

# Diocese of Bismarck

## Unrelated Business Income Tax (UBIT) Guidance

As of: 7/20/2020

**1. Purpose:** This document provides guidelines to parishes and institutions within the Diocese of Bismarck for determining Unrelated Business Income Tax (UBIT) reporting requirements in accordance with Internal Revenue Service regulations.

**2. References:**

- Instructions for Form 990-T Exempt Organization Business Income Tax Return
- IRS Publication 598, Tax on Unrelated Business Income of Exempt Organizations
- IRS Website: <https://www.irs.gov/charities-non-profits/unrelated-business-income-defined>

**3. Definitions:** "Unrelated Business Income (UBI):" Taxable activity by parishes/institutions that meet three requirements: (1) Income is generated from selling goods or performing services, (2) it regularly occurs (i.e. shows a regular frequency and continuity), and (3) is not substantially related to the parish/institution purpose for holding a tax-exempt status. Some common examples of UBI include selling of advertising (bulletin or other) and receiving income from rental property (for which there is a lien or mortgage).

**4. Common Misconception:** Catholic parishes/institutions listed in the Catholic Directory fall under the USCCP Group Ruling for IRS Non-Profit Status and are therefore excepted from filing Form 990-T reporting unrelated business tax income. This is FALSE: Church institutions are excepted from filing Form 990 Return of Organization Exempt from Income Tax, but NOT Form 990-T for UBI.

**5. Bulletin Advertising versus Parish Sponsorship:** Income received from sale of advertising does constitute Unrelated Business Income and is taxable. Sponsorship revenue, however, is not considered UBI and does not require filing of IRS Form 990-T. A qualified sponsorship payment is any payment made by individual/business to which there is no arrangement or expectation of any substantial return/benefit, other than the use or acknowledgement of the sponsor name or logo. It does not include advertising, such the business' products or services (including messages containing qualitative or comparative language, price information, or other indications of savings or value, an endorsement, or an inducement to purchase, sell, or use such products or services).

**6. Sponsorship Guidelines:** Parishes/institutions receiving gross income in excess of \$1,000 each year are required to file a form 990-T annually, no later than November 15<sup>th</sup> to avoid any penalties and fees. Parishes receiving revenue from qualified sponsorships are NOT required to file with the IRS; however, the following guidelines need to be followed to ensure the revenue meets IRS definition for "qualified sponsorship payments."

- 1) Avoid use of terms, "advertisement," "advertising" or "advertisers" in any printed material (e.g. bulletins, programs, calendars, and financial records). The word "sponsorship," "sponsoring," or "sponsor" should be used instead, as it is more descriptive of the relationship between the two entities if these guidelines are followed.
- 2) Avoid any appearance of supporting or endorsing business sponsors. For example, bulletins should say, "Thank you to our Sponsors!" versus "Please Support our Sponsors!" on printed material.
- 3) Invoices may be sent to sponsors, as both sponsorship and advertising can be considered a legitimate business expense; however, invoices should indicate payment is for parish sponsorship, not bulletin advertising [Note: Both types of expenses may equally qualify as a deduction for the sponsor].
- 4) Invoices may indicate gratitude for the sponsorship and that the sponsor's logo will be included in the weekly bulletin when space is available.

**Diocese of Bismarck**  
**Unrelated Business Income Tax (UBIT) Guidance**

As of: 7/20/2020

- 5) The acknowledgment of sponsorship published in the bulletin/program may contain sponsor's company name, company logo, product lines and contact information (address, phone number, web address). Sponsor slogans and value-neutral descriptions of goods or services may also be shown; however, specific product prices or product comparisons with other like vendors may NOT be used nor should sponsor coupons or discounts be printed.

**5. Rental Property Unrelated Income:** A parish/institution receiving income from rental property may be subject to 990-T Unrelated Business Income Tax reporting/payment if the following conditions are met:

- 1) Rental Property is not owned outright. Meaning, the parish/institution has a lien/mortgage on the property, it is subject to IRS reporting requirements, if also,
- 2) Property is rented to the general public and not to refugees, low income tenants for outreach/charity purposes.

**6. Proponent:** Parishes/Institutions having questions on UBIT reporting requirements or these guidelines should direct questions and clarifications to the Office of Parish Resources of the Diocese of Bismarck. Failure to meet these guidelines may result in severe fees and penalties for the parish/institution and possibly even loss of tax-exempt status.

Drafted by: Dcn Brent Naslund, Internal Auditor  
Reviewed by: Laura Huber, CPA, Diocese Fiscal Officer  
Approved by: Monsignor Gene Lindemann, J.C.L., Vicar General

