

Alamance County

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Classical Conversations FAQ:

Definitions:

- **Classical Conversations Company (CC Company or the Company)** – Classical Conversations, Inc. The company headquartered at 255 Air Tool Drive in Southern Pines, NC. There is one CC Company.
- **Classical Conversations Community (CC Community or the Community)** – A group of individuals, in no way employed by or contracted with CC Company, led by a CC Director licensed by CC Company, utilizing CC Curriculum. There are many CC Communities.

QUESTION 1:

“How authoritative is this document?”

This document presents the general understanding of the Alamance County Tax Department and is only authoritative within Alamance County, NC. Each specific case must be evaluated individually and this document is not assurance of the outcome of any particular case. While this FAQ represents our opinion regarding NC Property Tax Law, it is far from the only opinion. If you are not in Alamance County, it is recommended that you speak with your local Tax Assessor to determine how the law is interpreted in your location. No representation is made regarding any legal, business, tax, finance or other matter beyond NC Property Taxes.

QUESTION 2:

“My CC Community operates out of a church. Does this put the church at risk of losing its property tax exemption?”

The way in which each individual community operates will determine whether or not it supports the exempt status of any hosting church. NCGS 105-278.3 states that persons other than the exempt church may use the facilities so long as they:

- 1) Occupy gratuitously.

and

- 2) Use the property wholly and exclusively for religious, charitable, or nonprofit educational, literary, scientific, or cultural purposes.

Requirement 1: “Occupied Gratuitously”

This does not mean that the church cannot receive compensation for the use of its facilities, but rather that compensation may only reimburse or defray the costs associated with that use. For example, the church may need to run heat/air on a day that the system would normally be off. They may run lights and power for

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equipment. They may see use of water and sanitary supplies. There may be a need for additional maintenance or cleaning. There may be a need for additional insurance to protect the church from liability. The church does not have to attempt to itemize their costs for reimbursement. Rather, the church may “ballpark” an amount that credibly represents compensation for actual costs incurred.

Should a church go beyond this to actually seek a market rate for the use of their facilities, the CC Community would no longer be occupying gratuitously and the church may lose exemption.

Requirement 2: “wholly and exclusively used by the occupant for religious, charitable, or nonprofit educational, literary, scientific, or cultural purposes”

Of the given categories, the one that applies is “nonprofit educational.” This requires that the CC Community be set up as a nonprofit. CC Communities/Directors organized as for-profit sole proprietorships or for-profit LLCs would not meet the requirements of statute.

QUESTION 3:

“Does this mean my CC Community must obtain 501(c)(3) status?”

No, although that is something your Community may consider. All that is required for the purpose of the exemption is a North Carolina status as nonprofit.

QUESTION 4:

“Classical Conversations is Christian education. It aligns with the values and beliefs of the host church. Shouldn’t we be covered under the religious rather than nonprofit educational exemption?”

NCGS 105-278.3 defines a religious purpose as “one that pertains to practicing, teaching, and setting forth a religion. Although worship is the most common religious purpose, the term encompasses other activities that demonstrate and further the beliefs and objectives of a given church or religious body.” The Roman Catholic Church has long used a system of education as a method for instilling its particular beliefs and practices in the minds of the youth. Many protestant and other religious schools are operated by churches and church organizations in the hope of bringing the youth into conformity with the organization’s beliefs. In the developing world, Sunday Schools often teach literacy and language skills to attract children and their parents while teaching them using heavily theological materials. Thus, it is not a stretch to associate educational curriculum with organized religions and religious practices.

Problematically, CC Communities are not themselves religious organizations, denominations, or churches. NCGS 105-278.3 defines such as “a **congregation, parish, mission, or similar local unit of a church or religious body**; or a **conference, association, presbytery, diocese, district, synod, or similar unit comprising local units of a church or religious body.**” It speaks of furthering the beliefs and objectives of “a given **church or religious body**” and extends exemption to “a **general or promotional office or headquarters**” of a group listed above, along with “residences for **clergy, rabbis, priests or nuns** assigned to or serving a **congregation, parish, mission or similar local unit, or a conference, association, presbytery, diocese, district, synod, province or similar unit of a church or religious body.**” Great lengths are taken to clearly describe who may benefit from religious exemption. For a CC Community to benefit from the religious exemption it must prove

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that it is one of the above categories. Merely being a ministry, a Christian organization, etc. is insufficient, you must be a church body.

QUESTION 5:

“What if my church wants to set up a CC Community operated by the church itself?”

This may be a workable solution. For example, the church could opt to get their youth minister licensed as a director and run a CC Community as an outreach to homeschoolers. This would be very similar to the several church operated schools already within our community. We would still recommend reaching out to your local Tax Assessor and perhaps consulting with someone who has experience with church-run schools.

QUESTION 6:

“We only use the fellowship hall and outdoor areas for 6 hours per day, 30 days per year. Isn’t this an incidental use by members of the general public? I’ve heard this doesn’t jeopardize the exemption.”

NCGS 105-278.3 requires church property to be “wholly and exclusively used” for religious purposes.

- Wholly means that no portion of the property may be used for non-religious purposes. You can’t keep the exemption just because you’re only using part of the church property. If a portion of the property is being used for non-religious purposes, then it is not being wholly used for religious purposes.
- Exclusively means that no secondary use is allowed. You can’t keep the exemption just because you only meet a few hours a week. If it is used a few hours a week for other purposes, then it is not being exclusively used for religious purposes.

NCGS 105-278.3(f) states, “The fact that a building or facility is incidentally available to and patronized by the general public, so long as there is no material amount of business or patronage with the general public, shall not defeat the exemption granted by this section.” A good example of this would be a church coffee shop or bookstore that is only open during church services. The intended users of the coffee shop / bookstore are the members of the church, however, the general public is not excluded. Just because a member of the general public visits and buys a cup of coffee, does not make this an operating business and violate the exemption. The patronage by the general public is not material and is incidental in nature.

Another example would be a spaghetti dinner to raise funds for a youth trip. Most participants will be church members, however, a few non-members will also show up and pay for a plate. This does not make the church a restaurant. Once again, the non-members just happened by (incidental) and the spaghetti sold to the non-members will be a small fraction of revenues (non-material).

Now consider a CC Community. The students don’t just happen by, but are enrolled and meet on a regular basis. This is not an incidental use. Most of the revenue to a CC Community comes from the tuition & fees from the students. This is a material amount of business. We do not believe that the incidental/non-material exception made by 105-278.3(f) applies in this case.

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QUESTION 7:

“What if I want to operate a CC Community with all volunteer staff (no payments to the Director / Tutors, just the cost of the curriculum, license fee and facility fee)?”

I can only speak as to the property tax implications and would suggest you speak with a CPA or business advisor who may counsel you regarding other forms of tax, liability, etc. There may also be limitations from the CC License Agreement. From our perspective, this takes you out of the business world as you're not being paid for your work. This is probably fine as a pass-through (keep good records) but is even better if students make payments directly to CC Company and the host church. Again, we would recommend that you consult with your local Tax Assessor.

QUESTION 8:

“Are you saying that a CC Community cannot be structured as a for-profit business?”

CC Communities could certainly structure as for-profit, but it would be best if they are occupying a non-exempt space. We would presume that CC Communities meeting at churches would structure as nonprofit, while those wishing to structure as for-profit would meet in non-exempt locations. There is nothing wrong with either structure. It is our understanding from CC Company that they do not dictate the structure as each CC Community must make this decision for itself based on its own situation.

QUESTION 9:

“Do the CC Tutors need to be nonprofits as well?”

Not in our opinion. We would view the CC Community/Director as the entity using the exempt location and the Tutors as merely providing a contracted service to the Community/Director. Again, check with your local Assessor.

QUESTION 10:

“I've seen a letter from Alamance County Tax Administrator Jeremy Akins that says he finds nothing about Classical Conversations that would threaten a church's exemption.”

There is such a letter. Our department was contacted regarding a concern with Classical Conversations, Inc. (CC Company). The concern was that CC Company (a for-profit) and CC Communities were not truly separate entities and therefore all CC Communities were effectively for-profit.

The best information we have been able to obtain indicates that CC Company and the various CC Communities are separate entities. There is a tie because CC Company licenses CC Directors and produces CC Curriculum, but each CC Community is set up as its own operation separate and not controlled by CC Company. There is nothing wrong with CC Company producing CC Curriculum and licensing CC Directors to use it.

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We communicated this finding back to CC Company. As the communication was solely to CC Company and not to the CC Communities, we did not make a differentiation and referred to simply “Classical Conversations.” This letter has been made available to a number of persons involved with Classical Conversations. This has led to some misunderstanding that the letter referred to all CC Communities. It does not. Each CC Community must be evaluated separately.

