

*Counselor Tara,  
What is ASCE's policy on corporate sponsorships?*

Corporate sponsorships are a common way for tax-exempt organizations to generate funds for educational programs or meetings. However, groups seeking to attract corporate sponsors must be aware that providing certain benefits to sponsors may require the group to pay unrelated business income tax (UBIT), on the fair market value of those benefits.

When the IRS grants tax-exempt status to an organization, this designation means the entity is not taxed on income from activities conducted in furthering its educational, charitable, or other tax-exempt purpose. This does **not** mean, however, that all income used to support the organization's exempt activities will be free from federal income tax.

IRS regulations state that, where an exempt organization generates income from a business activity that does not "contribute importantly" to the group's exempt purpose, other than by providing funds to the organization, then that income is taxable to the organization as unrelated business income. Activities that the IRS has deemed unrelated business include mailing list rentals, insurance programs, and the sale of advertising in a tax-exempt entity's publications.

The IRS excludes from this definition income received from "qualified sponsorship payments." Under this exclusion, tax-exempt groups are not required to report as taxable income any payments from a trade or business for which that business receives no benefit other than 1) products or services of an "insubstantial value" or 2) acknowledgment of the business name, logo or product lines in connection with the organization's activities.

Under this definition, sponsor benefits such as special receptions or complementary passes to social events and/or sporting tournaments may be considered substantial benefits if the fair market value of these items exceeds a certain threshold amount. In addition, any acknowledgment of a sponsor that is deemed to be "advertising" will require the group to pay UBIT on the fair market value of the advertisement. For purposes of reporting UBIT, this includes any messages containing prices, comparison, or statements concerning quality or savings; any endorsements of products or services; or any inducements to buy, sell, or use a product or service.

For more detail on UBIT, see Internal Revenue Services Publication 598, available at <http://www.irs.gov/pub/irs-pdf/p598.pdf>.