MSAE
MICHIGAN SOCIETY OF ASSOCIATION EXECUTIVES

Michigan Briefing Sheet: 2015 Tax Reform

We have heard that Congress is intent on discussing tax reform this year. While we realize the importance of revenue for an effective government, two of the topics up for discussion are particularly vital to the success of Michigan Associations; preserving the tax exempt status for royalty income and qualified sponsorship payments.

The current rules permit organizations and non-profits like the 3,000 Michigan associations to maintain their mission of fostering professionalism and talent development across various sectors. Associations nationally use their $33 billion in annual revenue to provide roughly $6 billion worth of public and member education, as well as 1.3 million in community service. Michigan associations are key to our states economic success bringing in $6.67 billion total revenue annually.

Royalty Income

Royalty income is the revenue received for use of intellectual property such as an organizations name, logo, copyrighted content or mailing list. Royalties are regarded as passive income, in that there is an agreement with the organization allowing use of its logo or name, but is not actively involved in the marketing or administration of the product or service.

Royalty agreements help associations expand public awareness about their organization or brand. Royalty income made up an average of 1.2% of Michigan Associations' total revenue in 2014. If the status were changed it would cost Michigan associations $80,042,680 annually.

Qualified Sponsorship Payments

Qualified sponsorship payment, like royalty income, are currently protected by the passive income extension from the unrelated business income tax (UBIT) statute. A qualified sponsorship payment is a payment made by a sponsor where the business receives no substantial return or benefit, other than the use or acknowledgement of the business's name or logo in connection with the tax exempt organization's activities.

We have heard the reform mentioned would change the exemption for a qualified sponsorship payment if the use or acknowledgement refers to any of the business sponsors product lines. It would also require organizations receiving more than $25,000 in qualified sponsorships payments for any one event to be treated as a donor instead of a qualified sponsorship payment. Associations depend on qualified sponsorship payments for an average of 3.7% of Michigan Associations' total revenue in 2014. The proposed reform would cost Michigan associations $246.79 million annually.

If both policies were changed, this would cost Michigan Associations $326.84 million each year.