

# DEFINITION OF TERMS FOR UNRELATED BUSINESS INCOME

“Trade” or “Business” is defined as any activity carried on for the production of income from the sale of goods or performance of services. Some typical activities carried on by churches might be: church bazaars, publishing houses, radio or television stations, tea rooms, fair booths and parking lot rental.

To define “regularly carried on,” one must look at a number of factors. If a particular income-producing activity is an activity normally conducted by a taxable commercial organization on a year-round basis and the church only conducts the activity one or two weeks a year, even if the activity is conducted every year, it probably is not *regularly carried on*. However, if a particular income-producing activity is the type ordinarily conducted on a seasonal basis, a similar activity by a church on a seasonal basis is probably *regularly carried on*. To give an example, if a church regularly brings in groups to perform many times a year

and charges admission to those performances as an income-producing activity, that is probably unrelated business income. If, on the other hand, a church has one day every year when it brings in a group to perform as an income-producing activity, that is probably not unrelated business income.

Substantially related to an exempt purpose means the activity must “contribute importantly to the accomplishment of those purposes.” [Treas. Reg. § 1.513-1 (d)(2)] Whether an activity contributes importantly depends on all the facts and circumstances. Simply using the income from an activity exclusively for religious purposes does not render the income substantially related to the church’s exempt purposes. The income must gain that attribute from the actual activity from which it is earned.

Next month I will discuss exceptions to the unrelated business income rules.

## CHURCH LAW