

# Nonprofit News

## What is Unrelated Business Income, and is Your Nonprofit Subject to Business Tax? By Ben Hershberger

Some nonprofit organizations may be subject to tax on income resulting from activities unrelated to a tax-exempt organization's purpose.

### What is the criteria?

For an activity to generate income subject to the unrelated business income tax, the activity must be:

- ◆ A trade or business: this includes any activity intended to produce income either from the sale of goods or the performance of services. Consider whether the activity consistently generates a profit, whether it is conducted in a similar fashion to a for-profit business that offers a similar good or service, and whether the organization is actively or passively involved.
- ◆ Regularly carried on: according to Reg. § 1.513-1(c)(1) of the IRS tax code, business activities of exempt organizations will be deemed to be regularly carried on "if they manifest a frequency and continuity, and are pursued in a manner generally similar

to comparable commercial activities of nonexempt organizations."

- ◆ Not substantially related to achieving the organization's tax exempt purpose: income produced to further the exempt purposes is not necessarily related - the income itself must be produced through the course of furthering an exempt purpose.

Two common examples of income subject to UBIT are:

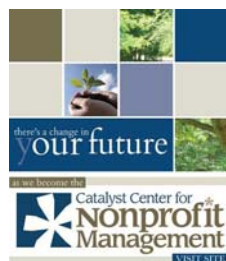
- ◆ Income from selling advertising space to businesses in publications. Related expenses such as printing costs and personnel time can be deducted against the income
- ◆ Rental income from properties that still carry outstanding debt, such as a mortgage. Expenses allocated to the portion of the property that is rented can be deducted against the income. These expenses can include interest, depreciation, insurance, repairs, etc.

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The Bucks County Center for Nonprofit Management is now  
**The Catalyst Center for Nonprofit Management**

**Catalyst** \ˈka-tə-ləst\ an agent that provokes or speeds significant change or action.

As we work with more organizations outside the Bucks County area, we decided that we needed a name that was a better reflection of the work we do. The above is the second definition of *catalyst* from the Merriam Webster dictionary and we felt, an excellent description of the work we strive for.

Please join The Catalyst Center as agents of change to strengthen and enrich our communities!

## Client of The Quarter: Pearl S. Buck International

### One Woman. One Vision. Over 2 million lives changed (and counting)...



For additional information, please feel free to contact 215-249-0100 or visit us on the web at: [www.pearlsbuck.org](http://www.pearlsbuck.org)

Founded by humanitarian, activist and award winning author Pearl S. Buck (1892 -1973), **Pearl S. Buck International®** is the Bucks County organization that changes lives every day through child adoption, child sponsorship and local community programs at the Pearl S. Buck House.

#### Impact

In January of 2012, the first child whose life was changed in 1948 when he was placed in Pearl S. Buck's arms on Christmas Eve will become Chairman of the Board of Pearl S. Buck International. Starting with that first child, Pearl S. Buck International has changed the lives of over 2 million children and family members in Bucks County and beyond, including uniting over 7,000 children with local families through our child adoption program.

#### Background

The late Bucks County resident Pearl S. Buck remains the first of only two American women to win both the Nobel and Pulitzer prizes for literature. Raised in China the first 40 years of her life, she spent her final forty years living in Hilltown Township, Bucks County, Pennsylvania. Far more than an award-winning writer, Pearl S. Buck used her popular influence to champion the cause of children who faced daily discrimination first in America, and then overseas, simply because of the color of their skin.

#### In 1949

Pearl S. Buck, along with Bucks County neighbors Oscar Hammerstein, James Michener and Lois Burpee, established Welcome House, the first adoption program in the United States that united American children of mixed race with local families. Because they were of mixed race, these children were considered unwanted.

#### In 1964

Realizing that mixed-race children overseas faced similar discrimination as that of American children, she founded the *Pearl S. Buck Foundation*. After forming the Foundation, she then through an innovative and continuing Child Sponsorship Program, ensured that all of these children receive access to life changing education and health programs.

#### In 1980

The Pearl S. Buck House, where she wrote the majority of her more than one-thousand published works and where she raised seven adopted children, was designated a National Historic Landmark. Each year over 22,000 visitors are educated and inspired by our founder's life and called to action through child sponsorship, adoption and local community programs.

#### Today

Today, these three entities are united through **Pearl S. Buck International**. Pearl S. Buck International is dedicated to continuing our founders' legacy of creating a global community for children and families through child adoption, child sponsorship and through local community programs.

Pearl S. Buck International is located at 520 Dublin Road, Perkasie, PA.



#### Join us to be inspired

Inquire about one of our complimentary 60 minute *Discover the Legacy Tours*.

For more information, contact 215-249-0100.

# The Beauty of a Cost Benefit Matrix Map

One of the tools we at the Catalyst Center like to use when working with clients on a strategic plan is a cost benefit matrix map. This tool provides a straight forward way to map programs based on both mission impact and financial impact (revenue). The beauty of this matrix map is its visual simplicity.

We recently had the good fortune to learn about Jan Masaoka's enhanced version of this matrix map during a training session entitled "Understanding and Changing Your Business Model in 60 Minutes" while at the annual Board-Source Leadership Forum this September in Atlanta. Many of you know Jan from her thought provoking work at Blue Avocado ([www.blueavocado.org](http://www.blueavocado.org)). She, along with Jeanne Bell and Steve Zimmerman, has just published a new book entitled *Nonprofit Sustainability: Making Strategic Decisions for Financial Viability*. (Published by Jossey-Bass, 2011).

The cost benefit matrix map is a simple four-square which plots mission impact along the vertical axis and financial impact (or profitability) along the horizontal axis. Jan and her colleagues take the matrix map one step further by classifying each of the quadrants in the foursquare with easily identifiable visual designations: stop signs, money trees, hearts and stars. These designations can be easily used in other documents such as board minutes or internal planning documents.



## Money Trees

In the lower right quadrant you will list programs that generate a lot of revenue, but still do not have a significant impact on your organization's mission. These are your 'money trees'. Often you will find special events or donors in this quadrant. Look for ways to bring your mission message into these events or to involve your donors in your mission.



## Hearts

In the upper left quadrant you will list programs that have a high impact on your mission, but generate little or no income for your organization. These are your 'hearts'. They often have a very valuable place in the organization, but they are sustained by revenue from other programs. Often these programs reach deep into the community with your mission message. If possible, strategize new ways to generate revenue for these programs.



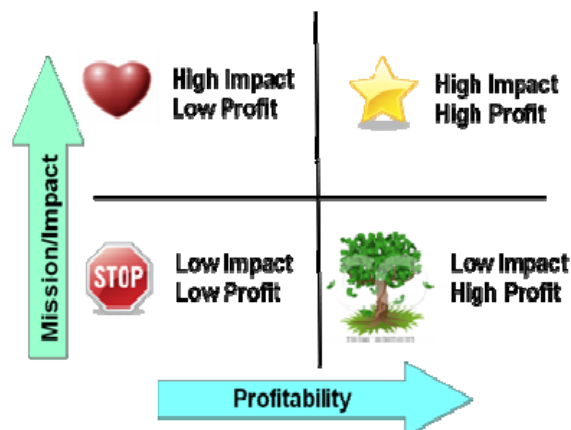
## Stars

Finally, the most important quadrant in the matrix is the upper right hand quadrant. The programs in this quadrant have both a high impact and generate revenue for the organization. These are your stars. When planning for growth, you will want to look first at these programs and investigate opportunities for expansion. These are also the programs that should receive the most publicity and generate the most excitement for the organization.



## Stop Signs

In the lower left quadrant you will list all of the programs which produce little or no revenue and do not have an impact on your organization's mission. These are your "stop signs". In other words, unless you are able to revamp these programs so that they increase their mission impact or generate new or more revenue, these should usually be the first programs to be cut from an organization as their value is very low.



*To learn more about the **Cost Benefit Matrix Map** or other tools to improve your organization's financial sustainability, feel free to contact Cindy Bergvall, CPA, Catalyst Center for Nonprofit Management 215-343-2727.*

**Resource:**  
 Nonprofit Sustainability  
 Making Strategic Decisions for Financial Viability  
 by Jeanne Bell, Jan Masaoka, Steve Zimmerman

**There are certain exclusions**

Income exclusions include dividends, interest, certain other investment income, royalties, certain rental income, certain income from research activities, and gains or losses from the disposition of property are excluded when computing unrelated business income. Additionally, the following activities are specifically excluded from the definition of unrelated trade or business:

- **Volunteer Labor:** Any trade or business where substantially all the work is performed for the organization without compensation is not subject to UBIT. Certain fundraising activities, such as volunteer operated bake sales or bingo games, may also be excluded.
- **Convenience of Members:** Any trade or business is excluded that is carried on by an organization described in section 501(c)(3) or by a governmental college or university primarily for the convenience of its members, students, patients, officers, or employees. An example of this is a school cafeteria.

- **Selling Donated Merchandise:** Any trade or business is excluded that consists of selling merchandise, substantially all of which the organization received as gifts or contributions. Many thrift shop operations of exempt organizations would meet this exception.

Organizations with unrelated business income greater than \$1,000 must file a 990T along with their 990, which is due on the 15th day of the 5th month following the end of the organization's taxable year. For most non-profits (other than trusts), this income is taxed at the corporate tax rates.

For more information, please do not hesitate to contact us at 215-343-2727.

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