

Maintaining your Church's Property Tax Exemption

The Basics

It is important to understand that property tax exemptions are based on use; to qualify the property must be exclusively used to conduct the exempt activity. The property tax exemption provided under [RCW 84.36.020\(2\)](#) is available for real and personal property owned by a nonprofit recognized religious denomination used exclusively for religious worship and related church purposes. A maximum of five acres of real property is eligible for exemption. This maximum acreage could include a parsonage, convent, caretaker residence, and parking. Unoccupied land included within the five acres may not exceed 1/3 of an acre.

- **Parsonage:** a residence owned by a church that is occupied by a licensed or ordained clergy person designated for a particular congregation and responsible for conducting their regular worship services. A parsonage does not need to be contiguous to the church to qualify for exemption.

NOTE: "Regular services" means religious services that are conducted on a routine and systematic basis at prearranged times, days, and places.

- **Caretaker's residence:** a residence owned by a church and located on the church site or contiguous to the church site. Size of the residence must be reasonable and appropriate in light of the duties performed. Caretaker must receive the use of the residence as compensation and pay no rent.
 - Caretaker's duties *must* include:
 - Regular surveillance and patrolling of the property; **or**
 - Daily property maintenance duties and property access control duties.
- **Convent:** a residence owned by the church and occupied by a community of clergy or nuns devoted to religious life under a superior. A convent does not need to be contiguous to the church to qualify for exemption.

Annual Renewal Required

Generally, the initial exemption is established for a single tax year or specific tax years. To continue the exemption, churches must file an annual renewal, disclose any changes in ownership or use, and confirm that their property continues to qualify for exemption. The Department of Revenue (Department) sends a notice each year in January reminding churches to renew online at www.dor.wa.gov before March 31 using the "My account" program. Failure to renew will result in the loss of the exemption.

Loaning/Renting Exempt Property

The 2014 Legislature passed [Senate Bill 6405](#), which took effect June 12, 2014. This measure provides new opportunities for churches to rent or loan their exempt property to the public. Churches may now allow the use of their property for non-exempt activities up to 50 days per year. On 15 of those 50 days, the property can be used for business activities.

Churches may continue to loan or rent their exempt property to nonprofit organizations or schools using the property to conduct an eleemosynary activity. "Eleemosynary activity" means a charitable activity in which some social objective is served or general welfare is advanced.

Examples of "eleemosynary" activities:

- Community club using/renting exempt property to conduct a canned food drive for the local food bank.
- Nonprofit school using/renting exempt property to conduct a free or low-cost adult literacy class.
- Nonprofit health organization using/renting exempt property to provide a free or low-cost vaccine clinic.

What you should know about...

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Examples of "non-exempt" activities:

- The local Chamber of Commerce using/renting exempt property to conduct a monthly club meeting.
- Fraternal organization using/renting exempt property to host a social event.
- For-profit organization using/renting exempt property to conduct an employee benefit seminar.

Beginning in 2014, churches may use, loan, or rent their exempt property for pecuniary gain or to promote business activities up to 15 of the 50 days permitted for non-exempt activities.

Examples of pecuniary gain or business activities:

- Music or fitness instructor using/renting exempt church property to conduct their own classes.
- Church hosting a festival/fair where individuals and companies sell products or services.
- Church using their exempt property for a weekly fundraising activity (such as a licensed bingo game).

Set-up and takedown days are not included in the new 15/50 - day allowance.

Days that immediately precede or follow an event that are only used for set-up or take down activities do not count against the 50- and 15-day allowances.

Limit on Rental Income Continues

The rental income or donation received from the loan or rental cannot exceed the maintenance and operation expenses attributable to the portion of the property loaned or rented.

Fundraising Events

Church-sponsored fundraising events held on exempt property do not jeopardize the exemption, if each event:

- is limited to five days or less; **and**
- 51% or more of the net proceeds from the event is remitted to the sponsoring church.

NOTE: Churches may co-host fundraising events sponsored by other qualifying nonprofit organizations, if these criteria are satisfied.

Previously, festivals, bazaars, and neighborhood sales where individual vendors or businesses kept a majority of their net profits were not permitted. Under the new law, these events can be hosted on exempt property as long as they are conducted within the overall 15-day allowance for business activity.

NOTE: Fundraising activities that are regularly scheduled on a daily, weekly or monthly basis (such as a weekly/monthly bingo night) are considered to be business activity, rather than "occasional fundraising events". These may only be conducted within the overall 15-day allowance for business activity.

Farmers Markets

Property exempt under RCW 84.36.020 may continue to be used to conduct activities related to a farmers market on up to 53 days per year.

- "Farmers market" has the same meaning as "qualifying farmers market" as defined in RCW [66.24.170](#).
- Set up and take down days are included in the overall 53-day allowance for farmer's market activities.

Record of Use

Churches that share their properties with individuals or other organizations under the revised law must maintain an accurate record or "calendar" of those uses throughout the year. This calendar must be provided to the Department upon request. The calendar should include: (1) *the date of the use*, (2) *the name of the person or organization using the property*, (3) *the purpose of the event*, (4) *the amount of any rent/donation paid for the use*, (5) *and an indication if the property was used for pecuniary gain or business purposes*.

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Frequently Asked Questions

Question: *We have a lovely chapel surrounded by beautifully landscaped grounds. Community members often seek to use our chapel for their wedding ceremony. Generally, these community members are not a member of our congregation. However, because our church supports marriage, we allow community members to rent our chapel. Will this activity jeopardize the exempt status of our property?*

Answer: Probably not. As long as your congregation continues to use the facility for regularly scheduled worship **and** the fee or donation received from these rentals do not exceed the costs of operation and maintenance of the portion of the property loaned or rented.

Question: *Our church was gifted property, which we may sell or keep. We may use the property to produce rental income for our church. Is this property eligible for an exemption while owned by the church?*

Answer: No, the property must be exclusively used for regular worship and related church activities within the church's five-acre campus. It is important to remember that it is the "use" of property which controls the exemption.

Question: *Our pastor purchased his own home and vacated the parsonage. Our youth minister and his family would like to move into the parsonage. If we allow the youth minister to move in, would the parsonage still be eligible for a property tax exemption?*

Answer: Probably not. To qualify for the exemption, a parsonage must be occupied by a licensed or ordained member of the clergy who is designated to the congregation and responsible for conducting the regularly scheduled worship services of the congregation. Generally, youth pastors, music ministers, church elders or other church employees and volunteers do not meet the required qualifications. However, if the parsonage is on or next to the church property, there are other ways it might be used to preserve the exemption. Give us a call and let us help you plan.

Question: *Our church hosts a neighborhood garage sale one Saturday each month for a total of 12 events annually. Congregation or community members are invited to sell their items in our parking lot for a \$15 fee. Will this jeopardize the exempt status of the property?*

Answer: Maybe. Sales like this are considered to be business activity. Community members that are keeping the proceeds for their own benefit are using the exempt property for pecuniary gain. Under the new law, these events will not jeopardize the exemption, if conducted on 15 days or less in a calendar year. Please be aware that the limit applies to all pecuniary gain and business activities. If one of these sales is done every month, the church would be left with three remaining business activity days to use for other events.

Question: *Our church will host a neighborhood garage sale soon to raise funds for our missionary programs. Congregation or community members are invited to participate by selling their items in our parking lot. Our church won't charge a fee, and participants must agree to donate 51 percent of their net profit to our church. Will this activity jeopardize the exempt status of the property?*

Answer: No. Because participants are remitting 51 percent of their net profit to the host church, this is considered a qualifying fundraising activity. There is not a specific limitation on the number of qualifying fundraising events a church may host; however, fundraising activities that are regularly scheduled on a daily, weekly, or monthly basis are considered business activity rather than "occasional fundraising events".

Question: *A musical group would like to hold a community concert in our church. The group would charge admission and/or sell merchandise during the concert. The church will not be charging a fee or receiving a donation from this group. Will this jeopardize the exempt status of the property?*

Answer: Maybe. The activity conducted by the musical group is considered to be pecuniary gain or business activity. Business/pecuniary gain activities will not jeopardize the exemption, if conducted on 15 days or less during the calendar year.

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Question: *Our church would like to host a community concert in our sanctuary. We will charge admission at the door. We have hired a musical group to perform for a flat fee (not based on attendance or door admission). We will purchase merchandise which we plan to sell during the concert. Will this jeopardize the exempt status of the property?*

Answer: No. This is considered a qualifying fundraising activity. There is no limitation on the number of qualifying fundraising events a church may host; however, fundraising activities that are regularly scheduled on a daily, weekly, or monthly basis are considered business activity rather than "occasional fundraising events".

Question: *A congregation member conducts a fitness program in our church building. She charges participants \$5 per class. Will this jeopardize the exempt status of the property?*

Answer: Yes. This program is considered to be business activity when it is conducted by an individual or for-profit organization. If the program is conducted on more than 15 days during the calendar year, the exemption would be lost.

Question: *Our church would like to conduct a fitness program for our community. We would hire an exercise instructor for a flat fee (not based on the number of participants or participation fees). We would charge participants \$5 per class to cover the costs of providing the class. Will this jeopardize the exempt status of the property?*

Answer: No. The activity described is considered a church activity conducted for church purposes on a nonprofit basis. Because the instructor will be hired to provide a service for the church and the participation fee will be paid directly to the Church, and fee does not exceed the Church's cost; the activity is not considered to be a pecuniary gain or business activity.

Question: *Our church sponsors a scouting group. This group uses our recreation hall each Thursday for scout meetings and multiple Saturdays during the year for scout activities. Will this activity jeopardize the exempt status of our property? What about hosting other scouting troops?*

Answer: No. Because the scouting group is sponsored by the church, this activity is considered a church activity conducted for church purposes. Sharing your property with other scout troops to conduct charitable character-building activities is generally fine as most scouting organizations are nonprofits conducting eleemosynary activity.

Question: *Our church hosts several seminars each year on various topics (i.e. marriage, parenting, financial, and health issues). These seminars are presented by professionals within the community or industry. Congregation and community members are invited to participate. The presenters are not paid; however, they do market their book and other items and related services during the seminars. Participants pay a fee, which covers the cost of the seminar materials and traveling expenses of the presenter, if needed. Will this activity jeopardize the exempt status of the property?*

Answer: Maybe. The activity conducted by the presenters is considered to be pecuniary gain or business activity. Business/pecuniary activities will not jeopardize the exemption, if conducted on 15 days or less during the calendar year.

Question: *Our church leases several copy machines for which we make personal property tax payments to the leasing company. Can we apply for a personal property tax exemption on our leased copy machines?*

Answer: No. To qualify for the exemption the church must own the real or personal property. Leased property is ineligible for exemption under RCW 84.36.020.

This message provides general scenarios and answers. Refer to RCW 84.36.800, 84.36.020 and WAC 458-16-110, 458-16-180, 458-16-190, 458-16-200 for specific requirements. Please contact the Department of Revenue's Property Tax Division at (360) 534-1400 for any questions or concerns.