

Church Fundraising and the Property Tax Exemption

By Harold Smith, Exemption & Deferral Program Manager

In Washington, approximately 5,000 churches benefit from a property tax exemption. The typical church can be exempt for up to five acres of land and the buildings located on it if they use the property exclusively for church activities. Churches can rent or loan their property to other nonprofit organizations or schools as long as it is for charitable purposes that are consistent with that church's purposes and beliefs. However, exempt church property cannot be used for commercial activity, nor can it be rented or loaned to businesses or individuals for them to promote their own business or make money. When church property is used for money-making purposes, that portion of the property is subject to property tax.

Under the Washington Administrative Code, churches can host occasional fundraising events if they are careful to use the correct approach. If a church allows an individual or business to participate in a fundraiser, the church (or the nonprofit organization that is hosting the event) must receive 51 percent of the profit from the sales by that individual or business. If the church does not receive the majority of the profit, the vendor is considered to be using exempt property to promote their own business, making that portion of the church property subject to property tax.

The most common mistake that churches make is to host a holiday bazaar or a street sale where they raise funds for their charitable causes by collecting table rent or space rent from vendors. However, once the fee is paid, the individual vendor uses that space to make whatever money they can without giving the majority of the profit over to the church for their purposes. This restriction puts the church and the Department in a tough spot. However, when this kind of business activity is reported and becomes a pattern, the exemption must be removed for that portion of the property.

The 2010 Legislature amended the church exemption to permit limited commercial use of church property outside of the fundraising scenario. Churches can now rent or loan their property to a nonprofit organization for the purpose of hosting a farmers market. That farmers market event has to be carefully structured and monitored. It has to have a very specific balance of vendors and sales dollars. If it conforms to the type of market that nonprofit farmer's market associations run, it can be held on church property on as many as 53 days without causing a problem for the exemption.

However, with respect to other businesses' activities, the church exemption remains much as it has been for decades. That is, no business use is permitted unless it is part of a carefully structured fundraising event. The Department is preparing educational materials on this subject for distribution this Fall. We always recommend that churches call us and run their fundraising ideas by us so we can help them avoid exemption problems. ♦

