HELPING CHURCHES NAVIGATE THEIR ECONOMIC FUTURE

WHAT ABOUT TAXES?!!!

A GUIDE FOR CHURCHES STARTING TO GENERATE REVENUE

ROOTED GOOD

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 churches.

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.

This information should not be construed as tax or legal advice. It is always advisable to consult legal and account counsel for your specific situation. Wegner CPA (wegnercpas.com) and The Law Offices of Marc J. Lane, P.C (www.MarcJLane.com) helped in the development of this guide and can serve as resources for further information.

BEFORE YOU BEGIN

Consider these questions when starting a social enterprise. This is NOT legal or tax advice - consult an 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 nonprofit. 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.

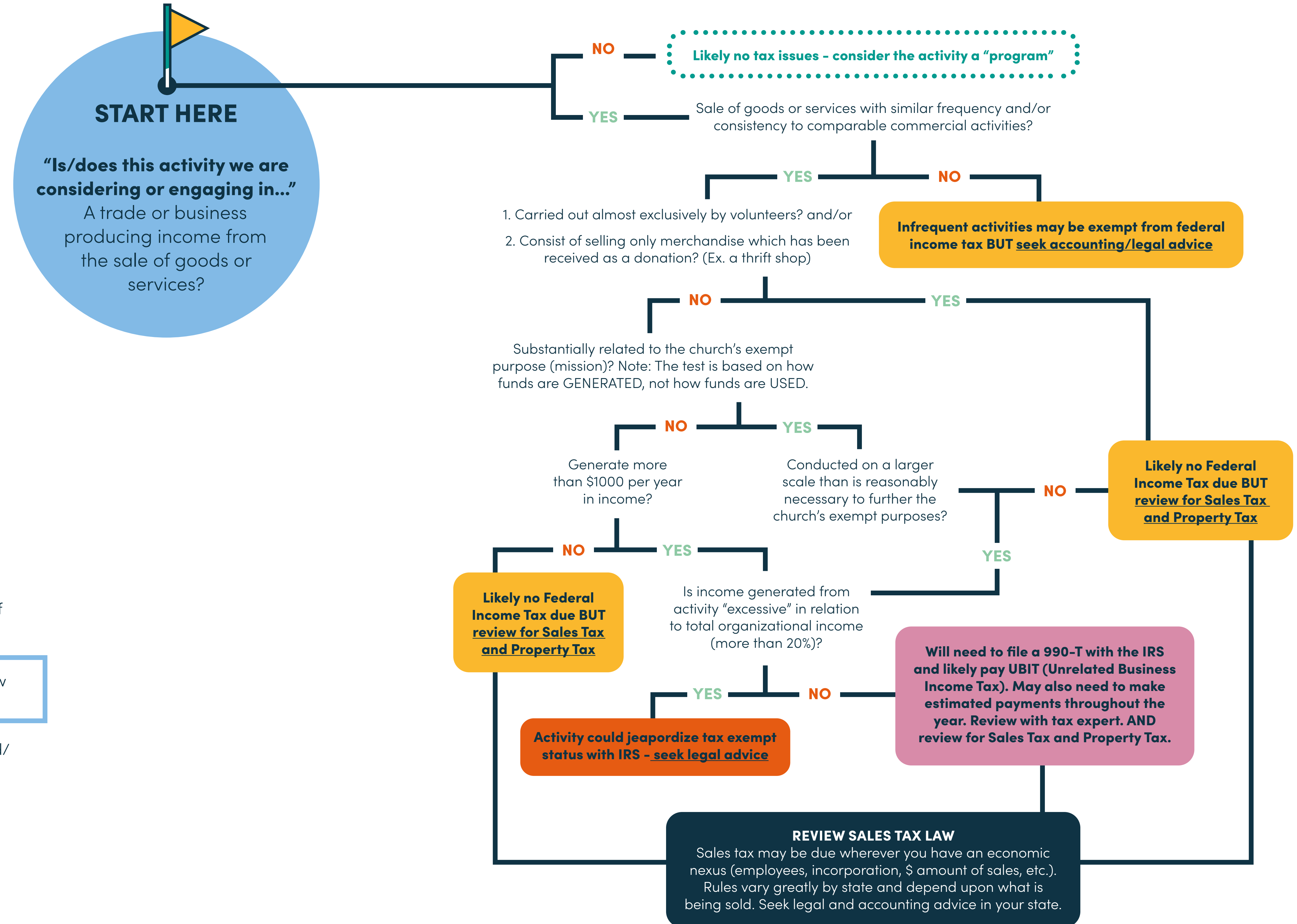
> **Note:** the focus is on the income-producing activity itself, and not how the funds are used.

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 nonprofit entitity 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 use is often considered separately from nonprofit purpose and an income tax exempt use may not mean the use is exempt from property taxes.
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 legal and accounting advice.

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 to help congregations figure out their future economic models. Join the **RootedGood Mycelium Network** at rootedgood.org for access to more tools and resources.

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