**When is Real Property Rental an Unrelated Business Activity**?

There are many special rules and exceptions for real estate rental.

First, if the rental furthers your charitable purpose, such as with affordable, emergency, or transitional housing, there is generally no unrelated business activity.

If your rental activity is unrelated, but there is no debt related to the property, rental income will be treated like dividends and interest (taxable to social clubs but exempt for most other nonprofits).

If there are loans related to the property, there are complex calculations of how much is taxable.

One of the twists in these rules applies when there is rental of personal property, like furnishings, with the real estate. This won't affect you if 10% or less of the income is related to personal property. However, if personal property represents more than 10% but no more than 50% of the income, that percentage will be considered unrelated, and if more than 50% of the rent relates to personal property, all of the rent will be a unrelated business income.

If you operate a parking lot, that income is taxable but if you lease your parking lot to an operator it will qualify as a real property rental.

If services are provided as part of the rental, it can make the rental subject to unrelated business income treatment.

Be aware that the sale of real estate that is loan financed results in Unrelated Business Income.

A couple more exceptions you should be aware of include loan financed property that is purchased with an intention to use it as part of your program but which isn't currently being used in that way, and property that is donated but which has a mortgage or other loan. In both of these cases there can be exceptions to unrelated business income treatment.

Finally, don't forget your get out of jail free card. An activity must be "regularly carried on" to be treated as an unrelated business activity. A limited or occasional rental of property won't be unrelated business income regardless of whether personal property is included, or whether there are outstanding loans against the property.