

Unrelated Business Income (UBI)

CAC is a tax-exempt Social and Recreational club, 501(c)(7). Income received by the club which is not related to the social purposes of the club and its members is called Unrelated Business Income and is taxable income. This requires the filing of separate tax returns, and the payment of taxes to the IRS and the California Franchise Board.

The IRS monitors the amount of UBI income (taxable) compared to regular club income (non-taxable) to be sure that the tax-exempt status is deserved, as opposed to a scheme to defraud the government. There are specific levels of UBI as a percentage of total income, which is described as a “safe harbor,” meaning an acceptable or reasonable amount of UBI. Higher percentages could prompt an IRS audit that might result in a loss of the tax exempt status.

The guideline limits total UBI to be at or under 35% of gross revenue. Within that 35%, a sub-set of UBI for accommodations, meals, and services must be at or under 15% of gross revenue.

From the tax code on Social and Recreational Clubs 501(c)(7) –“If an organization has outside income that is more than these limits, all the facts and circumstances will be taken into account in determining whether the organization qualifies for exempt status.”

Percentage	Items in UBI
35% Total	Apartment Rent
	CAC Membership entry fees
	Interest on investments – bank interest, for example
15% Sub-set	Accommodations, meals, and services provided to non-members. If non-member “pays,” then revenue is UBI.

For member events and private accommodations, either member or non-member, it is “who pays” that determines the UBI status of the revenue. If non-member pays, then income is UBI. Donations to CAC or to the lodges are not UBI, even if from non-members.

We monitor these percentages each quarter to be sure we are not running into possible problems due to high UBI percentages.