

# Q & A: Religious Non-Profit Unrelated Income

A guide for non-profits with income-generating activities that may or may not be a mission fit

## What Is the Definition of a 501 (c)(3) Non Profit?

In legal tax code, a 501(c)(3) organization is one that operates exclusively for a charitable purpose and does not accrue benefits to shareholders or private individuals.

The IRS considers the following to be charitable causes: education, vocational training, poverty relief, environmental preservation, preservation of public urban land, health care, scientific research, combating urban and community deterioration, and religion.

As an incentive to promote corporate and donor giving, all donations to 501(c)(3) organizations are tax deductible. A non-profit's tax-exempt income is limited to accessing funds from grantors and donors or earning income from activities related to the organization's mission. Non-profits can also earn taxable income.

Source: [www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Exemption-Requirements-Section-501\(c\)\(3\)-Organizations](http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Exemption-Requirements-Section-501(c)(3)-Organizations)

## Case Study: San Francisco Zen Center and Farm

- *The Zen Center's mission is to promote the practice of Zen Buddhism and meditation as well as the Buddhist lifestyle and philosophy, including work ethic and conservation of natural resources.*
- *The Zen Center is a non-profit whose farm is an educational component of its programming that promotes the sustainable principles and lifestyle of Zen Buddhism.*
- *The farm trains farm apprentices (volunteers) to grow food in an environmentally conscious manner while practicing aspects of Buddhism, including meditation and simple living.*
- *The income from sales at the farm site tied to education and the Center's mission would be considered related income.*

## What Constitutes Unrelated Income?

Unrelated income is any income which is earned by a business or organization in excess of \$1,000 annually which is regularly conducted and is not substantially connected with the charitable purpose for which the organization received tax-exempt status. *If the income generating activity is included in the organization's mission it is not considered unrelated income.*

### Exceptions apply:

1. Earned income in which the work was done primarily by volunteers (i.e. bake sales)
2. Revenue earned from selling donated items (i.e. silent auction or thrift stores)
3. Sale of items to its members, employees, or students (i.e. school cafeteria)
4. Bingo games

<https://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Unrelated-Business-Income-Tax-Exceptions-and-Exclusions>

## How Do I Manage Unrelated Business Income?

Unlike related business, unrelated business can be conducted with the main purpose of generating money for the non-profit, given that the funds represent a small portion of the organization's budget.

Churches and non-profits with annual gross receipts of less than \$50,000 are typically exempted from the requirement to file taxes. However, an organization must submit Form 990-T, separate from the annual information return, to disclose unrelated earnings from that year if they exceed \$1,000.

When a significant portion of an organization's budget, staff, and time is dedicated to a profit-making activity, then the IRS may determine that the organization no longer qualifies for tax exemption. To determine whether your specific unrelated business income would require you to file the 990-T seek a case-specific evaluation from your tax advisor or the state Attorney General. Some enterprises will be split between related and unrelated income based upon who the business serves. In this case, it is important to make the distinction in accounting so that only unrelated income is taxed.

Conclusion: the primary concern for faith-based groups generating income from projects advancing food sustainability and access should *not* be the very unlikely possibility of an adverse effect on the organization's tax-exempt status. Instead, the focus should be on determining whether the type and amount of income requires a filing of a 990-T, a revision to the organization's mission, or in rare cases, creation of a separate non-profit entity.

Sources: [Urbanaglaw.org/non-profit-urban-ag](http://Urbanaglaw.org/non-profit-urban-ag)  
[www.irs.gov/Charities-&-Non-Profits/Unrelated-Business-Income-Tax](http://www.irs.gov/Charities-&-Non-Profits/Unrelated-Business-Income-Tax)  
and Unrelated-Business-Income-Tax Exceptions-and-Exclusions

