Guidelines for Soliciting Sponsorship for Events/Programs

Exempt organizations are taxed on income from any unrelated trade or business activities carried on by the organization. Promotion of private companies is generally considered advertising – an unrelated business activity. If the recognition given to a corporate sponsor is deemed to be advertising, then the sponsorship payment may be taxed as unrelated business income and will not be counted as public support for purposes of qualifying as a public charity.

The IRS has created safe-harbor rules to help tax-exempt organizations distinguish between taxable advertising and sponsorship. The IRS exempts payments that fit within the safe harbor, known as “qualified sponsorship payments”. It is important that the sponsorship be structured so that it is a qualified sponsorship payment rather than taxable advertising.

Payments accepted with no exception that the sponsor will receive a “substantial return benefit” in exchange for the payment are not considered taxable advertising.

“Substantial return benefits” do not include goods or services that have an insubstantial value. The regulations disregard benefits having a fair market value of less than 2% of the sponsorship payment. In determining the 2% threshold, all return benefits (other than use or acknowledgement) must be considered. If the amount of benefit is over 2%, a quid pro quo will show on the charitable receipt indicating the portion of the payment that can be demonstrated as a qualified sponsorship payment.

Qualified Sponsorship Safe Harbor

Any payment by any person engaged in a trade or business with respect to which there is no arrangement or expectation that the person will receive any substantial return benefit

- Mention of location, phone number, website
- Value-neutral descriptions, including displays or visual depictions, of the sponsor’s product line or services
- Displays of brand or trade names and product or service listings
- Logos or slogans that are an established part of the sponsor’s identity
- Mere display or distribution (free or at a cost) of the sponsor’s product at a sponsored activity

Unqualified Sponsorship Safe Harbor

Any message or material (whether broadcast, transmitted, published, displayed or distributed) that promotes or markets the sponsor’s trade or business or any of its services, facilities or products.

- Qualitative or comparative language
- Price information or other indications of savings or value

2.6.17
• An endorsement or inducement to purchase, sell, or use the sponsor’s service, facility, or product
• A single message containing advertising and acknowledgement is considered 100% advertising
• Payments that are contingent on the level of attendance at events, broadcast ratings or other factors indicating the degree of public exposure
• The right to limit distribution of competing products or services in connection with the payment

Periodicals

The issue of nontaxable sponsorship versus taxable advertising does not apply to periodicals. If it looks like a qualified sponsorship, as defined above, but it appears in a periodical, it is most likely a taxable advertisement.

A periodical is defined as “regularly scheduled and printed materials that is published by or on behalf of the exempt organization that is not related to and primarily distributed in connection with a specific event … and for this purpose, printed material includes material that is published electronically. So if your journal or newsletter has an online edition that is a periodical too. However, meeting or convention programs are not periodicals, so for those publications, the safe harbor rules for nontaxable sponsorships apply.

To protect sponsorship payment from treatment as taxable advertising, you should consider entering into a written Corporate Sponsorship Agreement that appropriately limit acknowledgement to communications or displays that qualify for the sponsorship safe harbor.