

MEMORANDUM

To: Business Manager / Bookkeeper
From: Gerald Arnold
Date: June 30, 2025
Re: Unrelated Business Income Tax Questionnaire

Please complete the attached survey sheet **AND RETAIN FOR YOUR RECORDS**. The survey sheet helps determine if your parish or school may be subject to Unrelated Business Income Tax. All parish, school and affiliated group activities must be reviewed carefully and each question carefully evaluated.

After completing the survey sheet, if you determine you DO NOT have to file an Unrelated Business Income Tax return, it is **not required** to send the completed form to the Finance Office. The completed form should be kept on file for the Internal Revenue Service or the Diocesan Parish Review team in the event of an IRS audit or a Parish Financial Services review of your financial records.

After completing the survey sheet, if you determine the parish HAS to file an Unrelated Business Income Tax return, please send the completed survey sheets to the Finance Office and we will provide any necessary consultation or assistance to ensure the required return is filed correctly and in a timely manner. The Internal Revenue Service will only accept electronically filed form 990-T returns. Paper returns are not accepted. Please contact me no later than October 1, 2025 if you need assistance with filing a 990-T return with the Internal Revenue Service. If a 990-T is filed with the Internal Revenue Service, please send a copy of the complete return to the Finance Office.

TAX REPORTING REQUIREMENTS

If your parish or school was engaged in an Unrelated Business Income producing activity during 2024-2025 fiscal year and that activity is not subject to a valid exemption, **you are required to electronically file Form 990-T**. Form 990-T is due to the Internal Revenue Service on, or before, **November 15, 2025**. If you determine the parish is required to file, please contact the Finance Office for assistance with filing the required return. Please allow ample time to complete the analysis before the filing due date of the return.

Please carefully perform the analysis of reviewing your parish records and looking at the parish activities to determine if there is a tax reporting obligation. Keep in mind there are two different analysis that have to be performed. The first is the determination if the parish, school, or organization conducts an activity that produces unrelated taxable income. The second is the determination if there is an exemption that applies to the income produced.

PLEASE BE SURE TO ALSO INCLUDE ALL THE ACTIVITIES OF PARISH GROUPS AND ORGANIZATIONS USING THE PARISH/SCHOOL TAX IDENTIFICATION NUMBER IN THE ANALYSIS.

ADVERTISING INCOME OR SPONSORSHIP INCOME

Here is a guide to how to determine if you have a sponsorship or advertising income. Sponsorship Income does not generate Unrelated Business Income while Advertising Income does generate Unrelated Business Income.

The sponsor receives any substantial return benefit or are payments contingent on a certain level of attendance?	This would qualify as ADVERTISING income
The payments entitles the payor to the exclusive use or acknowledgement of its name or logo in periodicals that would limit competitors	This would qualify as ADVERTISING income
The payment received is in connection with any qualified convention or trade show activity	This would qualify as ADVERTISING income
The payment is in exchange for a exclusive provider arrangement	This would qualify as ADVERTISING income
The display ad contains qualitative or comparative language	This would qualify as ADVERTISING income
The display ad contains price information	This would qualify as ADVERTISING income
The display ad indicates savings or value	This would qualify as ADVERTISING income
The display ad is an endorsement or an inducement to purchase, sell, or use such products or services	This would qualify as ADVERTISING income
The display ad contains the name and address of the business or individual, contact information, and what type of service is provided, such as electrician, plumber, landscaper, etc.	This would qualify as a SPONSORSHIP income
Businesses are listed on a display board at an event, only the name of the business is listed on the board	This would qualify as a SPONSORSHIP income

UNRELATED BUSINESS INCOME TAX

PURPOSE OF THE TAX

Taxes on unrelated business income fall into two categories:

- The unrelated business income tax
- The unrelated debt-financed income tax

The purpose of either tax is to prevent the exempt organization from having an unfair advantage when competing with taxable enterprises.

The most important factor in determining taxation is whether the activity is substantially related to the organization's exempt function. If the activity is substantially related, it is not taxed. If it is not related, a further analysis is required. The type of activity generating the income, not the final use of the income, determines the taxability.

IMPORTANT NOTE:

Please take care not to confuse Unrelated Business Income Tax (UBIT) with State of Ohio sales tax. If an activity is not subject to UBI, this does not mean it is exempt from State sales tax. UBI and State of Ohio sales tax are two different taxes.

EXEMPTION GUIDELINES

The following is a list of possible exemptions from taxation for an activity. For an activity to generate unrelated business income, it must fail **all** seven of the tests below:

1. Substantially all merchandise held for sale has been received as gifts or contributions.
2. Activity workers are substantially all unpaid and uncompensated volunteers.
3. Activity is not for the general public, but for church members.
4. Income is passive and not debt-financed.
5. Activity is substantially related to a religious purpose.
6. Activity is not regularly carried on.
7. Activity is not conducted as a trade or business.

A more detailed explanation of the exemptions follows:

EXEMPTION #1

Does the activity consist of the sale of merchandise substantially all of which has been received as gifts, contributions, or donations?

Guideline: The IRS has not defined "substantially all," but the U.S. Catholic Conference believes 85% to be reasonable.

Example: Thrift shops, bake sales, rummage sales, silent auctions, etc.

EXEMPTION #2

Is substantially all of the work of the **activity** performed by unpaid volunteers?

Guideline: Assuming that the 85% test is accepted by the IRS, then any activity in which 85% of the work is performed without compensation will not be subject to the tax. Compensation includes receiving anything of value such as receiving tuition credits, cash payments, gift cards, gasoline cards in exchange for participation in an activity. It would seem appropriate to apply the *85% test* to these areas: man hours worked; number of employees; actual payroll compared with payroll if everyone is paid at the going rate.

Example: Any activity can qualify for this exemption. Bingo, bookstore, dances, etc. The important factor would be to determine, if someone is compensated, how much time is spent on the activity in relation to the total hours for all workers on a particular activity.

It is permitted that a paid employee can assist with most income producing activities, but the employee cannot spend a substantial amount of time on it, in relation to the activity. For example, if the gift card program requires 10 hours per week labor, no more than 1.50 hours can be spent on the activity by the paid employee. Volunteers would have to perform the remaining 8.5 hours of time necessary for the activity. It is imperative that most labor be provided by volunteers in order to maintain the exemption allowed to exclude the income from federal tax.

EXEMPTION #3

Is the activity carried on primarily for the convenience of the church's members, students or employees?

Guideline: The activity is not taxable if it is for the convenience of the members, students, or employees of the exempt organization. The activity must be held on the premises of the exempt organization.

Example: Student bookstore, religious bookstore where sales are primarily made to parishioners only and the store is not open to the public with regular business hours, student cafeteria

EXEMPTION #4

Is the income passive in nature?

Guideline: Most passive income (rent, interest, dividends, royalties etc.) is not taxable provided that said income is not derived from borrowed funds. The primary exceptions are rental from personal property and debt-financed income. Rental from personal property (*i.e., other than real estate*) is generally taxable income. When real and personal property are rented together, the rent attributable to the personal property is considered not taxable if it constitutes no more than an incidental amount of total rent. Rental income from real property is taxable if the amount of rent depends upon the net income derived from the rented property.

Income, including rents from real property, is debt-financed if the property which produces the income was acquired with borrowed funds and some portions of the debt remains during the taxable year in which the income is earned. Income-producing property may be found to be debt-financed even when purchased outright, if debt is incurred on a different piece of property to finance the outright purchase of the income producing property.

Debt-financed property is often used in both a related and unrelated function. If 85% or more of the use of the property is devoted to a substantially related religious function, the unrelated portion may be ignored under a de minimis rule in the regulations. (Section 1.514(b)-1(b)(1)).

In general, if your parish has property which is being rented to outside organizations and this property has debt (ex. mortgage), it is probable that it may be subject to the tax. The rules regarding debt-financed property are complex.

Example: Interest, dividends, gains from sale of property, rental income which is generated from financed property.

EXEMPTION #5

Is the activity substantially related to a religious purpose?

Guideline: The general requirement for funds to carry out religious purposes does not provide the required relationship between the activity producing the funds and the religious purpose. The performance of the income-producing activity, rather than the income produced, must contribute importantly to the religious purpose. Also, if the activity is performed to an extent greater than reasonably necessary to achieve the religious purpose, taxable income may result from the excess activity.

Example: The income from a performance of religious music probably would not be taxable. The sale of religious articles in a religious bookstore will generally be substantially related to the religious purpose. The sales of religious articles are related to your exempt purpose, the sale of ancillary items such as candy, notebooks, coffee, etc would not be related to your exempt purpose

EXEMPTION #6

Is the activity regularly carried on?

Guideline: An activity is considered to be regularly carried on if it is done with a frequency and continuity similar to comparable commercial activities of non-exempt organizations. If a non-exempt commercial organization carried on an activity on a seasonal basis, the conduct of that activity by an exempt organization during that season may constitute regular carrying on of that activity. Also, the conduct of year-round activity one day per week may constitute the regular carrying on of that activity. If the activity IS regularly carried on, the exemption would not apply and the income would qualify as taxable unrelated business income.

Example: Regularly carried on activities: weekly bingo games; parking lot operating at least one day each week; the sale of Christmas trees for a period of weeks before Christmas would probably be considered regularly carried on. NOT regularly carried on: annual fundraising events such as raffles, bazaars, dances, etc. Intermittent activities such as advertising sales in a program for a musical or dramatic performance are not ordinarily considered regularly carried on, so long as the performances are discontinuous and not promoted to the same extent as commercial performances.

EXEMPTION #7

Is the activity a trade or business?

Guideline: The activity is a trade or business if carried on for the production of income from the sale of goods or the performance of services. An activity may be trade or business although carried on within a larger complex of activities which is not a trade or business. Generally, the definition of trade or business is quite broad. If the activity IS carried on as a trade or business, the exemption would not apply and the income earned from the activity would qualify as taxable unrelated business income.

Example: The mailing of low-cost articles incidental to the solicitation of contributions is not a trade or business. The sale of advertising in a religious publication is a trade or business, whether the publication is sold or distributed without charge.

*** RETAIN FOR YOUR RECORDS *** OR
RETURN TO THE FINANCE OFFICE IF THERE IS A POTENTIAL TAX
LIABILITY

**UNRELATED BUSINESS INCOME
and UNRELATED DEBT-FINANCED INCOME TAX
Survey Sheet - June 30, 2025**

Parish/School Name: _____

Location: _____ Phone: _____

Federal ID: _____ Contact Person: _____

Does your parish receive income from any of the following activities?			
	YES	NO	APPLICABLE EXEMPTION #
Catering			
Communication tower (cell tower and/or antennae)			
Parking lot rental			
Bulletin Advertising (sold by third party)			
Bulletin Advertising (sold by the parish)			
Other Advertising (scoreboards, booklets, programs)			
Bookstore			
Raffles of any type			
Bazaars/Rummage Sales			
Suppers (Fish Fry, Spaghetti Dinners, etc.)			
Sports Events (CYO)			
Dances, Drama or Musical Events			
Concession Stands			
Gift Certificate Sales			
Other (describe)			

If you answer "YES" to any of the above, please read pages 1-4 of the attachment. These pages document the possible exemptions which would make your income non-taxable. After reviewing the seven possible exemptions, please indicate the applicable exemption number in the column provided above.

If you answer "YES" to an activity and no exemption applies, **you will be required to file form 990-T with the Internal Revenue Service.**

(more information on the other side of this sheet)

**UNRELATED BUSINESS INCOME
and UNRELATED DEBT-FINANCED INCOME TAX**

Parish Name: _____

Location: _____ Page 2

Does your parish receive income from renting or leasing?		
	YES	NO
a. Do you rent or lease a building and/or a portion of a building to others (Including parish hall)?		
b. Do you rent or lease a house to others or employees?		
c. Do you rent or lease land to others? If YES, what is rented or leased? circle: gas wells, oil wells, farm, cell tower, other _____		
d. Is the rent calculated as a percentage of <u>net</u> income? If YES, explain:		
e. Does the rent include payment for services rendered by the parish to the lessee? <i>(other than utilities or janitorial services)</i>		
f. Do the rented properties have a debt or mortgage applicable to it? 1. If YES, is the rented property used in a religious related function? YES / NO 2. If YES, describe the function and what percentage is used for a religious related function.		

If you answer "YES" to any of the above, please read pages 1-4 of the attachment. These pages document the possible exemptions which would make your income non-taxable. After reviewing the seven possible exemptions, please indicate the applicable exemption number for rental income below:

RENTAL INCOME EXEMPTION NUMBER APPLICABLE

If you have rental income and no exemption applies, **you will be required to file form 990-T with the Internal Revenue Service.**

Prepared by _____ Date _____

CONTACT: Diocese of Cleveland - Finance Office

Attn: Gerald Arnold, Parish Controller

EMAIL: garnold@dioceseofcleveland.org

PHONE: (216) 696-6525 x2170

RETURN THIS FORM TO THE FINANCE OFFICE IF YOU DETERMINE THAT THERE IS A POTENTIAL TAX LIABILITY. OTHERWISE, KEEP THIS FORM ON FILE IN THE PARISH OFFICE.