



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

450 N STREET, SACRAMENTO, CALIFORNIA  
(PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0082)  
TELEPHONE (916) 324-2655  
FAX (916) 323-3387

JOHAN KLEHS  
First District, Hayward

DEAN F. ANDAL  
Second District, Stockton

CLAUDE PARRISH  
Third District, Torrance

JOHN CHIANG  
Fourth District, Los Angeles

KATHLEEN CONNELL  
Controller, Sacramento

E. L. SORENSEN, JR.  
Executive Director

October 12, 1999

Re: Use of Rental Proceeds

Dear Mr. ,

Larry Augusta asked me to respond to your letter of August 19, 1999, regarding the use by Methodist Church of "nominal" rental proceeds from a -operated day care center on the church premises. You asked if the rental proceeds could be used for general church purposes or must be restricted to use for only that portion of the property used for the day care center. You were apparently concerned with the potential loss of the church's property tax exemption if the proceeds were improperly applied.

The answer to your question is that rental income need not be applied to expenses associated solely with the day care center portion of the property, as opposed to general church purposes.

I called the church and spoke with Pastor and learned that the property is presently exempt under the welfare exemption provision of the Revenue and Taxation Code. She also said the had complied with the requirement that it file its own welfare exemption claim for the portion of the property it uses, as the "operator" of the premises. As long as both the owner and the operator of the premises have filed and the property has received the exemption, the use of the proceeds is only limited by section 214(a)(1) and (2), copy enclosed.

I am assuming, when you say the church's rental charges to the are "nominal," that you mean they do not amount to more than the cost born by the church to maintain the portion of the premises used for the center. This is a consideration in the determination as to whether use of the premises for the center is a charitable use intended to benefit the community or a purely commercial operation intended to raise funds for the church. The latter would be a non-qualifying use which would disqualify the day care center portion of the premises.

October 12, 1999

Because the welfare exemption is administered jointly by the Board and the county assessor, you may also want to consult with the County Assessor's office.

Feel free to call me at (916) 327-2455 if you have any further questions. Our intention is to provide timely, courteous and helpful responses to inquiries such as yours. Suggestions that help us to accomplish this goal are appreciated.

Sincerely,

*/s/ Susan Scott*

Susan Scott  
Tax Counsel

SAS:jd

<h:/property/precednt/welexact/1999/07sas>

Enclosure

cc:

Mr. Richard Johnson – MIC:63  
Mr. David Gau – MIC:64  
Mr. Pete Gaffney – MIC:64  
Mr. Larry Augusta