

# How to Ensure Your Church Bookstore is Tax Exempt

Church bookstores can be wonderful resources for attendees as well as the church. These stores can give attendees convenient access to study guides their small group is using, books mentioned in the sermon series, inspirational gifts, and many other worthy items. At the same time, they enable churches to offer convenient access to worship and study materials tailored to the particular interests of the congregation.

It's important to be aware, however, that your church bookstore may generate what the IRS considers unrelated business income (UBI), which is taxable. This article will help you understand the requirements for operating in a tax-exempt manner and how to remain in compliance.

## Defining the Purpose of Your Bookstore

Whether your church is considering opening a bookstore or you already have one, we recommend that you work with your church leadership to answer and document the following:

- Why your church wants to operate its own bookstore
- How operating a bookstore helps accomplish your church's exempt purpose
- What you want to sell in the store
- What hours you want the store to be open
- How the store will be staffed (volunteers vs. paid staff)
- Whether the location of your store is the right one

This exercise will help you determine whether you can operate your store in a tax-exempt manner while also meeting your objectives for the store. If you want and are able to do this, the remainder of this article will help you ensure compliance.

## Understanding UBI

A church bookstore generates UBI if it meets all three of the following tests:

1. It is a trade or business;
2. It is regularly carried on; and

3. It is not substantially related to the church's exempt purpose

Most church bookstores meet (1) and (2) on this three-part test. Making sure all bookstore sales are related to your exempt purpose (your religious mission) will help you avoid meeting (3).

There are additional steps you can take as well. Many church bookstores use these strategies to lawfully avoid paying tax:

1. They ensure all bookstore sales are related to the church's religious mission
2. They operate the store for the convenience of the members and attendees
3. They use volunteers for substantially all of the work related to the store

We discuss each strategy below.

## Strategy 1: Ensure All Bookstore Sales are Related to Your Religious Mission

You can demonstrate that your bookstore is substantially related to your church's tax-exempt purpose by making sure store inventory is relevant to church ministry, and by operating in a non-commercial manner.

The following factors will help classify the store as non-commercial:

- The store is not advertised in a commercial manner, such as in newspaper ads and flyers
- The store is not located where it is highly visible to general (non-church) traffic
- Merchandise pricing shows a goal of carrying out your ministry rather than making a profit

Demonstrating that store inventory is relevant to your exempt purpose can be harder, however. We recommend that you keep a record of how major product lines and specific items in your inventory are substantially related to your religious mission.

Many church bookstores carry some products that encourage or demonstrate Christian thought or behavior,

but are not explicitly religious. While your church management may feel that the store sales are substantially related to the church's religious mission, the IRS can have a fairly narrow perspective. As a result, you may want to consider the other two strategies to help avoid unrelated business income tax (UBIT).

### **Strategy 2: Operate for the Convenience of Members and Attendees**

With this strategy, you need to focus on operating the bookstore primarily for the convenience of church members and attendees, rather than the general public. There are several ways you can demonstrate this, including these factors:

- The hours of operation (and the majority of sales) occur around church services or when members are present on the church campus
- Sales to the general public are minimal

In addition, to remain tax exempt under this strategy these two criteria must be met:

- The bookstore must be located on church grounds, and
- The store must not be advertised to the general public

### **Strategy 3: Use Volunteers for Substantially All the Work**

To meet this strategy, at least 85% of the work done for the bookstore must be carried out by unpaid volunteers.

#### **Additional Considerations**

If your church bookstore does generate UBI, keep in mind that typically only a portion of the store's sales will be considered unrelated and therefore subject to income tax.

If your church bookstore's UBI reaches \$1,000 annually before deducting expenses, you are required to file a tax return to report the income, and pay income tax on the net profit after expenses. You will need to track exempt sales versus UBI.

Further, there are two additional areas of taxation to be aware of: sales tax and property tax. The requirements for each vary by state, and may include restrictions that are different from the income rules outlined above. In many states, sales of religious products are subject to sales tax, but other states have exemptions. Further, in many states tax-exempt bookstores are exempt from property tax, but in some states having any UBI at all could jeopardize that exemption. It's important to check the specific rules for sales and property tax exemptions in your state.

With all of these rules and restrictions, operating a tax-exempt bookstore may seem like a lot of effort at times. Carefully monitoring for compliance, however, will do more than just keep your store tax exempt; it will help ensure that your church is maintaining its original purpose for operating the store. That original purpose should be documented in writing and answer the questions we posed at the beginning of this article.

More information on UBI for tax-exempt organizations is provided in IRS Publication 598, which is available at [www.irs.gov](http://www.irs.gov).

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