

FERRARI CLUB OF AMERICA
MEMO RE: UNRELATED BUSINESS INCOME TAX,(UBIT)

PURPOSE OF THE MEMO:

The purpose of this memo is to document the discussion held at the annual Board of Director's meeting in March 2023. This Memo is to be distributed to all Regional Directors, Presidents, Treasurers, Chapter Presidents, and Chapter Treasurer

BACKGROUND:

The Ferrari Club of America (FCA) is a nonprofit member organization, under the IRS regulation 501(C)(7). It pays no taxes as long as revenue received, and expenses paid are related to providing member benefits. A 21% tax now exists on income considered unrelated to the purpose of the nonprofit.

DEFINITION of UBIT

The Code defines an unrelated trade or business as any trade or business the conduct of which is not substantially related to the purpose which was the basis for the nonprofit exemption .

In the case of the FCA the most common forms of UBIT are:

1. Advertising

This would represent ads placed that are not related to the memberships purpose. i.e. non automotive advertising. Non UBIT advertising would be for example payments received by members for selling automotive related items

2. Fees received from nonmembers for track and other events.

This can be avoided by having the member pay for a nonmember and having the nonmember in turn reimburse the member.

3. Manufacturing and selling regalia,

This can be avoided by having a 3rd party manufacture the regalia under a licensing agreement. The licensing revenue would be considered a royalty not subject to UBIT

REPORTING UBIT

Monthly when you report your revenue and expenses to Aaron Pierpoint, you should report any Unrelated income so he can keep track of it.

I hope that this memo is helpful. It is important that we record the proper amount of Unrelated Income when we file our annual tax return. I am sure this will raise questions, if so please do not hesitate to contact me.

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