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Advertising or Qualified Sponsorship Payments?

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Nonprofits often receive payments from businesses and others in connection with a meeting, publication, or event. It's important to distinguish between payments considered to be "advertising" from "qualified sponsorship payments." While both can represent a significant nonprofit funding source, there are significant differences at tax time. Advertising most often subjects the nonprofit to "unrelated business income (UBI)" tax, while qualified sponsorship payments are tax-exempt.

What's the difference and how do you minimize UBI exposure? The tax law contains specific definitions of both terms but their application to specific facts can be tricky.

- **Advertising** is payment for any message or other material which promotes or markets a trade or business, service, facility, or product. Such messages most often contain *qualitative or comparative* language, price information or other indications of savings or value for the product or service, or an endorsement or an inducement to purchase, sell or use the company's service, facility, or product.
- A **qualified sponsorship payment** is one where there is no arrangement or expectation that the business will receive any substantial return benefit in

exchange for the payment. Substantial benefit is considered any benefit other than a use or acknowledgement or other "disregarded benefit." Use or acknowledgement can include exclusive sponsorship arrangements, logos, or slogans without qualitative or comparative descriptions, product locations and addresses, or value-neutral descriptions including brand or trade names or listings.

Keep in mind that advertising does not include "acknowledgements" at events or in publications. However, if the acknowledgement includes qualitative or comparative language, price information or references to savings or other inducements regarding the product or service, it will likely be considered advertising, subject to UBI. Mere product display or distribution, whether for free or not, at the sponsored activity is not considered an inducement to purchase, sell or use the product. But remember that while advertising does not include mere acknowledgements, a single message that contains both advertising and an acknowledgement *will be considered advertising* by the IRS.

Additional information can be found on the IRS page [Advertising or Qualified Sponsorship Payments?](#) Also see the recent "[Tax Exempt Issue Snapshot](#)" on this issue.

Resources

- [Advertising or Qualified Sponsorship Payments?](#) (IRS)
 - [Tax Exempt Issue Snapshot](#) (IRS)
 - [Unrelated Business Income Taxation](#) (National Council of Nonprofits)
 - [Tax Treatment of Income Received from Corporate Sponsorships](#) (National Council of Nonprofits)
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