IRS Guidelines

The activity/income <u>is not taxable</u> as "unrelated business" if any of the following are true:

The activity is substantially related to the organization's tax-exempt mission	512(a)(1)
• The goods/services provided must contribute importantly to accomplishing the tax-exempt purposes.	1.513-1(d)(2)
• The portion of the size and scope of an activity in excess of what contributes importantly to accomplishing the tax-exempt purposes is "unrelated".	1.513-1(d)(3)
• An activity does not lose its identity as a trade or business merely because it is carried on within a larger aggregate of activities. (Example: Bookstore operation may have separate "related" and "unrelated" components.)	513(c)
• Sale of products resulting from the performance of exempt functions is "related" (e.g., sale of milk from dairy herd used for academic research).	1.513-1(d)(4)(ii)
The activity is not regularly carried on	512(a)(1)
• Think of how frequently a for-profit organization would conduct the activity.	1.513-(1)(c)
The activity lacks profit motive as evidenced by continuous losses over a number of tax periods	
• The profit motive is lacking if the activity is not carried on for the production of income.	1.513-1(b)

- Another indicator of profit motive is the appearance of commercialism such as promotional efforts 512(b)(1)

The rental income is from real property and is not determined by the lessee's profits	512(b)(3)
• Personal services must not be provided other than those customarily provided with rentals (such as providing utilities, cleaning common areas, and collecting trash).	1.512(b)-1(c)(5)
Rent from personal property leased with the real property is not more than 10% of total rent	512(b)(3)
• Between 10% and 50%, the real property rental exclusion is allocated accordingly. If greater than 50%, there is no exclusion.	