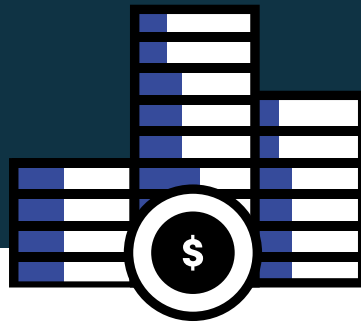


HELPING PC(USA) CHURCHES NAVIGATE THEIR ECONOMIC FUTURE

# WHAT ABOUT TAXES?!!!



**A GUIDE FOR CHURCHES  
STARTING TO GENERATE  
REVENUE**





# INTRODUCTION

When a congregation begins to explore income generating activities through social enterprise or renting property there often is anxiety around tax status. We have created this tool to help you ask the right questions related to the tax issues as it concerns income generating activities and congregations.

This tool is designed to increase your confidence as it relates to tax issues, build your capacity to understand the tax implications, and to help you as you align money and mission.

While there are important tax exempt and tax implications for congregations to consider, these issues generally do not prevent congregations from engaging in social enterprise or new activities that generate revenue. There is almost always a way to structure the activity that is legally and ethically sound while also allowing for new forms of ministry and new sources of income.

This information was put together with assistance from The Office of the General Assembly and Office of Legal & Risk Management Services of the Presbyterian Church (U.S.A.), A corporation. Contact local attorneys and/or the office for additional questions and guidance. This version was produced in June, 2024.

# BEFORE YOU BEGIN

Consider these questions when starting a social enterprise. This is NOT legal or tax advice – consult a local attorney and/or tax advisor on all decisions before acting.

## Some things to keep in mind throughout this process:

- 1 Not all taxes can, or should, be avoided just because the social enterprise is run by a church or tax exempt entity. And sometimes the simplest solution may be to include some or all taxes in the business plan for the venture.
- 2 The more closely aligned an activity is to the primary purpose of the org the less complicated tax issues may be.

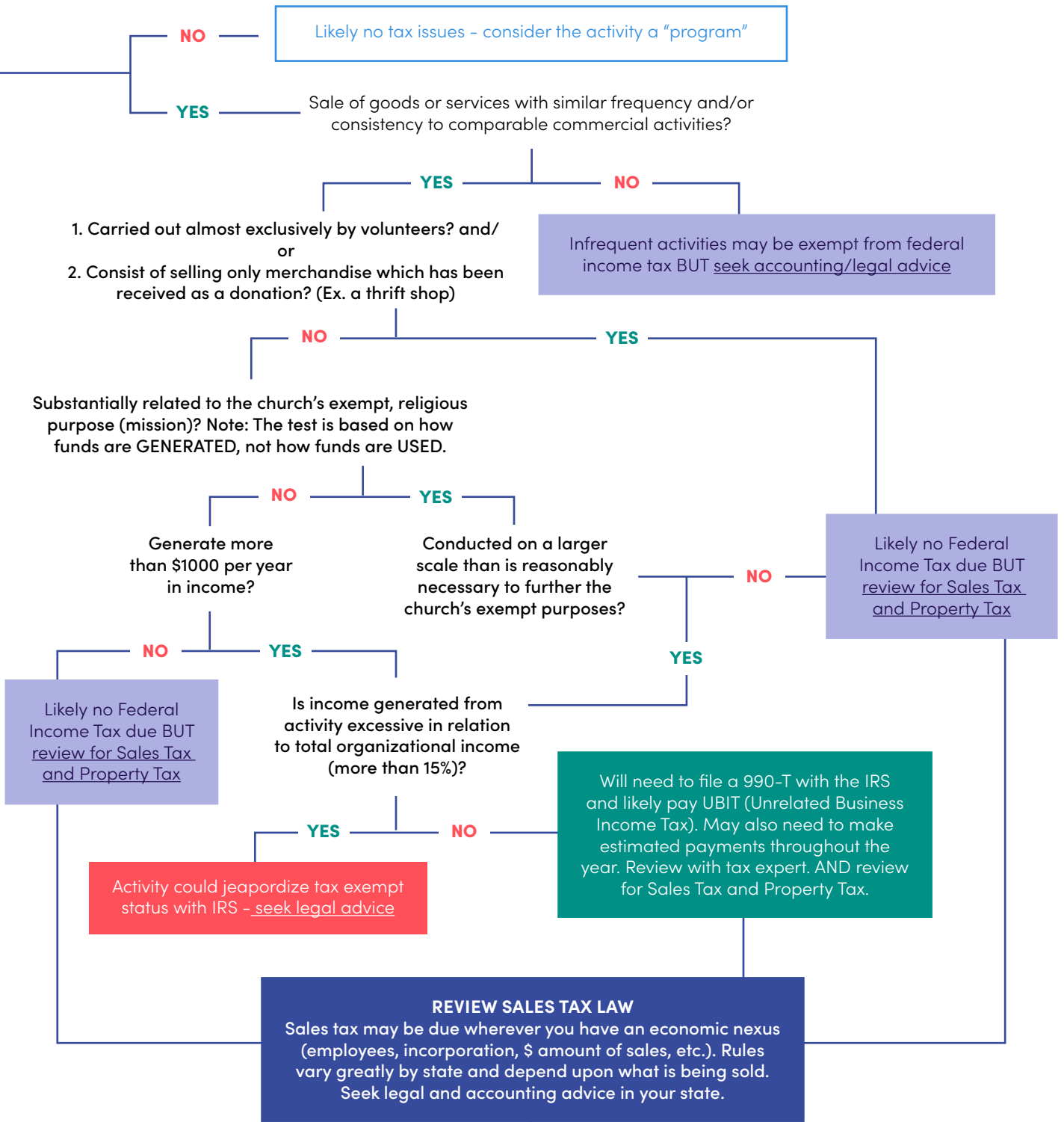
Note: the focus is on the income-producing activity itself, and not how the funds are used.

- 3 Any venture along the decision tree cannot 1. Result in direct and/or substantial benefits to private interests; and/or 2. Unjustly enrich any individuals who are in a position to influence the use of the organization's assets (this does not prohibit appropriately paying employees).
- 4 Different legal structures can be created which may help, or hinder, the tax implications (such as a subsidiary LLC, etc.).
- 5 ALWAYS seek local legal and accounting assistance BEFORE making any decisions or starting a social enterprise. Budget funds to pay for expert legal and accounting assistance as part of any feasibility study and launch of a new revenue generating activity.

Note: As a tax exempt entity you may also be able to purchase materials or products (including construction materials during building) without paying sales tax on the cost of those materials. Sales tax as a customer is different from remitting sales tax as a seller.







**Review Property Tax implications which vary by state AND municipality. Consider the following questions:**

1. Is the activity a property use that is exempt from property taxes? Property tax exemption and taxation is considered separately from income tax exemption. It is typically based on the USE of the property and not how the income is generated or how the income is used. Each state (and city) determines exempt property uses. An activity that is exempt from income tax may create a property tax liability.
2. What % of the space is used for the activity?
3. If taxable - can you pay property tax on just the actual square footage used for the taxable activity?

**Seek local legal and accounting advice. Local expertise is particularly important on property tax questions.**

# THREE EXAMPLES

The following are three examples of how a church can engage in social enterprise and revenue generation while handling the tax implications appropriately. These examples are theoretical and dependent upon the location of the church and the specific activity they are engaging in. They are not the only way the tax issues can be addressed.

**ALWAYS** consult **LOCAL** attorneys and tax accountants who specialize in tax exempt entities and who are not members of the church **BEFORE** beginning a revenue generating activity (or signing any leases).

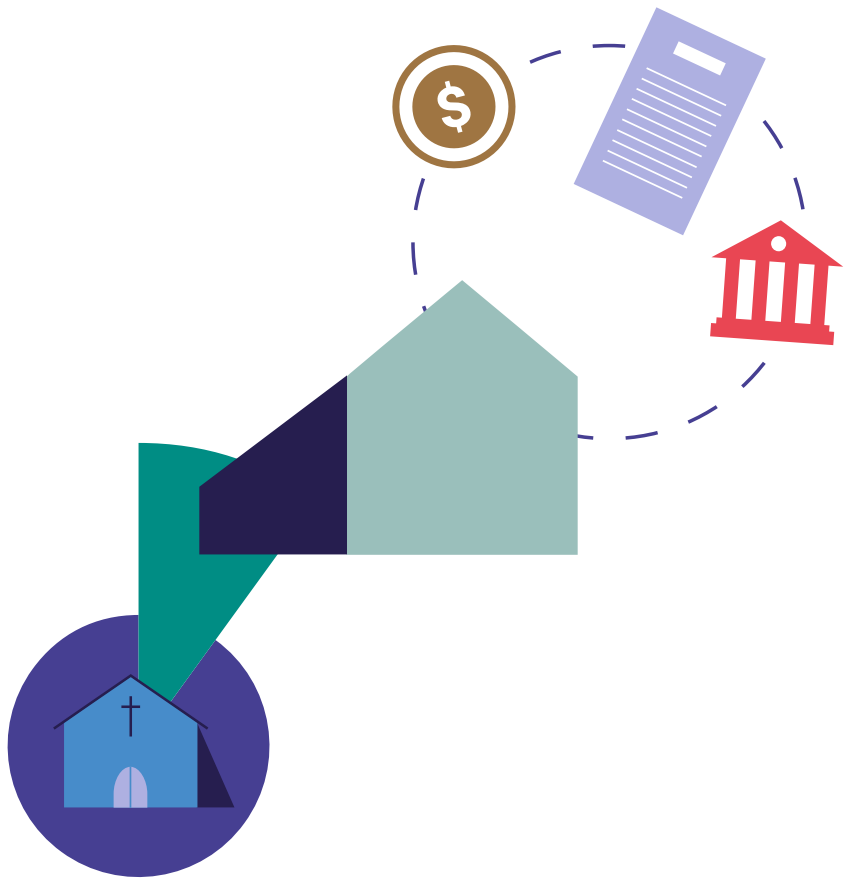


## EXAMPLE 1

### **Engage in activity that is clearly stated and within the church's tax exempt, religious purpose.**

After consulting with a local attorney and tax accountant that specialize in tax exempt entities, Second Presbyterian church starts generating revenue from renting space or engaging in a social enterprise activity. The nature of this activity is a very clear extension of their religious purpose and is clearly stated as such in the mission statement of the church and minutes of their session meetings. Based on the information provided by their attorney and accountant, Second Presbyterian church does not need to pay any federal or state income tax on the activity.

They also consult with a local property tax expert and determine the use of their property for this purpose is NOT exempt from property taxes. They work with their city property tax assessor to arrange for payment of property taxes on the portion of their property being used for this activity (the remaining portion remains exempt). They incorporate the cost of the property taxes into the business model for the activity and still generate a net positive cash flow.



## EXAMPLE 2

### **Engage in a small side activity that is only a small portion of the church's overall budget and activities, and pay Unrelated Business Income tax on that income.**

After consulting with a local attorney and tax accountant that specialize in tax exempt entities, Grace Presbyterian church starts generating revenue from renting space or engaging in a social enterprise activity. The activity and income generated is quite small and amounts to only 8-10% of their annual revenue and total activity as relates to other, religious activities. Based on the information provided by their attorney and accountant, Grace Presbyterian church does not need to pay Unrelated Business Income tax on the income from the activity. They begin filing a Form 990-T each year and remit their quarterly estimated payments. They incorporate the cost of this Unrelated Business Income tax into the business model for the activity and still generate a net positive cash flow.

They also consult with a local property tax expert and determine that the limited use of their property for this purpose will not lead to property tax liability.





### EXAMPLE 3

## Establish a new nonprofit, tax exempt entity that has a broader charitable purpose than the religious purpose of the church.

After consulting with a local attorney and tax accountant that specialize in tax exempt entities, First Presbyterian church decides that rather than engaging in a new activity under the church's religious tax exempt purpose they will create a new tax exempt entity that has a broader charitable purpose such as a Community Development Corporation (CDC) or nonprofit community center. With help from their attorney, they create a governance structure that allows the new entity sufficient autonomy while also remaining connected via leadership and governance to the church. This new entity then engages in revenue generating, missional activities that are consistent with its stated tax exempt purpose. This entity does not need to pay any income tax because all of its activity falls within its tax exempt purpose.

The church rents space to the new nonprofit which generates income for the church. They consult with a local property tax expert and determine that this rental arrangement will not lead to a property tax liability. Also, UBIT (Unrelated Business Income Tax) is not relevant as the property is not debt-financed.

Note: A new entity can gain its tax exempt status in one of two ways:

1. Filing an application for exemption directly with the IRS
2. Seeking approval from the Presbyterian Church (U.S.A.) to be added to their group exemption ruling. Activities that can receive this group ruling will be more limited in nature. See the "PROCEDURES FOR INCLUSION IN PRESBYTERIAN CHURCH (U.S.A.) FEDERAL GROUP EXEMPTION" found at HYPERLINK <http://www.pcusa.org/acorp> under "Legal Services and Risk management Resources" to determine if this is an option for your entity.

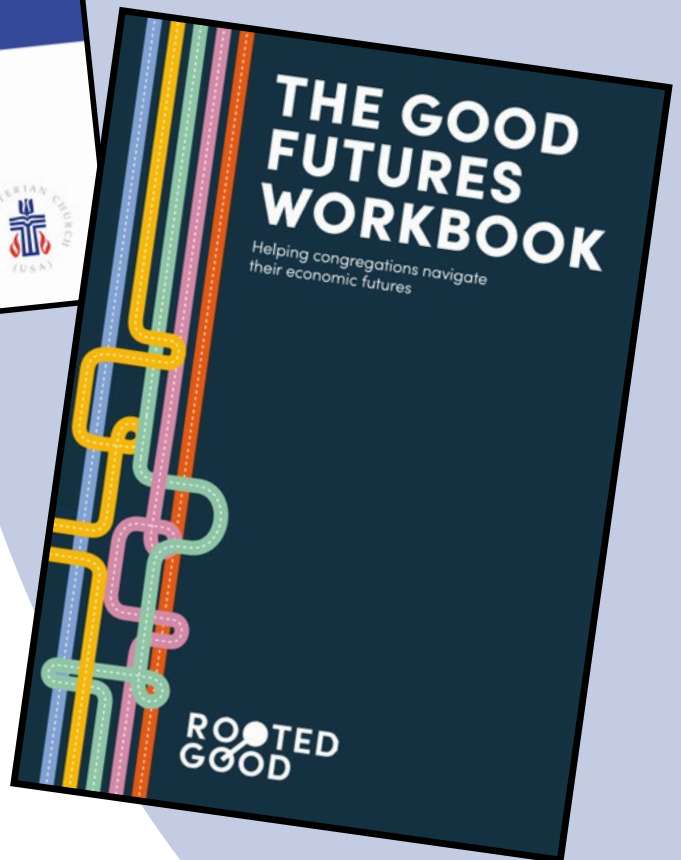
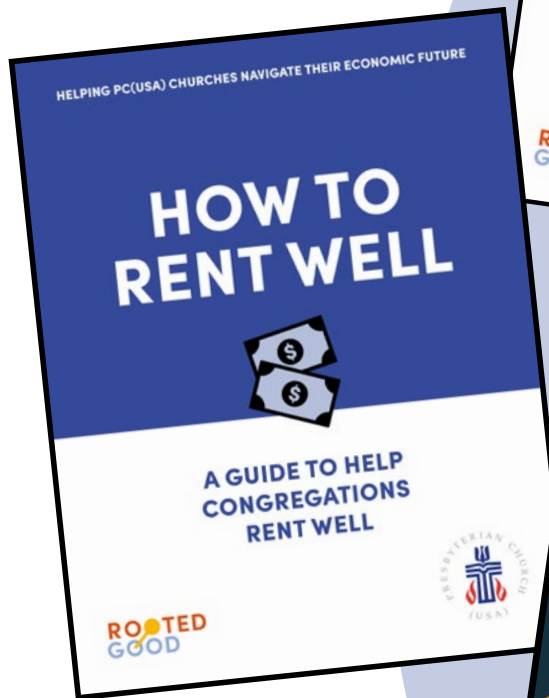
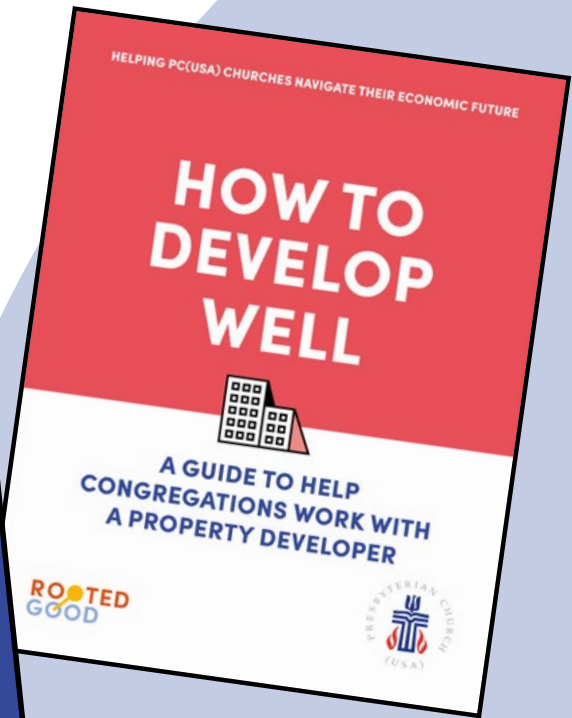
# QUESTIONS:

What else do you need to know?

What are your next steps?

Who else needs to see think about this in your congregation?

This tool is one in a series of resources designed in partnership with PC(USA) to help congregations discern their future economic models.



## THE GOOD FUTURES ACCELERATOR

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## Give us your feedback!

We are always learning and improving our resources.

Scan the code to tell us how this tool worked for you and what changes or improvements you'd like to see in it.



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