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Tax Treatment of Income Received from Corporate Sponsorships

Is corporate sponsorship income taxable or a charitable contribution?

Nonprofits that receive corporate sponsorship income need to know whether the income they receive as sponsorship money will be considered as a **tax-free gift** (e.g., a charitable contribution) or as **taxable advertising payments which may trigger [unrelated business income](#)** taxes (also known as “UBIT”).

Most charitable nonprofits would prefer that payments from corporate sponsors be considered non-taxable, charitable contributions. That may be the result intended by both the charitable nonprofit and the corporate sponsor, but unless the payment is structured to meet IRS requirements, the payment is likely to be classified as taxable income. The IRS focuses on whether the corporate sponsor has any expectation that it will receive a “substantial return benefit” for its payment. If so, the payment will result in taxable income for the nonprofit which reports the income on [IRS Form 990-T](#).

What makes corporate sponsorship payments non-taxable?

One way to make sure corporate sponsorship payments are non-taxable is to make sure they meet the definition of "[qualified sponsorship payments](#)." A qualified sponsorship payment is acknowledged by the charitable nonprofit in the same way as any other charitable donation. Compare how your nonprofit acknowledges its regular donors with how the corporate sponsor is treated. Note where there is a difference. Does the special treatment for the corporate sponsor resemble any of the factors described below?

Factors that may result in taxable income

- Exclusivity: if a nonprofit promises a for-profit that it will be the “exclusive” sponsor, that promise triggers an automatic finding of “substantial return benefit” because the IRS considers exclusivity to be a significant benefit. (Using the word “endorse” can similarly imply a substantial benefit to the company that is being endorsed).
- Providing inducements to buy a sponsor’s products or services.
- Providing a link from a sponsor’s name/logo on the nonprofit’s website to the page of a sponsor’s website where a product or service is sold, or listing the phone number where the product or service can be ordered.
- Providing more than token services or other privileges to the sponsor in return for its sponsorship payment.
- Accepting a payment from a corporate sponsor that is contingent upon the level of attendance at the nonprofit’s event.
- Providing sponsors with specific advertising opportunities, at no charge, in regularly scheduled publications that usually require paid advertising.

Factors that usually indicate charitable contributors

- Acknowledging the corporate sponsor by including the sponsor’s name, logo, general phone number, locations, and internet address in printed media, or on a nonprofit’s website.

- Value-neutral displays of a sponsor's products or services, or the distribution of free samples of a sponsor's products at a nonprofit's event. The nonprofit should not endorse the product/service.
- A single static internet website link that takes the viewer only to the sponsor's home page – *not* to a page where a product or service is marketed or sold.

Some payments are both taxable and non-taxable:

Payments from a business sponsor can actually be a mixture of charitable contributions and advertising payments. If so, a portion of the sponsorship payment will be taxable. For example, while it is fine to acknowledge a corporation's support for a conference or special event with a banner and a public "thank you" from the podium, if the sponsorship package also includes a full page advertisement in the conference brochure, with text written by the corporation that promotes its products and services to attendees at the conference, at least some of the corporate sponsorship payment is likely to be considered advertising income. In such cases the nonprofit will have to report the advertising portion of the income as "unrelated business income," subject to tax ("UBIT" = "[unrelated business income tax](#)"). The following resources will help you distinguish between acknowledgments and advertisements as well as better understand the implications of both.

Additional Resources

- [Advertising or Qualified Sponsorship Payments?](#) (Steven Woolf, National Council of Nonprofits, January, 2022)
- [Advertising or corporate sponsorship income?](#) (IRS)
- [FAQs on corporate sponsorships](#) (Adler & Colvin)
- [Publication 598](#): Unrelated business income (IRS)
- [Unrelated Business Income](#) definitions (IRS).

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