



UNRELATED BUSINESS INCOME TAX (UBIT)

Independent Sector urges Congress:

- Repeal sections 512(a)(6) and 512(a)(7) of the tax code, which increase taxes on nonprofit organizations.

Background

Charitable nonprofits are permitted to engage in some business activity outside of their exempt purpose, but they have been required since 1950 to pay Unrelated Business Income Tax (UBIT) on that income. The 2017 tax law created two new sections of the tax code that increase taxes on charities:

- Section 512(a)(6) prohibits organizations from using losses in one unrelated trade or business to offset profits in another. They must now calculate UBIT separately for each trade or business.
- Section 512(a)(7) requires organizations to pay UBIT on the cost of any transportation fringe benefits that they provide to their employees, such as parking or transit benefits.

UBIT Not Meant to Tax Expenses

For over 60 years, UBIT has been a tax on certain *income* brought in by charities. Applying UBIT to an *expenditure*, like transportation benefits, is a gross misapplication of the law's purpose.

Increase Burdens on Vulnerable Organizations & People

Diverting charitable funds into federal coffers through these two provisions creates profound financial and administrative burdens on charities and the people they serve.

- The country's 3rd largest employment sector, already facing a negative impact on charitable giving, also must pay more in taxes.
- Small nonprofits that never engaged in unrelated business activity may be required to pay UBIT, because they offer employee parking or pre-tax transit benefits.
- Houses of worship, which have long been exempt from filing Form 990 with the IRS, may be required to file for the first time.
- For many nonprofits, transportation benefits are mandated by local law rather than an optional fringe benefit. They are now taxed on a locally mandated expense.

Research Indicates Damaging Impact

Survey research indicates that section 512(a)(6) will cost impacted organizations about \$15,000 per year. Section 512(a)(7) will divert an average of about \$12,000 per year away from organizations' missions, with smaller organizations seeing a larger impact as a percentage of their budget.

Congress Must Lift This Burden

These tax increases are a misguided diversion of charitable resources that should be repealed through any number of bills: H.R. 513 and S. 1282 would repeal both provisions, while H.R. 1223, H.R. 1545, S. 632, and S. 501, would repeal only the fringe benefit tax.