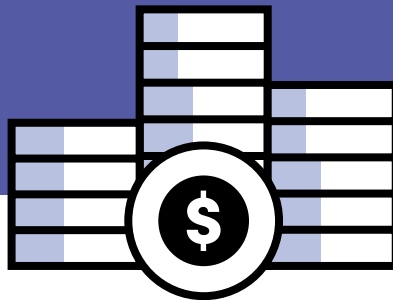


HELPING ELCA CHURCHES NAVIGATE THEIR ECONOMIC FUTURE

WHAT ABOUT TAXES?!!!



A Guide for Churches
Starting to Generate Revenue



Evangelical
Lutheran Church
in America

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This tool was developed in collaboration with the Evangelical Lutheran Church in America (ELCA) and RootedGood. This version was produced in July, 2026.

RootedGood worked with the ELCA Church Property Resource Hub and the Office of the Secretary teams to adapt the tool to reflect the polity, constitution and practices of the ELCA.



Introduction

When a congregation begins to explore income generating activities through social enterprise or renting property there often is anxiety around tax status. We have created this tool to help you ask the right questions related to the tax issues as it concerns income generating activities and churches.

This tool is designed to increase your confidence as it relates to tax issues, build your capacity to understand the tax implications, and to help you as you align money and mission.

While there are important tax exempt and tax implications for churches to consider, these issues do not prevent churches from engaging in social enterprise or new activities that generate revenue. There is almost always a way to structure the activity in a way that is legally and ethically sound while also allowing for new forms of ministry and new sources of income.

At the end of this tool is a 'going deeper' section which unpacks potential tax implications in more detail.

This information was put together with assistance from the Office of the Secretary of the Evangelical Lutheran Church in America. The use of these materials does not create an attorney-client relationship. This is **not** legal or tax advice – consult a local attorney and/or tax advisor on all decisions before acting.

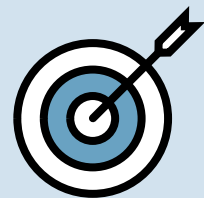
Before you begin

On the next page is the 'decision tree' with questions to consider when starting a social enterprise. Some things to keep in mind throughout the process:



1

Not all taxes can, or should, be avoided just because the social enterprise is run by a church or tax-exempt entity. And sometimes the simplest solution may be to include some or all taxes in the business plan for the venture.



2

The more closely aligned an activity is to the primary purpose of the organization, the less complicated tax issues may be.

Note: the focus is on the income-producing activity itself, and not how the funds are used.



3

Any venture along the decision tree cannot:

1. Result in direct and/or substantial benefits to private interests; and/or:
2. Unjustly enrich any individuals who are in a position to influence the use of the organization's assets. (This does not prohibit appropriately paying employees.)

Note: As a tax-exempt entity you may also be able to purchase materials or products (including construction materials during building) without paying sales tax on the cost of those materials. Sales tax as a customer is different from remitting sales tax as a seller.



4

Different legal structures can be created which may help, or hinder, the tax implications (such as a subsidiary LLC, etc.).



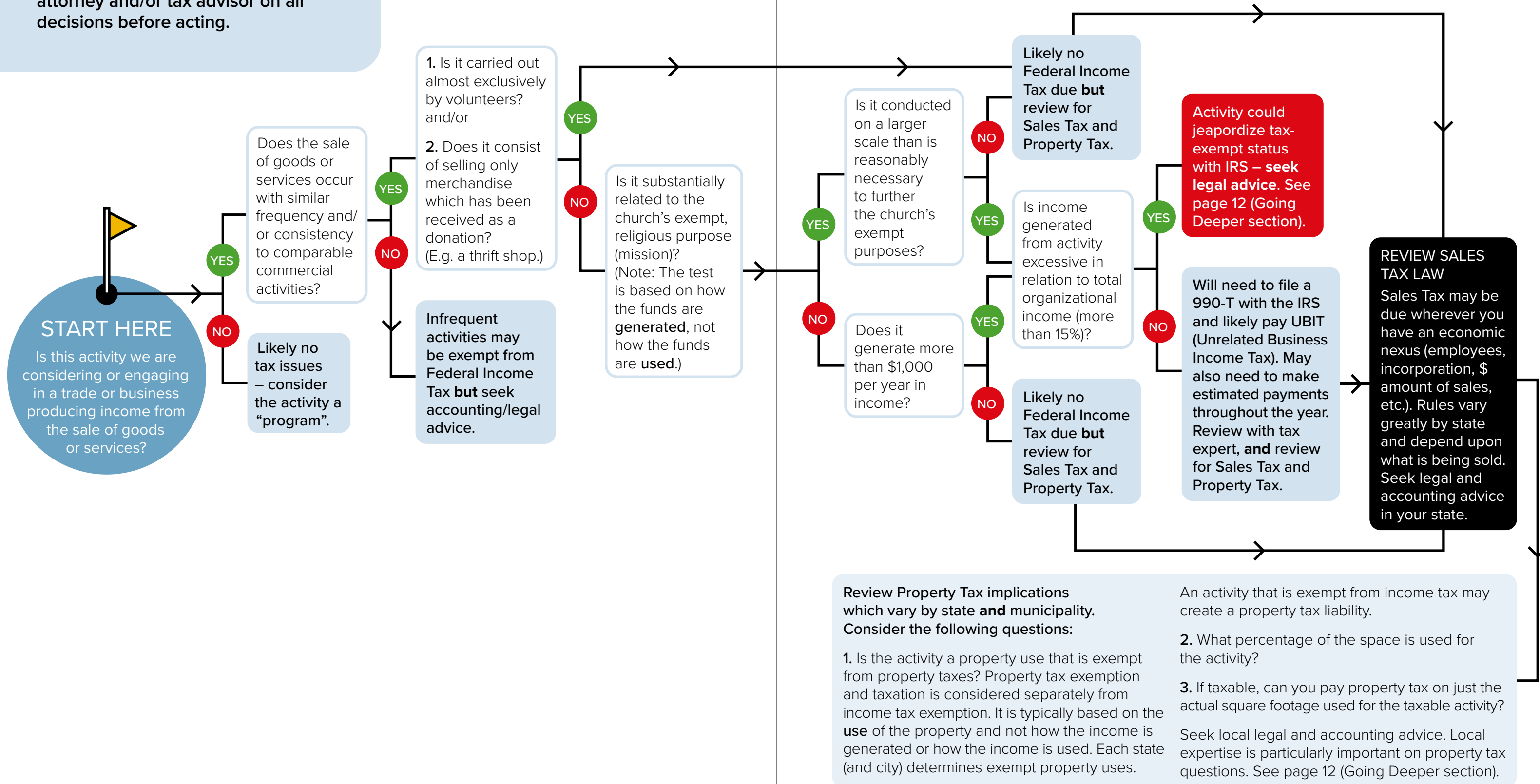
5

Always seek local legal and accounting assistance **before** making any decisions or starting a social enterprise. Budget funds to pay for expert legal and accounting assistance as part of any feasibility study and launch of a new revenue-generating activity.

Note: As a tax-exempt entity you may also be able to purchase materials or products (including construction materials during building) without paying sales tax on the cost of those materials. Sales tax as a customer is different from remitting sales tax as a seller.

Decision Tree

Consider these questions when starting a social enterprise. This is **not** legal or tax advice – consult an attorney and/or tax advisor on all decisions before acting.



Three Examples

The following are three examples of how a church can engage in social enterprise and revenue generation while handling the tax implications appropriately. These examples are theoretical and dependent upon the location of the church and the specific activity they are engaging in. They are not the only way the tax issues can be addressed.

Always consult **local** attorneys and tax accountants who specialize in tax-exempt entities and who are not members of the church **before** beginning a revenue generating activity (or signing any leases).

EXAMPLE 1

CHRIST LUTHERAN CHURCH

Engage in activity that is clearly stated and within the church's tax-exempt, religious purpose.

After consulting with a local attorney and tax accountant that specialize in tax-exempt entities, Christ Lutheran Church starts generating revenue from renting space or engaging in a social enterprise activity.

The nature of this activity is a very clear extension of their religious purpose, and is clearly stated as such in the mission statement of the church and minutes of their session meetings.

Based on the information provided by their attorney and accountant, Christ Lutheran Church does not need to pay any federal or state income tax on the activity.

They also consult with a local property tax expert and determine the use of their property for this purpose is **not** exempt from property taxes.

They work with their city property tax assessor to arrange for payment of property taxes on the portion of their property being used for this activity (the remaining portion remains exempt).

They incorporate the cost of the property taxes into the business model for the activity and still generate a net positive cash flow.



EXAMPLE 2

GRACE LUTHERAN CHURCH

Engage in a small side activity that is only a small portion of the church's overall budget and pay Unrelated Business Income Tax on that income.

After consulting with a local attorney and tax accountant that specialize in tax exempt entities, Grace Lutheran Church starts generating revenue from renting space or engaging in a social enterprise activity.

The activity and income generated is quite small, and amounts to only 8–10% of their annual revenue and total activity as relates to other religious activities.

Based on the information provided by their attorney and accountant, Grace Lutheran Church does need to pay Unrelated Business Income Tax on the income from the activity.

They begin filing a Form 990-T each year and remit their quarterly estimated payments. They incorporate the cost of this Unrelated Business Income Tax into the business model for the activity and still generate a net positive cash flow.

They also consult with a local property tax expert and determine that the limited use of their property for this purpose will not lead to property tax liability.



EXAMPLE 3

FIRST LUTHERAN CHURCH

Establish a new non-profit, tax-exempt entity that has a broader charitable purpose than the religious purpose of the church.

After consulting with a local attorney and tax accountant that specialize in tax-exempt entities, First Lutheran Church decides that rather than engaging in a new activity under the church's religious tax-exempt purpose they will create a new tax-exempt entity, that has a broader charitable purpose, such as a Community Development Corporation (CDC) or a non-profit community center.

With help from their attorney, they create a governance structure that allows the new entity sufficient autonomy, while also remaining connected via leadership and governance to the church.

This new entity then engages in revenue-generating missional activities that are consistent with its stated tax-exempt purpose. This entity does not need to pay any income tax because all of its activity falls within its tax-exempt purpose.

The church rents space to the new non-profit, which generates income for the church. They consult with a local property tax expert and determine that this rental arrangement will not lead to a property tax liability.



Going Deeper

Churches are generally recognized as tax-exempt organizations because of their religious and charitable purpose and activities. This means they typically do not pay taxes on property used for ministry or on income from normal church activities such as donations and fundraising.

As churches open their buildings and land to outside groups, sometimes for a fee, it becomes important to understand when these activities may create new tax obligations. **While these activities rarely jeopardize a church's overall tax-exempt status, they can result in taxes on certain portions of the property or on certain types of income.**



FEDERAL INCOME TAXES

This tool focuses in part on federal income tax considerations, especially when income is generated from activities that are not part of a church's normal religious or charitable functions.

If your church is launching a social enterprise, entering into a long-term lease agreement with an outside organization, or leaning into space-sharing/space-rentals as a significant income stream, then some of that income may be subject to Unrelated Business Income Tax (UBIT), particularly if the activity is regularly carried on like a commercial business.

This tool can help you determine what tax you might incur on the resulting income. You can incorporate any income tax into your financial or program plans.



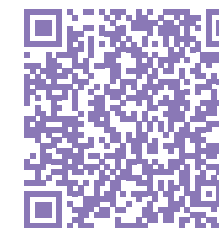
PROPERTY TAXES AND USE OF CHURCH PROPERTY

Property taxes and tax exemptions are generally based on how property is used, not simply who owns it. Churches generally do not jeopardize their tax exemption by renting property to another organization if the property is used for religious, charitable, or educational purposes. However, renting property for non-exempt purposes (such as commercial or private uses) may result in property taxes on the portion of the property being used and, if such activity becomes substantial, could raise broader tax concerns.

Because these rules vary by state and locality, churches should consult a local tax assessor or qualified attorney before entering ongoing rental or leasing arrangements. Below, you can find space to note down a legal expert and your tax assessor's contact information. You can find more information on property tax considerations on the ELCA's Church Property Resource Hub.

A church's state nonprofit status and federal tax-exempt status are related but distinct. Maintaining good standing with state requirements is important to preserve overall legal and tax benefits. These vary from state to state, so it is important to confirm your church's nonprofit status with your secretary of state, and stay on top of any renewal and maintenance processes. Below, you can find space to note down who the appropriate contacts are, and the next date by which your church might need to submit documentation to renew/maintain its status.

The best way to get ahead of tax burdens is to be in conversation with your synod office, a real estate lawyer, and your local tax assessor. More detailed guidance on taxes and exemptions for churches from the ELCA can be found on our **Church Property Resource Hub** (scan the QR code to visit):



OUR COMMUNITY'S LOCAL TAX ASSESSOR IS:

Name:

Phone:

Email:

OUR CHURCH'S REAL ESTATE LAWYER IS:

Name:

Phone:

Email:

OUR SYNOD LAWYER IS:

Name:

Phone:

Email:

Check with your state's Secretary of State to fill in the following information:

OUR CHURCH'S NONPROFIT STATUS IS DETERMINED BY:

Department (in your state):

Contact information:

OUR CHURCH IS A NONPROFIT IN GOOD STANDING AS OF:

Date:

WE WILL NEED TO RENEW/ MAINTAIN OUR CHURCH'S NONPROFIT STATUS BY:

Next date:

Requirements:

Who will be responsible (church role):

Questions:

What else do you need to know?

[Empty dotted-line box for notes]

What are your next steps?

[Empty dotted-line box for notes]

Who else needs to see think about this in your congregation?

[Empty dotted-line box for notes]



This tool is one in a series of resources designed to help ELCA churches discern their future economic models.

Find out more at: rootedgood.org



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