

UNRELATED BUSINESS INCOME *(Part I)*

Churches are generally tax-exempt entities and are generally not required to file IRS form 990. However, the Tax Reform Act of 1969, Section 511(a)(2)(A) of the Internal Revenue Code (IRC) subjects all churches and conventions or associations of churches to the tax on unrelated business income. If a church has gross income of over \$1,000 from an unrelated business income source, it must file a form 990-T by the fifteenth day of the fifth month after the tax year ends.

CHURCH LAW

Section 512 of the Internal Revenue Code defines unrelated business income as “the gross income derived by any organization from any unrelated trade or business regularly carried on by it.”

Section 513 of the Internal Revenue code defines unrelated trade of business as

“Any trade or business the conduct of which is not substantially related (aside from the need of such organization for the income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption.”

Therefore, in order for income to be unrelated business income, it must meet three conditions: (1) it must be derived from a trade or business, (2) the trade or business must be regularly carried on, and (3) the trade or business must not be substantially related to exempt purposes.

In the next articles each of these requirements will be addressed as will all exceptions to what is considered unrelated business income.