

EXCEPTIONS TO UNRELATED BUSINESS INCOME RULES *(Part 3)*

EXEMPTED ACTIVITIES:

If these exceptions apply, a church does not have to pay unrelated trade or business income tax:

1. activities in which substantially all the work is performed by unpaid volunteers
2. activities carried on by a church primarily for the convenience of its members, students or employees (e.g. an expresso bar internal to the church)
3. selling merchandise substantially all of which has been received by the church as gifts or contributions (e.g. craft or bake sales)

EXEMPT INCOME:

Generally dividends, interest, annuities, royalties, capital gains and losses and rents from real property are exempted from the tax on unrelated business income. However, there are two general exceptions to these exemptions.

Debt-financed property

- a. If your church property is debt-financed and the church receives rents from that property, the church must pay unrelated business taxes on the rental income, unless at least 85% of the property is used for exempt purposes
- b. In the event 85% of the property is not used for exempt purposes, the church may still avoid paying unrelated business income taxes if the church has the intent to use the property for exempt purposes within fifteen years. This intent may need to be documented for the Internal Revenue Service.

Parking lots, storage units and other like income

Income from rental of parking lot space and storage space (plus several other types of rental income) is not income from real property and, therefore, IS subject to unrelated business income taxes.

CHURCH LAW