ALERT: Certain investments may have unintended consequences for not-for-profit

May 10, 2018

A not-for-profit may be subject to federal tax on income from certain business activities that are considered unrelated to the tax-exempt purpose of the entity. The IRS is more concerned with how this income was earned rather than whether it is used for the tax-exempt purpose. There can be instances where a not-for-profit invests funds and uses the income from the investments for the tax-exempt purpose. In this instance, the income is taxable.

Interest and dividends are not considered unrelated business income subject to tax. However, investments in partnerships and publicly traded partnerships are treated as unrelated business income and subject to tax. Sometimes investment advisors view investments in partnerships and publicly traded partnerships the same as investments in stocks and bonds. However, there are very different tax consequences. Not only is the income from a partnership or publicly traded partnership taxable (if it is income), but the gain on the sale of partnership or publicly traded partnership interest is usually taxable as well.

For more information about how these rules impact your not-for-profit, contact your AGH tax professional or Jennifer Allen, senior manager of tax services, at 316.291.4087 or Jennifer.Allen@aghlc.com.

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