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Dr. Stan May  
Immanuel Baptist Church  
7423 New Craft Rd  
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March 30, 2019

Dear Dr. May,

Thank you for emailing me and attaching the anonymous letter your church was mailed. I had heard (on Facebook groups for homeschool parents) that several churches were sent this letter, but I had not seen it myself.

You are correct that I did write the two blog posts referenced in the letter.

You asked "If we do not charge rent or anything for their services, are we in any danger of violating our own 501(c)3 status?"

As a CPA and a former homeschool parent, homeschool group treasurer and former church treasurer, I can answer your question. Bear with me; it gets complicated!

First off, the tax exemption being threatened by your church hosting a for-profit business on a regular basis is not your 501c3 tax exempt status with the IRS. What is being threatened is the church's property tax exemption granted to churches by the State of Mississippi.

For your reference: Section 27-31-1 of the Mississippi Tax Code allows exemption from "ad valorem" (based on value) taxes to *"All property, real or personal, belonging to any religious society, or ecclesiastical body, or any congregation thereof,...and used exclusively for such society or association and not for profit;"*

Source: <https://law.justia.com/codes/mississippi/2013/title-27/chapter-31/in-general/section-27-31-1/> accessed March 29, 2019

**So the fact that your church is not using its property exclusively for your religious purposes, but instead uses some part of your property for for-profit purposes, means that your county tax assessor could require your church to pay property tax.**

My recommendation would be to call your county property tax assessor and ask, "Can a church let a for-profit business use the church's building on a regular basis without harming our property tax exemption?"

Second, you asked "If we do not charge rent or anything for their services..." It is commonly assumed that if a church does not charge rent to a for-profit business, then no tax would be owed by the church.

Your question does bring up another tax: that of unrelated business income tax assessed by the IRS. Renting out space could incur unrelated business income tax (UBIT). The IRS assess UBIT on churches and all 501(c)(3) tax exempt nonprofits if they receive income from conducting a business unrelated to the church's religious purpose. Obviously, if a church rents space to a for-profit business, your church is acting like a landlord and should pay UBIT.

This happened to my church. For 3 years when we rented some of a newly purchased office building to the current tenants (a dentist and massage therapist). For those three years we had to file a tax return, Form 990-T and pay UBIT on our profit from renting the space. After three years the leases on the dentist expired and our church staff took over the space and we no longer had rental income.

There are exceptions to paying UBIT, so check with your CPA for more information.

But Immanuel Baptist Church is generous and does not charge the owner of the for-profit business (the Classical Conversions Director) any rent. So no income from rent means no UBIT for your church to pay! Good news there!

But again this does not change the property tax issue of use of your church's property by a for-profit business. The property tax exemption is based on use of the church's real and personal property, not on any income your church receives. Therefore, the fact that your church is very generous and not charging rent to the Classical Community using your building, does not change the fact that your property tax (being an ad valorem tax) is at stake.

All this to say, I admire Immanuel Baptist Church's generous use of its building. I wish my church was more generous. We have a strict policy against for-profit businesses using our church building. That is to avoid violating our property tax exemption. Instead my church is generous with letting nonprofit organizations use our church property if their purpose fits our church's mission.

Immanuel Baptist Church should not be faulted for failing to understand that the Classical Conversation Community you have hosted is a for-profit business. The Director may have been ignorant herself or have only repeated what she was told: that she is organizing a bunch of moms to host Christian-based homeschool classes. But as you now know, that bunch of moms is really a for-profit business.

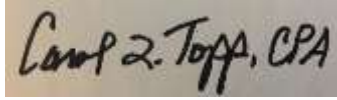
So, I hope this lengthy explanation is helpful. What you do with this information is up to you, but I recommend:

- Cease offering space to for-profit businesses
- Continue being generous, especially to nonprofit homeschool groups.
- Encourage the CC Director that she can convert her for-profit business to a nonprofit organization. It involves forming a board, drafting bylaws, etc. It takes time and money, but then

the nonprofit organization could use the church's space without being concerned about threatening Immanuel Baptist's property tax exemption.

- Ask anyone desiring to use the church's space if they are a nonprofit organization and perhaps ask for bylaws, Articles of Nonprofit Incorporation, or the IRS 501c3 determination letter as proof (isn't it sad that we have to be so suspicious?).

God bless you and Immanuel Baptist Church,

A handwritten signature in black ink on a light-colored background. The signature reads "Carol Topp, CPA" in a cursive, slightly slanted script.

Carol Topp, CPA