

Understanding the difference between sponsorship and advertising

Like many not-for-profits, your organization may supplement its usual income-producing activities with sponsorships or advertising programs. Although your nonprofit is allowed to receive such payments, they are subject to unrelated business income tax (UBIT) unless the activities involved are substantially related to your organization's tax-exempt purpose or meet another specific exemption. So it's important to understand the possible tax implications of income from sponsorships and advertising.

Key distinctions

Sponsorships:

- Allow the use of established product logos and trademarked phrases
- May include Internet links to the sponsor's Web site
- Can entail product display or distribution

(Exceptions include, but are not limited to, sponsorships that are contingent upon the amount of public exposure or appearance in regularly printed material, such as monthly publications.)

Advertisements:

- Carry qualitative or comparative language, price information or other indications of savings or value
- Offer endorsements
- Utilize inducements to buy, sell or use the products or services

How to be sure you're within the rules

Because the rules are complex and contain numerous exceptions and situation-specific determinations, it is best to seek professional advice. Your Salmon Sims Thomas consultant can develop guidelines specific to your organization's activities.

Source: IRS Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*