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### Tax case seen as a wake-up call

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**GREG GARRISON**  
News staff writer

The tax-fraud conviction Friday of the pastor of one of Birmingham's largest churches may have reverberations in the way ministers accept and report gifts.

"It will be a wake-up call to pastors," said lawyer Linda Connor, director of Samford University's Center for the Study of Law and the Church, which routinely advises ministers to report cash gifts from churches as income and to pay taxes on the income.

The Rev. Gregory Clarke, pastor of New Hope Baptist Church, which has about 6,000 members and campuses in West End and Avondale, said after his conviction for willfully filing false tax returns that he was not trying to break the law.

"It's difficult even for tax attorneys," Clarke said. "This is a case that will have a rippling effect for every preacher across the country."

Connor said the realization that ministers can be prosecuted for not paying income tax may scare some churches into following the rules.

"It will help them get their affairs in order," she said. "Other pastors can be made more aware of how they're supposed to report."

New Hope Baptist trustees and deacons testified that \$60,000 given to their pastor was not salary, but a gift to help ease his personal debt.

"Income is income, whether they call it a gift or not," said Ann Neptune, business administrator at Trinity United Methodist Church and former president of the north Alabama chapter of the National Association of Church Business Administrators. "If they do a funeral or wedding (and get paid), they're supposed to claim that."

Churches that pay honorariums to visiting ministers routinely file a Form 1099, and the individuals are expected to claim it as income on their tax forms, Neptune said.

"The IRS is going to classify that as income," Connor said. "It's really for services that have been performed."

In Clarke's case, when churches paid him as a guest speaker and filed a Form 1099, he claimed it on his taxes, according to prosecutors during his trial. When churches didn't file a 1099, he didn't claim it as income.

"The IRS thinks that pretty clearly is income," Neptune said.

Clarke was convicted of willfully filing false income-tax returns for 2000, 2001 and 2002. Prosecutors said Clarke failed to report such income as \$16,000 for serving as an interim manager of the church's credit

union, plus referral and speaking fees in addition to his regular salary.

Churches and pastors need to make sure they have a professional accountant who's helping them on their tax returns, Neptune said. "I don't think in some cases it's intentional."

The Center for the Study of Law and the Church often gets inquiries about whether collections taken up for a pastor are taxable. "Usually the pastor doesn't want to report it and the church treasurer thinks it should be reported," Connor said. "I have not come across a case where it was not income."

Many ministers seem to think they have an exemption from paying taxes on cash gifts, she said.

"It causes great confusion," Connor said. "It really trips up a lot of people. They are not exempt from taxes."

E-mail: ggarrison@bhamnews.com

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