

Minnesota County Fair and Agricultural Society Unrelated Business Income Tax

1**Unrelated Business Income Tax Fact Sheet 1****Fact Sheet**

Tax exempt organizations must file a Minnesota Unrelated Business Income Tax return (Form M4NP) if they are required to file a federal tax return (Form 990-T). This fact sheet explains what kinds of income are subject to the tax and provides information about filing and paying the tax for county fairs and agricultural societies.

What is Unrelated Business Income Tax?

Unrelated business income is any income from your trade or business that is regularly carried on and that is not substantially related to your charitable mission. Even though your organization is recognized as tax exempt, you may still be liable for tax on your unrelated business income.

In order to determine if an activity is subject to Unrelated Business Income Tax (UBIT), the activity must be:

- **A trade or business** that is carried on for the production of income from the sale of goods or performance of services.
- **Regularly carried on** which means it occurs more than five times per year. Generally, periodic activities are not considered regularly carried on. Seasonal activities are considered regularly carried on because the activity occurs during the season when for-profit businesses conduct the same activity.
- **Not substantially related** to the accomplishment of the organization's exempt purpose. For example, an organization's mission statement may be to provide agricultural education during the fair and throughout the year. Any income generated from activities relating to the fair, 4-H or other agricultural-related events such as horse shows or rodeos are not subject to UBIT. However, income generated for the use of tax-exempt purposes is not sufficient to qualify as substantially related. You must consider the source of the income instead of how you spend the income. If the organization conducted lawful gambling activity on a regular basis, it is subject to UBIT even if all profits are used to support its charitable mission. Lawful gambling is unrelated to the organization's mission of providing agricultural education during the fair and throughout the year.

What are some common sources of unrelated business income found in county fair or agricultural associations?

- **Off-season storage.** Storage for boats, cars, RV's and other vehicles is unrelated business income. The activity is considered regularly carried on because it is done during the season when for-profit storage companies also provide winter storage.
- **Camping Income.** Non-fair and non-mission RV or camping sites rented to individuals may be subject to UBIT.
 - **Examples of camping income subject to UBIT:**
 - **Example 1:** RV and camp sites rented to individuals attending concerts or festivals located in the area or on the fairgrounds.
 - **Example 2:** RV and camp sites rented to individuals or families for recreational camping.
 - **Examples of camping income not subject to UBIT:**
 - **Example 1:** RV and camp sites rented to exhibitors during the fair are not subject to unrelated business income because it is related to the organization's purpose of operating the fair.
 - **Example 2:** RV and camp sites rented for various agricultural-related events held at the fairgrounds throughout the summer are not subject to unrelated business income because it is related to the organization's purpose of providing agricultural education.
- **Rental income from real estate.** Rental income may be subject to UBIT depending on: the type of event, whether or not there is a mortgage on the property or whether or not services were provided. Rentals may include: auctions, weddings, parties or banquets, agricultural or fair-related events, among others. See the following examples for further explanation.
 - **No mortgage on the property and no services provided.** If there is rental income from real estate when there is no mortgage on the property and there are no services provided, the income is not subject to UBIT.

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- **Example:** The organization rents out their facilities located on the fairgrounds for weddings and other social events. There is no mortgage on the property and there are no services provided. The fee is strictly for the use of the building.
- **Mortgage on the property.** If there is rental income from real estate when there is a mortgage on the property, the income is subject to UBIT.
 - **Example:** The organization has a mortgage on the property and rents out their facilities for birthday parties and other social events.
- **No mortgage on the property but services are provided.** If there is rental income from real estate when there is no mortgage on the property but services are provided, the income is subject to unrelated business income. Services may include: cleaning the space afterward, providing staff (for example, bartender, party planner or security) or providing food and/or beverages.
 - **Example 1:** The organization provides set up and clean up for all banquets or parties held at their facility which is considered providing a service to the renter.
 - **Example 2:** The organization holds a liquor license so they provide the bartender for all weddings that choose to serve alcohol.
- **Rental income from personal property.** Rental income from personal property (for example, chairs, tables, bleachers, and other equipment) may be subject to UBIT.
- **Example of rental income from personal property subject to UBIT:** Chairs and tables that are rented out for a wedding in addition to the facility rental fee is subject to UBIT.
- **Example of rental income from personal property not subject to UBIT:** Chairs and tables rented out to the local 4-H organization for their monthly meeting is not unrelated income because it is related to its charitable mission.

What returns do I need to file?

If your organization is exempt and has \$1,000 or more of gross income from an unrelated business activity, you must file Unrelated Business Income Tax Return (Form M4NP) with the Minnesota Department of Revenue and Exempt Organization Business Income Tax Return (Form 990-T) with the Internal Revenue Service (IRS).

Where can I find the returns?

- For Form M4NP, go to www.revenue.state.mn.us and type UBIT Forms in to the Search box.
- For Form 990-T, go to www.irs.gov/ and type Form 990-T in to the Search box.

When are the returns normally due?

The due date for filing Form 990-T and Form M4NP is the 15th day of the fifth month after the end of the tax year. For example, if your tax year ended Dec. 31, 2015, the tax returns are due May 15, 2016.

All organizations are granted an automatic seven-month extension to file Form M4NP. You are not required to submit a form to Minnesota to receive a filing extension. This is a filing extension only, not a payment extension. Any tax not paid in full by the regular due date is subject to penalties and interest.

Questions?

If you need more information about Minnesota's UBIT, visit our website www.revenue.state.mn.us or call 651-297-5199.

Legal references

- Minnesota Statutes 290.05, Exempt Individuals, Organizations, Estates, Trusts
- Minnesota Statutes 290.06, Rates of Tax; Credit