**PROPERTY TAX SPECIAL NOTICE – DEPARTMENT OF REVENUE**

 P.O. BOX 47471 OLYMPIA, WA 98504-7471 1.800.647.7706 HTTP://DOR.WA.GOV To inquire about the availability of this document in an alternate format for the visually impaired, please call (360) 534-1400. Teletype (TTY) users, please call 1.800.451.7985.

June 17, 2014

**Legislative Update – Standardized Criteria Established for Exempt Nonprofits**

The 2014 Legislature passed Senate Bill 6405 which takes effect June 12, 2014. This measure provides standardized opportunities for nonprofit organizations to rent or loan their exempt property to the public.

**Under the current law**

Generally, only nonprofit public assembly halls, performing arts facilities, and museums can regularly share, rent or loan their exempt property to individuals or organizations for non-exempt activities. These organizations, on a limited basis may use their property for business activities on up to 15 days per calendar year. There are a few exceptions, but most exempt nonprofits are strictly prohibited from allowing any non-exempt use or business use of their exempt property.

**Under the new law**

Senate Bill 6405 eliminates inequities by standardizing the “use” criteria placed on exempt property. In most cases, the new law creates flexible opportunities for nonprofit organizations share, rent or loan their exempt property. This act does not change the exemptions provided for nonprofit public assembly halls, performing arts facilities, or museums; nor does it place any additional limits or restrictions on the use of exempt property.

**Specifically, the new law allows:**

 **Loan or rental of exempt property 50 days a year**

The bill permits the loan or rental of exempt property to individuals or organizations for non-exempt purposes up to 50 days per year. The rent or donation received must not exceed the maintenance and operation costs attributable to the portion of the property loaned or rented.

 **Use of property for pecuniary gain or to promote business activities 15 of the 50 days**

Of the 50 days granted above, the bill permits the use of exempt property for pecuniary gain or to promote business activity up to 15 days per year.

**Set-up and takedown days are not included in the 50 days a year**

Days that immediately precede or follow an event that are only used for set-up or take down activities do not count against the 50- and 15-day allowances.

**Effective in 2014**

This new flexibility and criteria will first apply to activities that occur on tax-exempt property in the 2014 calendar year and affect the exemption of the property from taxes due and payable in 2015.

**Fundraising events**

The manner in which exempt property can be used to conduct *qualifying* fundraising has not changed.

*To qualify:*

 The fundraiser must be consistent with the purpose for which the exemption is granted; or

 The fundraiser must be conducted by an exempt nonprofit organization; and

 The fundraiser must be occasional and of short duration; and

 The nonprofit host or sponsor must receive 51 percent of the net proceeds gained from the event.

Festivals, bazaars, or other fundraising events which do not meet the criterion above, can now be conducted on exempt property and should be counted as business activity. Property Tax Special Notice Legislative Update – Standardized Criteria Established for Exempt Nonprofits

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**Keep accurate records**

Nonprofits and churches should maintain accurate records of the use of their exempt property throughout the year. The records should include the following information:

 Date of the shared use, loan or rental;

 Name of the person or organization using the property;

 Purpose of the use;

 Amount of any rent/donation paid for the use; and

 An indication if the property was used for pecuniary gain or business purposes.

**Additional information and questions**

Regulations in the Washington Administrative Code pertaining to property tax exemptions for nonprofit organizations will be revised in the upcoming months to reflect the statutory changes. The Department of Revenue will also prepare and distribute statute-specific educational materials on the expanded use of exempt property resulting from the passage of Senate Bill 6405 (Chapter 99, Laws of 2014).

If you have questions or need additional information about this or other topics related to property tax exemptions for nonprofit organizations, please contact Sindy Armstrong at (360) 534-1412 or Sindya@dor.wa.gov. You may also contact the Property Tax Division at (360) 534-1400.

***What you should know about…***

**Maintaining your Church’s Property Tax Exemption**

August 18, 2014

**Frequently Asked Questions**

***Question****: We have a lovely chapel surrounded by beautifully landscaped grounds. Community members*

*often seek to use our chapel for their wedding ceremony. Generally, these community members are not a*

*member of our congregation. However, because our church supports marriage, we allow community members to rent our chapel. Will this activity jeopardize the exempt status of our property?*

**Answer**: Probably not. As long as your congregation continues to use the facility for regularly scheduled worship **and** the fee or donation received from these rentals do not exceed the costs of operation and maintenance of the portion of the property loaned or rented.

***Question****: Our church was gifted property, which we may sell or keep. We may use the property to produce rental income for our church. Is this property eligible for an exemption while owned by the church?*

**Answer**: No, the property must be exclusively used for regular worship and related church activities within the church’s five-acre campus. It is important to remember that it is the “use” of property which controls the exemption.

***Question****: Our pastor purchased his own home and vacated the parsonage. Our youth minister and his family would like to move into the parsonage. If we allow the youth minister to move in, would the parsonage still be eligible for a property tax exemption?*

**Answer**: Probably not. To qualify for the exemption, a parsonage must be occupied by a licensed or ordained member of the clergy who is designated to the congregation and responsible for conducting the regularly scheduled worship services of the congregation. Generally, youth pastors, music ministers, church elders or other church employees and volunteers do not meet the required qualifications. However, if the parsonage is on or next to the church property, there are other ways it might be used to preserve the exemption. Give us a

call and let us help you plan.

***Question****: Our church hosts a neighborhood garage sale one Saturday each month for a total of 12 events annually. Congregation or community members are invited to sell their items in our parking lot for a $15 fee. Will this jeopardize the exempt status of the property?*

**Answer**: Maybe. Sales like this are considered to be business activity. Community members that are keeping the proceeds for their own benefit are using the exempt property for pecuniary gain. Under the new law, these events will not jeopardize the exemption, if conducted on 15 days or less in a calendar year. Please be aware that the limit applies to all pecuniary gain and business activities. If one of these sales is done every month, the church would be left with three remaining business activity days to use for other events.

***Question****: Our church will host a neighborhood garage sale soon to raise funds for our missionary programs. Congregation or community members are invited to participate by selling their items in our parking lot. Our church won’t charge a fee, and participants must agree to donate 51 percent of their net profit to our church. Will this activity jeopardize the exempt status of the property?*

**Answer**: No. Because participants are remitting 51 percent of their net profit to the host church, this is considered a qualifying fundraising activity. There is not a specific limitation on the number of qualifying fundraising events a church may host; however, fundraising activities that are regularly scheduled on a daily, weekly, or monthly basis are considered business activity rather than “occasional fundraising events”.

***Question****: A musical group would like to hold a community concert in our church. The group would charge admission and/or sell merchandise during the concert. The church will not be charging a fee or receiving a donation from this group. Will this jeopardize the exempt status of the property?*

**Answer:** Maybe. The activity conducted by the musical group is considered to be pecuniary gain or business activity. Business/pecuniary gain activities will not jeopardize the exemption, if conducted on 15 days or less during the calendar year.

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August 18, 2014