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Taxation of Advertising Income of Exempt Organizations' Publications

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TAXATION OF ADVERTISING INCOME OF EXEMPT ORGANIZATIONS' PUBLICATIONS 1. ACCOUNTING PRINCIPLES 2. TAX CONSIDERATIONS

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As you learned this morning, or probably some of you knew beforehand, the unrelated business tax was enacted in 1950. There was no action, at least on a public basis, involving application of the unrelated business of tax-exempt organizations' publications—of course, I'm talking about nonchurch organizations—until 1967. During this time, there were a lot of complaints from publishers of taxable magazines, newspapers, and periodicals of various kinds, saying that they were losing advertising revenue because of unfair competition from tax-exempt organizations. Whether or not this is true, I'm not really certain.

In 1967, largely because of this sort of complaining, the IRS did publish regulations taking the position that, beginning essentially for 1968, the advertising income of exempt organizations' publications is subject to the unrelated business tax. However, they specifically said that the subscription income—that is, amounts people pay specifically for the publication—would not be subject to the tax. This went along for a couple of years, and there were a number of complaints that the IRS had no authority to break out the advertising income from the overall publication under the statute as it existed at that time. In the Tax Reform Act of 1969, where Congress did a lot of things about exempt organizations, permission was granted to the IRS specifically to the effect that any activity carried on for the production of income from the sale of goods or the performance of services may be an unrelated trade or business beginning with the taxable year of 1970. The committee reports, both in the House and the Senate, state that one specific target of this amendment was to allow the taxation of just the advertising income of exempt organizations' publications. Now, as you learned this morning, I'm sure, from several of the speakers, 1969 was when the taxation of churches was explicitly authorized beginning generally with 1976—that would be for next year. The Senate committee report on subjecting churches to the unrelated business income tax states that, in the case of churches, unrelated business income does not include the printing, distribution, or sale of pamphlets, tracts, calendars, papers, books, and magazines with substantial religious content, even though there is a small amount of advertising in the publication. It's not clear from this statement but he agrees with me, I think, on this. It's not clear from this statement as to whether they intended to exempt just the direct revenue from the sale of these specified articles, or whether they also intended to exempt the taxation of the advertising income of the publications. I think some of the concern behind this statement was concern that the IRS would apply in cases like Scripture Press, where an organization was held not to be exempt, because it was primarily in the business of publishing materials—in this case religious books for a Sunday school—making large profits. My own feeling about this is, while there is no official pronouncement on the subject as yet from IRS or anywhere else, that this exception will not probably extend to advertising income, per se.

Now, as far as the regulations as they existed during 1968 and 1969, there is a recent case involving the Massachusetts Medical Society—again, it's a professional association, where most of these problems tend to come up—which holds the regulations issued in 1967, prior to the effective date of the Tax Reform Act, are invalid for 1968 and 1969, on the basis that the definition of unrelated trade or business prior to the 1969 amendment I just discussed, did not permit the IRS to separate advertising from the publication as a whole, and also interestingly, came up with the 1956 GCM, which is a General Counsel Memorandum issued by the IRS Chief Counsel's office, which indicated that Congress had not intended in 1950 to tax advertising income of exempt organization publications.

As a result of the 1969 Tax Reform Act, in 1971, the IRS published new proposed regulations on advertising income. They essentially followed the format of the 1967 regulations and they also attempted to deal with some of the problems that came up in connection with these 1967 regulations. Some of you, I think, might have been involved with this and have done some reading on the subject, or started to look at a Form 990-T, and wondered what your clients, associates, etc., were likely to get into next year and really blinked a little. Basically, the formulation—I'll get into a little more detail and explanation later—involves taking your gross income from advertising, this is what the advertiser pays you or what the fees you get from an advertising agency are. Then you deduct an item called direct advertising expenses—I'll get into a little more detail on that in a moment. Now this would leave you with net advertising income. As you heard this morning, in general, exempt organizations are not allowed to deduct the expenses of conducting their tax-exempt activities from their unrelated business income.

The example was mentioned this morning—like the macaroni factory and the university—the university couldn't offset a profit on the macaroni factory with the expenses of the university. There is a possible exception to this kind of rule in the advertising regulations. This was in the 1967 version, and I assume they're going to be going with this—which allows a deduction for the editorial cost of the publication. That is, we have the expenses running the exempt activity—the editors, reporters, and production costs associated with just that part of the activity. Now we take that off in a separate calculation, because we can't deduct that in whole in every case from this net advertising income, and this is the exception to the rule that expenses of exempt activities can't be deducted. We take that off to the side and then, in what's probably an accountant's dream, we subtract from that the circulation or subscription income to the extent that there is circulation or subscription income—that's what readers pay for the publication. However, we don't ever create a plus figure out of that—remember, under the regulations we don't actually tax subscription income. Now to the extent editorial costs, as I've just discussed, exceed circulation income, we have a figure called net editorial expenses. We subtract this from the net advertising income and then wind up with the taxable income from advertising. There are some limitations, but basically we're going to combine this with your other income from unrelated trade or business and we subtract that $1000 deduction, then you're going to wind up with the unrelated business taxable income, which require tax rates very much like a corporation. Most corporations will be taxed as corporations, rather than as trusts. The limitation on the deduction of the editorial expenses, as I have discussed, is that they must first be offset by circulation or subscription income, but circulation or subscription income is disregarded to the extent it exceeds editorial expenses. Now, if the net editorial expenses, that is, the excess of editorial expenses over subscription income, exceeds net advertising income, as determined above, contrary to the usual rule that you can take a loss from one unrelated business and offset it against the gain from another unrelated business, as you can under a taxable operation, you can't offset this loss against the income from any other unrelated trade or business—like your macaroni factory or debt-financed income, royalties, what-have-you. It's also distinguished from the taxable operation in that you can't use this loss for a given year as a carryback to three prior years or as a carryover to the five succeeding years.

Now, another limitation that some of you are going to run into—and this is in the proposed regulations—and there's some ambiguous language in the committee reports as to just what was intended—involves the stipulation that you can deduct the expenses of nonprofit-making publications. You might have a Diocesan newspaper with advertising and, after we get through all these calculations, we wind up with the net advertising income for IRS, and you say, well, we have quite a few other things that we distribute free of charge with religious content and appropriate relevant materials, and we have a substantial cost incurred in connection with that. Those are also publications—why can't I deduct those costs against the profits from the advertising? This, of course, gets into the problem about deducting the cost of conducting your exempt activities. I don't know precisely how this is going to come out and this is wrapped up with a problem some of you tax people may be familiar with—the nonprofit provisions of Section 183 dealing with deductibility of losses and not allowing deductions in excess of income. I think this is one of the problems that has been holding up publication of regulations under the advertising regulations.

Now, remember how important it was to figure out what your expenses were. There are several categories you'll notice from the discussion. There are direct expenses incurred in connection with the advertising and with the editorial content of the publication as well as certain types of indirect expenses, such as, overhead on your building—overhead like light, electricity, and things like that—depreciation, which unless you have a completely separate publication building and department, you're going to have to allocate some of these shared costs, between the exempt and nonexempt activities. This may have been mentioned this morning, and this is not solely peculiar to the advertising regulations. However, there is an extra special little twist in here with the advertising regulations.

In most unrelated trade or business problems, you only have to allocate expenses between the related and unrelated activities. Here, we've got three categories of costs. You've got direct advertising expenses, you've got editorial expenses, which you remember are going to be offset by your subscription income and other expenses of the kind that aren't going to be deductible at all and consider to be the conduct of exempt activities. In general, of course, it's going to be most advantageous to allocate as much expense as possible to direct advertising, because these are the expenses that don't have to be reduced by subscription income, as in the case of editorial expenses.

Now, before we get into how you're going to allocate the expenses the question is, what are we going to allocate? The proposed regulations give a little bit of a hint—if some of you are familiar with publication accounting, you have a little bit of grasp on this—for those of you who don't, direct advertising expenses, that is, the part that's deductible in whole against direct advertising income (and I might add parenthetically at this point, these expenses, even if they exceed the advertising income can be deducted in full as in any ordinary unrelated trade or business, like your macaroni factory or any other prototypes you can think of). Now these direct advertising expenses will include advertising agency and salesmen's commissions and similar expenses directly connected with the sale of advertising space in the publication. It also would include deductible items commonly classified as advertising expenses under standard accounting classifications, such as art work, copy preparation, telephone, things like that, which can be identified as being directly connected to the advertising.

Now, a very interesting point here. Also included in direct advertising is a portion of the mechanical—that would be publishing, printing, things like that—and distribution costs, like mailing, which are attributable to advertising space. This includes costs which are commonly allocated to advertising, like business publications and consumer publications do in their accounting. This would include composition, press work, binding, and mailing. The proposed regulations state that an allocation of these items, which are not really specifically for advertising, will have to be created here between advertising and editorial content. It is usually based on the ratio of advertising lineage to the total lineage in the publication. Now, in a couple of cases I've been involved in—not involving churches, but other types of exempt organizations with this sort of problem—we found that the postal service, in classifying the publication for nonprofit mailing rates, requires a breakdown between the portion of the publication directed to advertising, which is considered commercial and not eligible for nonprofit rates, and in some of the cases apparently the current rules are that they weigh it, they don't just measure it. They take a scale and, if not a scale, count the number of pages devoted to advertising in the publication, and then they'll certify it, and that probably would stand up with the IRS. That's what we've been considering. I haven't heard any challenges based on this. Then, the next problem in allocation on this depends on allocation of expenses between the publications and the other activities. That is, the direct advertising and editorial expenses on the one hand, and on the other the ordinary exempt activities of the organization.

For example, you may have to develop what they call charge rates. Usually, this is for commercial businesses when they find out the profitability of a department or division, and then you have analysts who will come in—cost accountants and industrial engineers are the professionals that are involved in this—and they'll actually make studies on this. For example, a hospital may have feasibility studies and will get into this sort of a problem, in determining whether a given department is making a profit or loss.

Now, for example, occupancy costs, that is, the portion of the depreciation and taxes on buildings—may be allocated between the exempt activities and the advertising activities or the publication activities, in this case based on the portion of space devoted to each activity. That's a very simple example, of course.

The proposed regulations say you don't allocate based on the dollar receipts from activities, which is also a common way of allocating these indivisible costs, because you feel the activity which makes the most money should pay proportionately the greatest part of the freight in determining the ultimate profitability. Of course, this is natural in the unrelated business area—because the unrelated business activity usually yields a greater proportion of the receipts than the exempt activities.

Now, I think, from having gone over this much, you should be able to tell, without my making too much of a point, about the importance of maintaining careful accounting records. They're going to be requiring this. Otherwise, it's not too hard to find gross receipts, and IRS agents, based on a little prior experience, are much better at finding receipts than they are at finding deductions. I don't know why.

Now, I'm not going to say everybody has to go out and get a complete accounting system installed. Some people will and some won't. But there are certain rudiments which I think most organizations which have unrelated business income and are interested in figuring out what the real costs are will probably feel they need. I think I can mention here what should be applicable in most cases. It's helpful to maintain a chart of accounts—that is, where costs are charged, assets are recorded, liabilities, revenues—a chart of accounts grouped according to classification. Your standard classifications developed pretty much on a custom basis for each type of business.

Now, of course, as I've been emphasizing here, this is particularly important with regard to expenses. In other words, if you have depreciation, let's say you wouldn't want just one depreciation account. This is the depreciation cost account. You'd want to have depreciation chargeable to direct advertising, depreciation chargeable to editorial expenses, and then depreciation chargeable to your other activities. That would be your exempt activities.

One of the problems in developing costs of publication for religious organizations—this is quite prevalent in the Catholic orders, for example—is the fact that many clergymen and ecclesiastics work for little or no salary. I've run into this problem in some other contexts. If they, for example, work in a profit-making activity, their salaries are commonly signed over to the parent order or ecclesiastical institution with which they are connected. I gathered that the IRS over a long period of time has recognized that this is not the clergyman's income and that it simply becomes part of the income of his order or ecclesiastical institution.

Now, in the case of one of these publications, which I understand is connected with Diocesan organizations, you may have the problem that in determining the costs of some of the editorial people who really earn substantial salaries and will receive nothing, or next to nothing, under any present charging system, this might affect the advertising income beyond what would be normal and appropriate. I don't think it's possible just to impute a charge for the value of the individual's services. I don't think that would be deductible and I think the IRS would be on sound ground in that situation. However, it might be possible to develop arrangements whereby an equivalent to at least a portion of the fair salary or compensation of the individual he is otherwise entitled to for his work on the business management side or on the editorial side or a combination could be paid to his ecclesiastical order or affiliated group. Presumably, this would be the same test as they've applied in educational institutions and hospital institutions in the past. In other words, it should be deductible against the unrelated business income tax and not taxable to the affiliated order. I don't think this would work if the order itself were conducting the unrelated business. They'd just charge the unrelated business salary account and use that as a deduction and simply credit some receipts from the assigned income account. I don't think it would be that easy, but where the organizations are separated, there's probably a feasible approach based on past experience.

Now, there are going to be some questions I'm sure. I've been tossing terms around. I gave a broad outline of the background and the mechanics of the regulations.

But, for example, the first question that might come to one's mind is: What is advertising? Getting a lot of money in and printing something in return for the money is called advertising. Well, again, based on the analogy with trade associations, which seems to be the major area here, the IRS seems to have a rather expansive definition of the term based on a ruling that they published in 1974.

This involved the yearbook of a police officer's association. Of course, there are a lot of people in the community who were perfectly happy to kick in and make sure their names got prominently mentioned in the publication. At any rate, in the ruling, the IRS held that identifying the names of the purchasers of the advertising, even without any further advertising message, did constitute advertising. For example, one insertion simply said "Compliments, ABC Manufacturing Company, Central City, X State, USA," and they said that's a commercial service; you're putting their name in and identifying them and this even extends to the advertising by nonprofit organizations. For example, a lot of the labor unions in town apparently contributed. I don't think they were particularly selling anything under anybody's construction. Yet, that's included also.

Now, Mr. Reed was kind enough to let me peruse several of the Diocesan publications, largely newspapers, and one of the things that seems to come up there fairly frequently is advertising for religious services in the publication by various churches, usually Sunday or major holidays, Easter, Christmas variety, and the question would come up, "Well, that's certainly related to our exempt purposes, isn't it, because we're in business to encourage people in religious observance in one form or another?" My own feeling on this is that the IRS is not very likely to be impressed with that argument. This sort of question about whether the content of the advertising material is relevant came up in connection with the trade associations such as the American Medical Association. They said they carry a lot of advertising by drug companies, and a lot of that is educational—it really informs our members of what the latest developments are in the drug business. Now, the IRS said that didn't make any difference, because this is exactly what goes on in taxable publications.

Based on this analogy, my personal judgment is that you can open up the Washington papers anywhere—and I'm sure this goes on in most cities—any Friday or Saturday, and see extensive advertising for attendance at church services over the weekend, and I'm reasonably certain, based on the precedent set with the Medical Association, the IRS would take the position that it's taxable advertising income, regardless of how related the message of the content was to the Diocesan intent and purpose.

Now, another question that might come up is: Well, suppose we don't actually sell the advertising, suppose we hire somebody to sell the advertising for us. Another ruling that the IRS published in 1973 held that an organization is subject to the unrelated business tax on its advertising income where it hired a commercial firm to sell advertising in its yearbook in return for sales commissions that the organization received and, in fact, they got a percentage of what the sales company sold. The activity was considered regularly carried on, even though it was an annual yearbook involved, because the advertising was solicited throughout the year. I imagine, this morning, Mr. Nolan or one of the other speakers might have mentioned that one of the requirements in unrelated business income tax is that it certainly has to be regularly carried on. Again, my judgment would be that a monthly Diocesan publication would probably be considered to be regularly carried on. A weekly parish journal would fall into the same category. There aren't an awful lot of things the IRS hasn't been able to find that are regularly carried on. What actually will happen is another question.

Another difficult definitional problem is subscription income in the proposed regulations. You'll remember in discussing the calculation or computation of the tax, subscription income is not directly taxed, but taxable advertising income is going to vary directly with the subscription income, since, as subscription income increases, it reduces the deductible editorial expenses, which can be offset against the advertising income. Based on some experiences we've had and in talking to other practitioners we've run into, this seems to be an area the IRS agents are hitting at, largely because it's something easy to find. I'll get into why it's so easy later.

One of the first things, of course, is what is subscription income? Try to look narrowly down at the sort of particulars I gather most of you here are interested in. For example, are payments by parishioners for a Diocesan newspaper considered subscription income which have to be offset against the advertising income, as I've discussed? I gather there are several variations, and these are the ones I'm going to mention, and somebody's sure to come up with another. I'll try to puzzle this out as best I can.

I gather that in the typical situation the parish pays the Diocesan printing department the listed subscription price, and looking at the publications, most of these have a stated subscription price, which is used to purchase one copy for each family in the particular parish. Now, the method of collecting the subscriptions varies, I gather. This is where the major variations come in. In some areas, it's done by separate voluntary collections, with the paper being paid for by the parish, whether or not the subscription is received or, in some cases, subscriptions are paid by the parish only for those who contribute for them. Now, it seems likely to me that the IRS is going to label the payments from the parish to the Diocese or the Diocesan printing department as subscription income to the Diocese. So, the Diocese is probably the entity that is going to have most of the problem in determining whether it has advertising income, not so much the parish. It seems to me the problem here is that, regardless of whether the source of the subscription income is ultimately from the parishioner or from the parish itself, papers are furnished, as I would understand this, only to those for whom subscriptions are paid. This is sort of like gift subscriptions for Reader's Digest—it's still income to Reader's Digest. Now, of course, we could raise an argument that, except where the parishioners are required to pay to receive the subscription, that is, in all cases where they receive the paper whether or not they pay directly and specifically for the subscription, that they're just being furnished one more service by the overall Church, so that there's no subscription income at all. That might be a possibility in some instances.

Now, when we get down to that argument, we get into a further problem. Some conniving agent, or sharp agent, or intelligent agent may attempt to allocate the parishioner's contributions between subscription income and other exempt purposes. Just to give you an example, if the yearly subscription is $15 and you might say each parishioner who contributed more than $15—he was paying $15 for the subscription. This is a very primitive kind of thing—it's much more sophisticated, I'm sure. Now, this will be by analogy to the area of trade association dues or dues of national societies where the IRS says a portion has to be allocated to subscription income for publication. Some of you may run into this in connection with your professional societies. Now, the proposed regulations put out in 1971 attempt to grapple with this problem. I can tell you that they list several bases or alternatives for allocation of dues payments between subscription income and other activities, and this might be applicable in the contribution situation—the situation of the parishioner making his contribution without specifying any portion to subscription to the parish newspaper.

I'll tell you right now—it sounds a little confusing, because this is like the proverbial camel—I hope you've heard what the definition of a camel is—a horse put together by a committee—and this is exactly how this regulation is put together.

Now, the factors listed in the proposed regulations—the first one is the subscription price that is charged to nonmembers. This one is very easy because in trade associations it frequently says that subscription for nonmembers is $15, $20 a year, whatever figure, and that's what makes it so easy for the agents to come and say that you're allocating only $5 to the members here and you're charging the nonmembers $20. It doesn't make much sense. That's why it's so easy for the agent to harpoon that kind of subject.

Another factor would be subscription prices to the members of the organization. That is, the case where it is an alternative between subscribing for the publication and not subscribing—they simply take the difference in membership receipts between those who do receive the publication and those who don't subscribe and split the difference. It must be subscription income in the absence of any other explanation.

Now, another possibility here, and this goes to the competitive nature of the thing, is the subscription rates of comparable periodicals of taxable organizations. I don't know, there may be taxable Catholic Churches running around with religious publications—I haven't heard of them. Otherwise I find it a little difficult really to think what sort of things they would think of as competitive in the context of religious publications.

Another possible factor—I would really feel this is of lesser importance—is rate of return on investment in a periodical. Based on this sort of approach, I gather that Penn Central Railroad is making a profit. You take a $2 billion investment. They must be making 10 percent a year, and that would make them taxable on about $200 million of income a year. I haven't heard of anybody having that against them yet.

Other possibilities in the proposed regulations include developing various ratios—sales revenue to advertising revenue or the ratio of sales revenue to periodical costs of comparable taxable organizations. This also gets into an imputed income approach; in other words, you must be as efficient or as inefficient as comparable taxable organizations.

Another possibility, one I actually push, would be to take the membership payments and allocate them between subscriptions and just general dues—based on the ratio of publication costs of these publications, to all costs of the organization. Somebody told me once they had a study on it and they determined it was not possible to show a real unrelationship there.

Now, there are several other items that we should touch on in this area of unrelated business taxation of advertising income. For example, I gather several organizations are in the habit of selling their membership lists to taxable people, like direct mail advertisers getting lists of actively interested people, particularly if it's for a particular kind of service or product. In a ruling published in 1972, the IRS's position was that just selling these membership lists was an activity carried on for the production of income from the sale of goods, and therefore, is subject to the unrelated business income tax. Another recent case, and it may have some interest in the advertising area, is the Iowa State University case. Now, the problem here was that the university had a commercial television license for the University TV station and it had a network affiliation with the ABC network. The IRS successfully won the case on the basis that the advertising income was unrelated business income, that none of the expense of running the nonprofit, unprofitable AM & FM stations was deductible against that, and that it was constitutional to tax the State University. I think this is one of the rare cases that the IRS has been successful in the unrelated business income tax area. I think it shows the courts are going to be increasingly tough in this area, even though state universities also are something people have not been used to attacking in the past, and it gave the IRS much more encouragement and a shot in the arm to go ahead, as if it needed any.

I'm going to call off the talk right here and spend a few minutes answering questions from the floor.

LEO FLEMING, ARCHDIOCESE OF INDIANA:

A few years back, Peat, Marwick came out with an accounting manual for the Diocese which apparently is based on fund accounting and then also the expense aspects. Do you have plans for coming up with a revision of this or a new one to allocate costs for the various functions?

SPEVACK:

I don't recall Peat, Marwick's manuals generally, but there are several publications on this. The Catholic Press Association gets this from the U.S. Catholic Conference in a little more detail. This publication involves how to set up an accounting system for publications. I can't tell you for sure what are the right answers. I don't think even in commercial practice there's all that much uniformity. We run into problems in ordinary examinations. Also, there is this publication, which was put out a couple of years ago by the U.S. Chamber of Commerce, called the Financial Management Handbook. This is mainly directed to trade associations, but I think it has a good deal of useful material, at least it's a primer for getting started on how to handle your accounting problems in general. This deals with how to handle them in terms of the unrelated business income tax. As I said, it's a primer, and not much more and it's not printed to be. I also understand the American Institute of Certified Public Accountants has published guides in certain areas of nonprofitable organizations, and this is particularly true in hospitals and educational institutions. I think Malcolm Gross, who's with Price Waterhouse, has been instrumental in that. I don't know that they have overall guides for this sort of thing. Now, as far as proper accounting, this is an area we run into recurringly, not only exempt organizations; sometimes there are simply inconsistencies between what's frequently called generally accepted accounting principles and the requirements for tax accounting. Now, I can tell you as an offhand matter that the IRS will think it's a fund account, no matter what you do. You'll have to revise it, but, on the other hand, this may be a logical way of keeping the accounting of a nonprofit organization municipal accounting, things like that. You're not really that interested in whether you make a profit or not so much as where the money came from and where it's going and where it's supposed to have gone.

JAMES A. DOYLE, CATHOLIC PRESS ASSOCIATION:

If I understood you rightly, Mr. Spevack, at one point there you're suggesting that we try to classify some of this income not as advertising income, but in some other way to avoid taxes. The danger there, I would suggest that no lawyer suggest this to the newspaper, because this would get you in great trouble with the post office and might mean that you would lose your second-class permit, and that would cost 10 times what the tax might be because we have to prove to the post office that it is subincome.

But, my other question, though, would be on the matter of depreciation. That is, being able to take a percentage of that prepaid expense for every year against advertising, as an advertising expense, even though it has not yet actually been spent. It's been written off the books as an expense.

SPEVACK:

This is really a replacement cost method of accounting. Say, for tax purposes, though, in this respect, you will have to follow the rules of taxable entities and organizations, and you have to use—in other words, to reach the same effect as a form of depreciation, but you use a permitted method of depreciation under the Internal Revenue Code. And, I gather your method has an advantage which may be more accurate in a period of rising costs—that you take off the costs, say you have a printing press with a 10-year useful life—you bought it—let's say for $10,000 five years ago—under straight-line depreciation you'd only be able to write off $1000 a year. What you're saying is that now it'll cost us $20,000 to replace it—we'll set aside $2000 this year. Is that about what your method is?

QUESTION:

Actually, I want to be sure that when this equipment wears out I've got enough to pay for new equipment.

SPEVACK:

You can't be sure under any method, you know.

QUESTION:

What I'm getting at is that we do not use a regular depreciation method. Peat, Marwick & Mitchell went so far as to tell me that they now advise all nonprofit institutions to use this method, rather than that of amortization of depreciation.

SPEVACK:

Well, this may be true from the point of view of accounting. It's probably a good idea because of big cost inflation, but I think the Internal Revenue Code would not permit it. In effect, you're writing off more than the total cost. Now, there are various ways, such as accelerated depreciation, which lets you write off more in the earlier years than the later years. There's also a guideline system which lets you write it off over a shorter period than you might normally expect, but in no case that I know of can you depreciate more than the total cost of the equipment.

QUESTION:

This is not advertising income—this was subscription income. I gather that as suggested these parish donations or Diocesan assessments will not be classed as income and therefore as expense. But unless we can class them as subscription, we lose our second-class permit with the post office.

SPEVACK:

It seems to me an arguable point. My tendency in this is that it's probably a subscription. Suppose you charge nothing. You have nothing but advertising income. What would be your problem then?

QUESTION:

Unless you have paid subscriptions, you lose your second-class permit and your postage would probably cost you $40,000 a year more.

QUESTION:

Well, suppose we set the subscription rate at 10 cents a year.

SPEVACK:

I don't know, I'm not sure. We run into this problem all the time and we get the same story. We've got to have subscriptions to get nonprofit mailing privileges. That's where these usually end up.