input type="checkbox"/>	Day Care <input type="checkbox"/>	Other <input type="checkbox"/>	Specify: _____
Street Address	City	Township	Zip	Tax Exempt	Non Tax Exempt	Free Standing Residential	Part of Church Building	Other	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Vacant <input type="checkbox"/>	Rental for Income <input type="checkbox"/>	Day Care <input type="checkbox"/>	Other <input type="checkbox"/>	Specify: _____
Street Address	City	Township	Zip	Tax Exempt	Non Tax Exempt	Free Standing Residential	Part of Church Building	Other	Yes <input type="checkbox"/>	No <input type="checkbox"/>	Vacant <input type="checkbox"/>	Rental for Income <input type="checkbox"/>	Day Care <input type="checkbox"/>	Other <input type="checkbox"/>	Specify: _____

APPENDIX C
Agency Responses

JOHN CARLIN • Governor

THE STATE  OF KANSAS

BOARD OF TAX APPEALS

1030-S, STATE OFFICE BUILDING

Telephone 296-2388 AC-913

TOPEKA, KANSAS 66612-1582

Fred L. Weaver, *Chairman*

Dallas E. Crable, *Member*

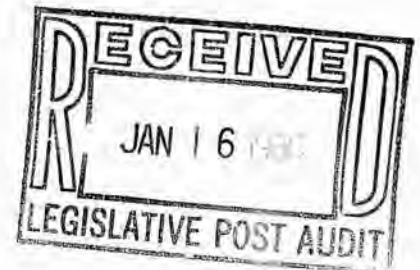
John P. Bennett, *Member*

Robert C. Henry, *Member*

Keith Farrar, *Member*

January 15, 1986

Legislative Post Audit
109 West 9th, Suite 301
Mills Building
Topeka, Kansas 66612-1285



Gentlemen:

I appreciate the opportunity to comment on the performance audit report on Property Tax Exemptions of Church Parsonages. I believe this is a relative accurate assessment of the situation as it now stands.

If you have any questions, please do not hesitate to call.

Sincerely,

BOARD OF TAX APPEALS

Fred L. Weaver
Chairman

FLW:rm



KANSAS DEPARTMENT OF REVENUE
Division of Property Valuation
State Office Building · Topeka, Kansas 66612-1585

January 21, 1986

Meredith Williams
Legislative Post Auditor
109 West 9th, Suite 301
Mills Building
Topeka, Kansas 66612-1285



Dear Meredith:

I find no needed corrections or clarification.

Thank you for your time and effort in this regard.

Sincerely,

Victor W. Miller ^{sw}

Victor W. Miller, Director
Division of Property Valuation

VWM:jd

