UNRELATED BUSINESS INCOME

A Shrine temple is exempt, in general, from Federal income taxation under Section 501(c)(10) of the Internal Revenue Code. Shriners International has obtained a blanket exemption under Section 501(c)(10) for all Shrine temples and for all Shrine Clubs which are reported to Shriners International. The master list of temples and clubs included under the exemption is updated annually with the Internal Revenue Service by Shriners International. The Director of Temple Accounting in Tampa monitors this list.

Even though a Shrine temple is tax exempt, it is taxed on its "unrelated business income" of $1,000 or more. Federal tax Form 990-T is to be used to report such unrelated income. Therefore, it is essential that temple officers consult with their independent accountant and temple attorney to address potential unrelated business income concerns and to manage them effectively. It is not possible to cover all unrelated business income situations and the rules and authorities governing such income. This is an area undergoing close scrutiny by Congress, the Treasury Department and the Internal Revenue Service (See IRS Publication 598 and Exhibit E, page 26 for more information.)

NOTE: All unrelated business income generated by a shrine club must be reported under that individual shrine club’s EIN. It CANNOT be reported under the temple’s group EIN number.

GENERAL TAX PROVISIONS OF UBI

A Temple is generally deemed to have unrelated business taxable income when it realizes gross income from any regularly conducted trade or business that is not substantially related to its charitable and fraternal purposes. Thus, a determination of whether an activity produces unrelated business taxable income requires answering “yes” to one or more of the following questions:

1. Is the activity a "trade or business"?

2. Is the activity "regularly carried on"?

3. Is the activity "not substantially related" to the temple’s charitable and fraternal purposes?

1. **A Trade or Business Activity**

A trade or business generally is defined as any activity carried on for the production of income from the selling of goods or performing services. An activity that meets this definition is considered a trade or business whether it is conducted separately or as an integral part of a larger group of activities that are not considered to be unrelated trades or businesses. For example, selling advertising space in a temple’s magazine can be (and normally is) an
unrelated business activity, even though the publication of the magazine is not. On the other hand, the sale of fraternal regalia and jewelry is not unrelated business income since it is related to the temple's fraternal purposes.

2. **A Regularly Carried on Activity**

Business activities of an exempt organization ordinarily are considered regularly conducted if they show a frequency and continuity, and are pursued in a manner similar to comparable commercial activities of nonexempt organizations. For example, the selling of Christmas Trees by the temple would be the same frequency and time of year as a nonexempt organization and, therefore, would be considered Unrelated Business Income.

3. **Substantially Related to the Temple’s Charitable and Fraternal Purposes**

The income from a business activity that is regularly carried on can still escape classification as unrelated business taxable income if the activity is substantially related to the temple’s charitable and fraternal purposes. To be substantially related, the business activity must contribute importantly to accomplishing a purpose for which the temple was granted an exemption, other than the mere production of income to support that purpose. That is, the activity must have a substantial causal relationship to the achievement of the exempt purpose. If the requisite relationship exists, the activity can be carried on even as a joint venture with a taxable organization.

The Internal Revenue Code requires that the activities of a Shrine Temple be directed to charitable and fraternal purposes. Therefore, any income derived for furtherance of charitable and fraternal purposes is generally related.

**MANAGING UNRELATED BUSINESS INCOME**

A temple’s officers, independent accountant and temple attorney, should periodically review its income-producing activities from a tax perspective. This review should focus on whether any new activities might be taxable and on whether any old activities might be taxable under new legislation, new judicial decisions, or new IRS positions. By periodically reviewing its activities a temple will be best postured to minimize any tax liabilities. Further, tax planning before entering into a transaction may allow conversion of an otherwise taxable activity into a non-taxable activity.

A temple that engages in activities that are, or may be, unrelated business activities must maintain accounting records that permit an accurate determination of both the gross income generated by those activities and the
expenses allocable thereto. This is especially vital where assets and personnel are employed in both a taxable activity and an exempt function (e.g., publication of a magazine that contains advertising). Thus, an accounting system should be designed to generate income and expenses on an activity-by-activity basis. With this data, the temple’s officers and tax advisors will be better prepared to minimize the temple’s exposure to unrelated business income tax. Moreover, contemporaneous documentation of data is normally much more persuasive in the event of challenge by the IRS than reconstruction of data one or two years after the fact.

If a temple is required to file a Form 990-T with a tax liability, it is also required to make quarterly payments of estimated taxes as if it were a corporation.