



**Battershell & Nichols
welcomes you**

**Tax Considerations When Renting
Ministry Parking to Others**

The presentation will begin shortly...

CPE needed?

Within one week, send an email requesting CPE, complete the course evaluation, and include the list of CPE codes provided during the presentation to:

info@battershellnichols.cpa

(Only available for those attending live)

All CPE codes are provided in the presentation via polls.

Remote Accounting Services

- We provide bookkeeping services to churches and Christian nonprofits including:
 - Produce a monthly financial report for leadership
 - Process contributions and bills
 - Record all transactions in the general ledger
 - Reconcile bank accounts, credit cards, and close the books each month
 - Process payroll and file all quarterly and annual payroll forms
 - Provide budget and cash flow projection oversight
 - Give assistance with internal controls

Remote Accounting Services

- Why do we provide this service?
 - With online software solutions dramatically improving, outsourced bookkeeping has become a popular alternative to in-house bookkeeping
- Top reasons our clients use our remote accounting services:
 - Managing finances distracts the organization from its mission
 - Leadership and members have increased confidence in their finances
 - Tax and accounting regulations are complex and changing faster than ever
 - They want a trusted advisor to provide CPA oversight

Remote Accounting Services

Career Opportunity

- We are seeking an individual who has an eye for detail, engages well with customers, and is a team player.
- This job requires transferring data from multiple sources to online sites as well as creating and keeping support documentation for transactions.
 - Associate's degree in accounting or equivalent experience
 - Prior experience as a bookkeeper preferred
 - Experience with QuickBooks Online preferred
 - Experience in church accounting preferred
- To see a complete list of duties and responsibilities, along with the requirements and qualifications, see our website:
 - <https://battershellnichols.cpa/career-opportunities/>

DISCLAIMER:

- *The author is not engaged by this text or webinar in the rendering of tax, accounting, or similar professional services.*
- *While the tax and accounting issues discussed in this material have been reviewed with sources believed to be reliable, concepts discussed can be affected by changes in the law or in the interpretation of such laws since this text was printed. For that reason, the accuracy and completeness of this information and the opinions based thereon cannot be guaranteed.*
- *Before taking any action, all references and citations should be checked for accuracy and completeness and updated accordingly.*

Tax Considerations When Renting Ministry Parking to Others

January 29, 2025

By: Rick Battershell, CPA

Common Parking Rental Scenarios

1. The local transit authority or a local business rents parking spaces from 5 AM to 6 PM Monday through Friday
2. A church rents its parking spaces to the general public during a county fair or sporting event
3. A church rents a portion or all of its parking spaces to a third party operator who pays a monthly rental based upon a percentage of rentals received
 - a. 24 hours a day, 7 days a week for at least 30 days
 - b. 7 days a week but allows free parking on Sundays for attending services
 - c. Monday to Friday 5am to 6pm

WA State Property Tax Exemption

- 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)
 - **Exception for property used 15 days or less for commercial purposes**
 - **Exclusive use means not allowing public to use it for a donation or for free**
 2. This includes a parsonage, convent, parking, access, etc.
 3. Property used exclusively for school purposes (up to 400 acres)

WA State Property Tax Exemption 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?

WA State Property Tax Exemption Common Parking Rental Scenarios

1. The local transit authority or a local business rents parking spaces from 5 AM to 6 PM Monday through Friday
 - **PAY PROPERTY TAX**
2. A church rents its parking spaces to the general public during a county fair or sporting event 15 or fewer days total commercial use during the year
 - **NO PROPERTY TAX as long as no other commercial use of church property in the year**
3. A church rents a portion or all of its parking spaces to a third party operator who pays a monthly rental based upon a percentage of rentals received
 - a. 24 hours a day, 7 days a week for at least 30 days
 - **PAY PROPERTY TAX**
 - b. 7 days a week but allows free parking on Sundays for attending services
 - **PAY PROPERTY TAX**
 - c. Monday to Friday 5am to 6pm
 - **PAY PROPERTY TAX**

WA State Property Tax Exemption

Estimating Real Estate Taxes

Square feet of all land on parcel		200,000
Square feet – parking spaces	5%	10,000
Value of land (assessed)		\$3,000,000
Percent of land (parking spaces) to be rented		5%
Value of parking spaces to be rented		\$150,000
<u>Nearby taxable parcel</u>		
Tax	\$15,100	
Assessed value of property	\$1,500,000	
Real Estate tax rate computed		1.1%
Estimated real estate tax on parking spaces rented		\$1,650

WA State Property Tax Exemption Notifying State of Taxable Rentals

1. Submit change in annual renewal by March 31 at www.dor.wa.gov
 - <https://dor.wa.gov/taxes-rates/property-tax/nonprofit-property-tax-exemptions>
2. If there is a change in use or activity, notify the Washington State Property Tax Division of the Department of Revenue within 60 days
 - Call 360-534-1400 to be directed to the appropriate county auditor
 - Send messages in SAW account - use “My DOR Services” link, then select “Secure Messages for Property Tax” link

Washington State Sales and B&O Taxes

- **Long-term rentals** exemption from B&O tax
 - 30 continuous days or longer
 - 24/7 rental of facility (RCW 84.04.390)
- **Other rentals** of parking spaces:
 - A ministry is considered as granting a license to use real estate, but does not confer exclusive control or dominion
 - Retail B&O and sales taxes apply to parking lot rentals



Washington State Sales and B&O Taxes

Parking Spaces

Example: XYZ Company wants to use 50 parking spaces between 6am and 8pm Monday through Friday at a rate of \$20 per parking space per month, or \$1,000 per month. Which excise taxes apply?

- a) Service and other business & occupation tax?
- b) Retail sales and business & occupation taxes taxes?
- c) No tax?

WA State Sales and B&O Taxes

Common Parking Rental Scenarios

1. The local transit authority or a local business rents parking spaces from 5 AM to 6 PM Monday through Friday
 - **PAY RETAIL SALES AND B&O TAXES**
2. A church rents its parking spaces to the general public during a county fair or sporting event 15 or fewer days total commercial use during the year
 - **PAY RETAIL SALES AND B&O TAXES**
3. A church rents a portion or all of its parking spaces to a third party operator who pays a monthly rental based upon a percentage of rentals received
 - a. 24 hours a day, 7 days a week for at least 30 days
 - **NO RETAIL SALES AND B&O TAXES**
 - b. 24 hours a day, 7 days a week but allows free parking on Sundays for attending services
 - **PAY RETAIL SALES AND B&O TAXES, unless “the third party has dominion and control of the rented space all the time during the lease term” – ask for reseller permit to avoid collecting sales tax**
 - c. Monday to Friday 5am to 6pm
 - **PAY RETAIL SALES AND B&O TAXES – ask for reseller permit to avoid collecting sales tax**

WA State Sales and B&O Taxes Reseller Permit

- Purpose of Reseller Permit: Your ministry is required to collect sales tax on rental of parking spaces, unless you have the third party operator's reseller permit
- <https://dor.wa.gov/taxes-rates/retail-sales-tax/reseller-permits>



WA State Sales and B&O Taxes

Common Classifications For Churches And Ministries

▶ Use Black Ink & Return the Original Form			I STATE BUSINESS AND OCCUPATION TAX							
Line No.	Tax Classification	Code	Column 1 Gross Amount		Col. 2 Deductions* Totals from Pg. 3 & 4		Column 3 Taxable Amount	Col. 4 Rate	Column 5 Tax Due	
15	Service & Other Activities and/or Gambling Contests of Chance (less than \$50,000 a year)	04						.015		
16	Service & Other Activities (\$1 million or greater in prior year)	106						.0175		
17	Gambling Contests of Chance (\$50,000 a year or greater)	192						.017		
18	For Profit Hospitals; Scientific R&D	135						.015		
19	Retailing of Interstate Transportation Equip	19						.00484		
20	Retailing	02						.00471		

WA State Sales and B&O Taxes

Reporting Sales Taxes - Local and State

II STATE SALES AND USE TAX									
Line No.	Tax Classification	Code	Gross Amount	Deductions* Totals from Pg 4	Taxable Amount	Rate	Tax Due		
29	Retail Sales (also complete local tax section III)	01				.065			
30	Use Tax/Deferred Sales Tax (also complete local use tax section III)	05		Value of articles used by taxpayers as a consumer on which no Washington sales tax has been paid.		.065			
TOTAL STATE SALES & USE TAX									

III LOCAL CITY AND/OR COUNTY SALES AND USE TAX											
Local Sales Tax (Enter applicable rate of tax)					Code	Local Use Tax/Deferred Sales Tax (Enter applicable rate of tax)					Code
Total Taxable Amount must be the same as line 29, column 3, Taxable Amount					45	Total Value of Articles must be the same as line 30, column 1, Gross Amount					46
Line No.	Location Code	Taxable Amount	Local Rate	Tax Due		Line No.	Location Code	Value of Articles	Local Rate	Tax Due	
31						34					
32						35					
33						36					
TOTAL TAXABLE				TOTAL		TOTAL VALUE OF ARTICLES				TOTAL	

IRS: Unrelated Business Income Taxes

- 3 conditions for taxation [per Reg. 1.513-1(a)-1(d)] :
 1. Income from the activity must be a trade or business
 2. The trade or business must be regularly carried on
 3. The trade or business must not be substantially related to the exempt purpose of the organization (aside from the need for the funds)
- Unrelated Business Taxable Income (UBTI)
 - Exempt organizations pay tax at corporate rates (2024 = 21%)

Example – Regularly carried on

- Example: What are the IRS tax ramifications of renting out the church parking lot for one day per week for the entire year?
 - For IRS purposes it is considered taxable because:
 1. It is considered “regularly carried on”,
 2. It is considered a trade or business,
 3. It is unrelated to the exempt purpose of the organization, and
 4. It does not qualify for the rental of real estate exception... (it is considered a “use” of space). See IRS Pub 1828



IRS UBIT Rules: Parking Lot Rentals

- Subject to UBIT: Rental of parking spaces during the week for non-church purposes – such as to a local business or a government entity (not considered rental of real estate, only use of space). See IRS Pub 1828
- Not subject to UBIT: The church rents its entire parking lot to a third party who operates the church parking lot and pays a flat rental price, or rental price based on a percentage of gross rentals (assumes no acquisition debt on the property). See IRS Letter ruling 200241050
 - If rental is based on profit derived from the leased property – UBIT applies
 - If acquisition debt exists on parking lot – UBIT applies

IRS UBIT Rules: Parking Lot Rentals

- Example: A ministry rents its entire parking lot to a third party who pays a flat rental price. What are the IRS tax consequences, assuming that the church has no debt on its property?
- Answer: Rental of real estate is not taxable for IRS purposes

IRS Taxes on Real Property Rentals

- Real property rental income:
 - Generally NOT taxed as UBIT
 - TAXED if the property has “acquisition debt”



IRS UBIT Rules: Parking Lot Rentals

What is “Acquisition Debt”?

- The unpaid balance of debt incurred:
 1. ... by acquiring or improving property
 2. ... before or after acquiring property
 - If the debt would not have been reasonably incurred but for such acquisition or improvement
 3. A refinance obligation continues as “acquisition debt”



IRS UBIT Rules: Parking Lot Rentals

Example “Acquisition Debt”

Example: First Church currently owes \$500,000 on a liability treated as acquisition indebtedness. To fund a shortfall in cash reserves, due to a drop in donations, the church refinances the debt and borrows an additional \$100,000 from the same lender. The church executes a \$600,000 note for the total obligation. How much acquisition debt does the church have?

Answer: \$500,000

IRS UBIT Rules: Parking Lot Rentals

Example “Acquisition Debt” – Property Sale

(Not used for exempt purposes)

First Church buys unimproved land with the intent of using the property for church purposes. The purchase price was \$2 million, with 50% financed by the seller. The church never uses the property for church purposes, but sells the property for \$8 million (the debt was paid in full for 2 years). How much of the \$6 million gain is taxable?

- a) \$6,000,000
- b) \$3,000,000
- c) \$0

IRS UBIT Rules: Parking Lot Rentals Reporting to IRS

- If gross receipts > \$1,000
 - Use IRS Form 990-T
- Lower capital gains rates?
 - No-use corporate rate



IRS UBIT Rules: Parking Lot Rentals

Common Parking Rental Scenarios

1. The local transit authority or a local business rents parking spaces from 5 AM to 6 PM Monday through Friday
 - **PAY Unrelated Business Income Tax (UBIT)**
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 - **PAY Unrelated Business Income Tax (UBIT)**
3. A church rents a portion or all of its parking spaces to a third party operator who pays a monthly rental based upon a percentage of rentals received
 - a. 24 hours a day, 7 days a week for at least 30 days
 - NO UBIT – unless “acquisition debt” exists on the rented parking spaces**
 - b. 7 days a week but allows free parking on Sundays for attending services
 - PAY Unrelated Business Income Tax (UBIT)**
 - c. Monday to Friday 5am to 6pm
 - PAY Unrelated Business Income Tax (UBIT)**

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