

MANSE LEASEBACKS

Leaseback agreements enable pastors who own their own property to lease the property to the trustees of the church, in effect turning it into a church manse. This means that the church is able to pay various outgoings in respect of the property without the pastor becoming liable for the full rate of income tax and national insurance contributions.

A rent has to be paid by the church to the pastor based on market rents for the area. Ideally written confirmation of the market rent should be obtained from a local valuer. Where the pastor owns a share in the property, the rent must reflect the percentage owned by the pastor (i.e. if the pastor owns $\frac{3}{4}$ of the manse and the church owns $\frac{1}{4}$ the rent paid to him must be $\frac{3}{4}$ of the market rent). If the property is subject to a mortgage, the written consent of the lender must be obtained.

The lease will allow the trustees to cover utilities, insurance and certain repairs to the fixtures and fittings (e.g. kitchen and bathroom). Any repairs and decorations over and above that will be a benefit in kind to the pastor.

The benefits for the pastor (and his wife) are likely to be:-

1. They will pay significantly reduced tax and national insurance on the payment of utilities, insurance and repairs that are paid by the trustees although HMRC have made it clear in guidance note EIM60011 that this benefit does not extend to council tax and water rates and that a liability will arise if these costs are paid by the church.
2. The interest on the pastor's personal mortgage will be tax deductible because the arrangement is deemed to be a commercial transaction.
3. There would be no capital gains tax on the sale of the property (notwithstanding it has been used for a "commercial purpose").
4. Any profit rent (the excess of the rent over the mortgage interest) would be divided between the pastor and his wife (if the property is jointly owned) for income tax purposes. If the wife does not have other income her personal reliefs could mean, in effect, that she receives this sum gross. Please note that tax relief is only available on the interest paid and not on the capital repayments.

This arrangement should not be regarded as merely a paper exercise to avoid tax and national insurance. The pastor needs to understand that there are legal ramifications and during the period of the lease the property does come under the full control of the church officers (subject to the terms of the lease). In effect there are three legal agreements operating concurrently:

- a) the lease of the property to the church trustees.
- b) the conditions of employment stating that living accommodation will be provided as part of the salary package.
- c) a 'salary sacrifice' agreement if the pastor's stipend is reduced as a result of entering into these arrangements

The legal and taxation issues are very complicated and churches entering into these arrangements are strongly advised to take professional advice.

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