

**Battershell & Nichols  
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**WA State Church Property  
Tax Exemption Update**

The presentation will begin shortly...



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# WA State Church Property Tax Exemption Update

August 4, 2021

By: Rick Battershell

# General Rule

- Certain property is allowed a tax exemption for property owned and used for exempt purposes (RCW 84.36.020)
  1. Real and personal property used exclusively for church purposes (up to 5 acres)
  2. This includes a parsonage, convent, parking, access, etc.
  3. Property used exclusively for school purposes (up to 400 acres)

# Parsonage, Convent, Parking

- **Parsonage**

- A residence owned by the church
- Occupied by a:
  - Licensed or ordained clergy person
  - Designated for a particular congregation
  - Responsible for conducting religious services on a regular basis at prearranged times (WAC 458-16-190)
- Doesn't need to be contiguous to the church



# Parsonage, Convent, Parking cont...



## • Convent

- A church-owned residence occupied by clergy devoted to religious life under a superior
- Doesn't need to be on the same property as the church

# Parsonage, Convent, Parking cont...

- Caretaker's residence may qualify if:
  - Residence is owned by the church
  - Residence is located on or bordering the church site
  - The size of the residence is reasonable and appropriate
  - Caretaker's duties include regular surveillance of property or daily property maintenance
  - Caretaker's use of the residence is part of compensation and is not required to pay rent





# Guidelines

1. Submit annual renewal and pay \$10 fee by March 31 at [www.dor.wa.gov](http://www.dor.wa.gov)
  - o Late fee is \$10 per month
  - o Failure to renew before Nov 30 = loss of property tax exemption
2. Screen all users to make sure only nonprofits use
3. If there is a change in use or activity, notify the Washington State Department of Revenue

# Guidelines cont...

4. Continue to utilize all of your property, otherwise the exemption is lost for unoccupied land
  - Unoccupied land may not exceed 1/3 acre unless it is required to conform with codes, zoning, or licensing requirements.



# Obtaining Exemption

1. Filing by 3/31 or within 60 days from acquiring or converting to exempt use.
2. Future church construction – (WAC 458-16-200) application must include evidence of intent to build which may include:
  - Proposed site plans,
  - Building permits,
  - Minutes of meetings pertaining to the building of the church, or
  - Other documents which will verify the intent to build within a reasonable time.
  - Provide annual proof of progress toward building facility.

# Loan or Rental of Property (WAC 458-16-190)



1. Use of property must be to a nonprofit organization or school that would qualify for a tax exemption
2. Use must be to conduct charitable activities on a single-use or hourly basis
  - o Commercial use would result in loss of property tax exemption

# Examples of qualifying charitable activities

- Community club conducting a food drive for a food bank
- Nonprofit school conducting a free or low-cost adult literacy class
- Community organization holding a free meeting to help individuals struggling with substance abuse



# Qualifying charitable activity example-Scouts

## Question:

Our church sponsors a scouting group that uses our recreation hall each week for scout meetings. Will this activity jeopardize the exempt status of our property?  
What about hosting other scouting troops?

# Qualifying charitable activity example-Scouts

## Question:

- Our church sponsors a scouting group that uses our recreation hall each week for scout meetings. Will this activity jeopardize the exempt status of our property? What about hosting other scouting troops?

## Answer:

- No. Because the scouting group is sponsored by the church, this activity is considered a church activity conducted for church purposes. Sharing your property with other scout troops to conduct charitable character building activities is generally fine as most scouting organizations are nonprofits.

# Non-exempt Activities

Churches may share their property for non-exempt activities up to 50 days per year.  
--15 of those days may be used for commercial or business activities

- **Examples of non-exempt activities:**

- The local Chamber of Commerce conducting a monthly club meeting
- Fraternal organization hosting a social event
- For-profit organization conducting an employee benefit seminar

- **Examples of commercial activities:**

- Music or fitness instructor conducting classes for a fee
- Group meetings for a for-profit weight loss program
- Church hosting a festival/fair where products or services are sold



# Farmers Market Use = Business Use

- Were allowed to operate for 53 days per year
  1. From 2014 through December 31, 2020
  2. No impact on church property tax exemption
  3. Now considered “business use” and subject to 15 day limitation
  4. See RCW 84.36.020

# Business Use example – Garage sale

**Question:** Our church hosts a neighborhood garage sale once a month (12 events annually). We invite congregation and community members to sell their items in our parking lot for a \$15 fee. Will this jeopardize exempt status?



# Business Use example – Garage sale

**Question:** Our church hosts a neighborhood garage sale once a month (12 events annually). We invite congregation and community members to sell their items in our parking lot for a \$15 fee. Will this jeopardize exempt status?



## **Answer:**

Maybe. Community members keeping proceeds for their own benefit are receiving pecuniary gain, so the events would be considered business activity. These events will not jeopardize the exemption if conducted on 15 days or less in a calendar year. This applies to all business activities.

# Business Use example – Holiday Bazaar

Question: Our church hosts an annual Holiday Bazaar. Each individual pays the church a vendor fee to sell their products. Each individual keeps all money made from sales. Will this activity jeopardize our exemption?



# Business Use example – Holiday Bazaar

**Question:** Our church hosts an annual Holiday Bazaar. Each individual pays the church a vendor fee to sell their products. Each individual keeps all money made from sales. Will this activity jeopardize our exemption?



**Answer:**

Maybe. This event is considered commercial activity and is limited to 15 days per year. However, if the church kept at least 51% of the sales from the bazaar, it could be considered a fundraiser, rather than commercial activity.

# Business Use example - Concert



Question: A musical group holds a community concert in our church. The group charges admission and sells merchandise during the concert. The church will not be receiving any fees or donations. Will this jeopardize the church's exempt status?

# Business Use example - Concert



**Question:** A musical group holds a community concert in our church. The group charges admission and sells merchandise during the concert. The church will not be receiving any fees or donations. Will this jeopardize the church's exempt status?

**Answer:** Maybe. The activity conducted by the musical group is considered pecuniary gain and is therefore business activity. Business activities are limited to 15 days per year.

# Business Use example

## Question:

Our church hosts several seminars presented by professionals within the community. The presenters are not paid; however, they sell their books and other items. Participants pay a fee, which covers the seminar materials and traveling expenses of the presenter. Will this activity jeopardize the church's exempt status?



# Business Use example

## Question:

Our church hosts several seminars presented by professionals within the community. The presenters are not paid; however, they sell their books and other items. Participants pay a fee, which covers the seminar materials and traveling expenses of the presenter. Will this activity jeopardize the church's exempt status?

## Answer:

Maybe. The activity conducted by the presenters is considered pecuniary gain (business activity) which is limited to 15 days per calendar year.

# Business Use example – Fitness program



## Question:

A congregation member conducts a weekly fitness program in our church building. She charges participants \$5 per class. Will this jeopardize the exempt status?

# Business Use example – Fitness program



## Question:

A congregation member conducts a weekly fitness program in our church building. She charges participants \$5 per class. Will this jeopardize the exempt status?

## Answer:

Yes. This program is considered business activity when conducted by an individual or for-profit organization. These programs are limited to 15 days per calendar year.

# Qualifying activities example – Fitness program

## Question:

Our church conducts a fitness program for our community. We hire an exercise instructor for a flat fee. We charge participants \$5 per class to cover the costs of providing the class. Will this jeopardize the exempt status of the property?

# Qualifying activities example – Fitness program

## Question:

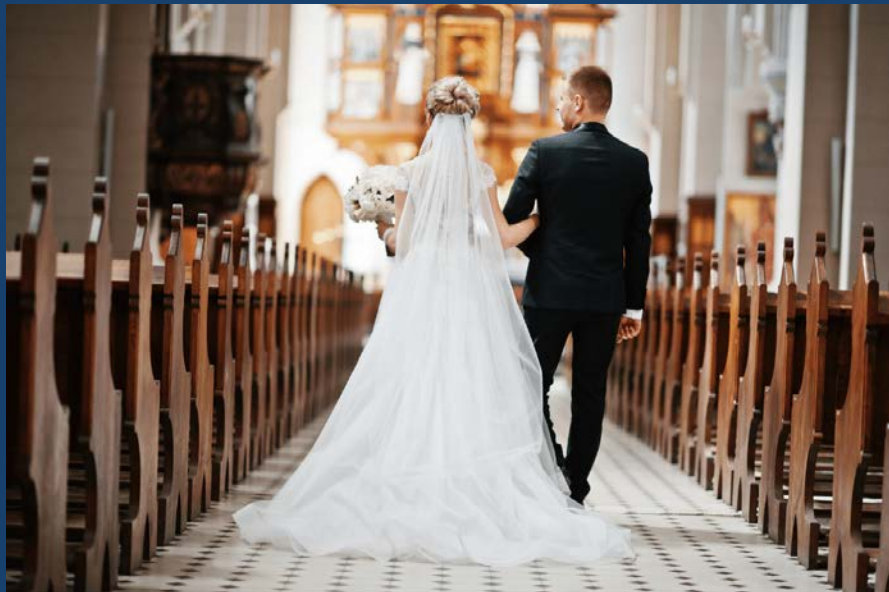
Our church conducts a fitness program for our community. We hire an exercise instructor for a flat fee. We charge participants \$5 per class to cover the costs of providing the class. Will this jeopardize the exempt status of the property?

## Answer:

No. This is considered a church activity conducted for church purposes on a nonprofit basis. Because the instructor is hired by the church, the participation fee is paid to the church, and the fee does not exceed the church's cost, this is not considered a business activity.

# Example - Weddings

Question: We often allow community members (not members of our congregation) to rent our chapel for weddings. Will this jeopardize our exempt status?



# Example - Weddings

**Question:** We often allow community members (not members of our congregation) to rent our chapel for weddings. Will this jeopardize our exempt status?



## **Answer:**

- Probably not. As long as your congregation uses the facility for regularly scheduled worship
- the amount received from these rentals does not exceed the operational costs of the portion of the property rented.
- Reception only (with no wedding) could be subject to 15 day rule.

# Loan or Rental of Property cont...

3. Rental income must be reasonable and devoted solely to property maintenance and operation. The total charged cannot be in excess of the church's expenses.
  - Computed similar to items deductible on a personal tax return for a rental property
    - ie: utilities, mortgage interest, repairs, maintenance, insurance, wages, etc.
    - Note: One DOR auditor stated depreciation is not allowed as a deduction



# Maximum rental charge formula

$$\text{Total Cost} \times \frac{\text{Sq ft of building rented}}{\text{Total Sq ft}} \times \frac{\text{Total hours building is rented}}{\text{Total hours of bldg use}}$$

# Fundraising Activities

Fundraisers sponsored by and held on the church's property do not subject the property to taxation if:

- The event is sponsored by an exempt organization
- Each event is limited to five days or less
- 51% or more of the net proceeds from each event is paid to the sponsoring organization
- The events are not frequent or regularly scheduled

# Fundraising Activities cont...

- Fundraising activities that are regularly scheduled on a daily, weekly, or monthly basis are considered business activity subject to the 15 day limit.
- Churches may also co-host fundraising events sponsored by other qualifying nonprofit organizations, if all of the criteria are met.



# Example – Fundraising Garage Sale

**Question:** Our church hosts a neighborhood garage sale to raise funds for our missionary programs. Our church doesn't charge a fee, but participants must agree to donate 51% of their net profit to our church. Will this activity jeopardize the exempt status of the property?



# Example – Fundraising Garage Sale

**Question:** Our church hosts a neighborhood garage sale to raise funds for our missionary programs. Our church doesn't charge a fee, but participants must agree to donate 51% of their net profit to our church. Will this activity jeopardize the exempt status of the property?



## **Answer:**

- No. Because participants remit 51% of their net profit to the host church, this is a qualifying fundraising activity.
- There is no limit on the number of qualifying fundraising events a church may host,
- but regularly scheduled fundraisers are considered business activity.

# Example – Bake Sale Fundraiser

**Question:** Our church hosts a semi-annual bake sale. All baked goods are donated and the church retains all proceeds from the sale. Will this activity jeopardize our exemption?



# Example – Bake Sale Fundraiser

**Question:** Our church hosts a semi-annual bake sale. All baked goods are donated and the church retains all proceeds from the sale. Will this activity jeopardize our exemption?

**Answer:**

- No. This is not considered commercial activity because the items are donated and all money raised is kept by the church.
- Also, because it only occurs twice a year, it is infrequent enough to be considered a fundraiser.



# Recordkeeping

- Churches that loan or rent their property must maintain an accurate record or calendar of those uses.
- The calendar or spreadsheet must be provided to the Washington Department of Revenue upon request and should include:
  - **Date** - the date of use
  - **Name** - the name of the person or organization using the property
  - **Purpose** - describe the event
  - **Income** - the amount of any rent or donation paid for the use
  - **Commercial Use** - Was the property used for pecuniary gain or business purposes?



# Questions and Examples

**Questions and handout examples**

# CPE needed?

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# Next Webinar



**Wednesday, September 8, 2021:**

**IRS and WA State Excise Taxes on Property Rentals**

# Thank you for joining us

Please reach out with any questions:

[info@battershellnichols.com](mailto:info@battershellnichols.com)

(253) 839-1620



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