



## Knowing whether income is sponsorship or advertising

Many not-for-profits supplement their usual income-producing activities with sponsorships or advertising programs. Although you're allowed to receive such payments, they're subject to unrelated business income tax (UBIT) unless the activities are substantially related to your organization's tax-exempt purpose or qualify for another exemption. So it's important to understand the possible tax implications of income from sponsorships and advertising.

### What is sponsorship?

Qualified sponsorship payments are made by a person (a sponsor) engaged in a trade or business with no arrangement to receive, or expectation of receiving, any substantial benefit from the nonprofit in return for the payment. Sponsorship dollars aren't taxed. The IRS allows exempt organizations to use information that's an established part of a sponsor's identity, such as logos, slogans, locations, telephone numbers and URLs.

There are some exceptions. For example, if the payment amount is contingent upon the level of attendance at an event, broadcast ratings or other factors indicating the quantity of public exposure received, the IRS doesn't consider it a sponsorship.

Providing facilities, services or other privileges to a sponsor — such as complimentary tickets or admission to golf tournaments — doesn't automatically disallow a payment from being a qualified sponsorship payment. Generally, if the privileges provided aren't what the IRS considers a "substantial benefit" or if providing them is a related business activity, the payments won't be subject to UBIT. But when services or privileges provided by an exempt organization to a sponsor are deemed to be substantial, part or all of the sponsorship payment may be taxable.

## What is advertising?

Payment for advertising a sponsor's products or services is considered unrelated business income, so it's subject to tax. According to the IRS, advertising includes:

- Messages containing qualitative or comparative language, price information or other indications of value,
- Endorsements, and
- Inducements to buy, sell or use products or services.

Activities often are misclassified as advertising. Using logos or slogans that are an established part of a sponsor's identity is not, by itself, advertising. And if your nonprofit distributes or displays a sponsor's product at an event, whether for free or remuneration, it's considered use or acknowledgment, not advertising.

## Complex rules

The rules pertaining to qualified sponsorships, advertising and unrelated business income are complex and contain numerous exceptions and situation-specific determinations. Contact us with questions.

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