

UNRELATED BUSINESS INCOME TAX (UBIT) AND ADVERTISING

Many CMAA chapters sell advertising in their newsletters and websites. This is entirely appropriate and a legitimate source of revenue. However, receipt of advertising income can trigger reporting requirements and tax liability.

The UBIT is a yearly tax on net income from commercial activity performed by associations and other organizations otherwise exempt from federal income taxation, including CMAA chapters. This tax is charged regardless of the chapter's incorporated status. For the most part, CMAA's chapters' activities are not considered to be "commercial" and, therefore, are not subject to UBIT; the major exception to that is when chapters accept payment for advertising, such as in newsletters or on web pages.

Each chapter can incur \$999/year cumulatively in gross advertising revenue before having to report the income to the IRS. That \$999 is computed based on the *gross* revenue received by the chapter for ads. However, the UBIT itself is imposed on *net* revenue. For instance, if \$1,500 is received by the chapter in total ad revenue for the year and the costs incurred by the chapter to run the ads total \$600, the Chapter must report the advertising revenue because the gross amount is \$1,000 or more, but the tax itself is imposed only on the \$900 in net revenue. UBIT comes into play even for ads that are part of the benefit to a sponsor. In that instance, the ad has to be valued at fair-market value and UBIT is charged on the "ad revenue" portion of the sponsorship received by the chapter. For example, if the sponsor pays \$5,000 for the sponsorship and the value of the ad received as a benefit to the sponsor is \$1,500, the chapter must include that \$1,500 in figuring the gross revenue incurred for the year and owes UBIT on that portion of the \$1,500 that is not offset by the expense of running the ad itself.

Perhaps a "free" ad could be rewarded to a sponsor in recognition for years of sponsorship. But that's certainly not something that could be provided to the sponsor year after year.

Unrelated business income is reported to the IRS on the IRS Form 990-T. This form is filed each year for the gross advertising and other unrelated income received by the Chapter at or above the \$1,000 threshold. The \$1,000 is not per ad or activity, but is the combined total for all ads run during the tax year.