



UNIVERSITY OF  
**LOUISVILLE**



# **Unrelated Business Income Tax**



## **Isn't the University Exempt from Taxes?**

In 1950, Congress established the “Unrelated Business Income Tax” (UBIT) in order to impose taxes on the activities of exempt organizations when these activities are not related to their exempt purpose.



## Why Now?

- The University has routinely paid Unrelated Business Income Tax
- IRS is scrutinizing unrelated activities more carefully
- To document efforts to evaluate potential Unrelated Activities and applicable exclusions
- 990-T will be publicly disclosed beginning FY09 (filed May 2010)



## **Unrelated Business Activity**

- 1.) Activity is a trade or business
- 2.) Regularly carried on
- 3.) Not substantially related to exempt purpose

**\*\*Must meet all three criteria\*\***



## 1.) Activity is a trade or business

If an activity is undertaken with the intent to create a profit through the sale of goods or the performance of a service it is considered a **trade or business**.

Direct expenses can be used to offset revenue; however, activities that continually experience losses may be excluded.



## 2.) Regularly carried on

An activity is **regularly carried on** unless it is performed infrequent or discontinuously.



### **3.) Not substantially related to exempt purpose**

An activity **is not substantially related** when it does not contribute to the exempt purpose of the organization.

**Educational**

**Teaching**

**Research**

**Community Outreach**



## **Exceptions to UBIT**

- ✦ Dividends, interest, capital gains and similar portfolio income
- ✦ Royalties
- ✦ Business operated for the convenience of students or employees
- ✦ Corporate Sponsorships, if properly structured
- ✦ Work performed substantially by volunteers.
- ✦ Sale of merchandise which was received by the University as a gift or contribution
- ✦ Research activity
- ✦ Meetings, conferences and seminars where education or training is provided by the University.
- ✦ Entertainment events that include music and drama for students, faculty, and the general public.



## **UBIT Policy**

The purpose of the UBIT policy is to provide guidelines for the discovery and reporting of income and expenses to the Controller's Office for "Unrelated Activities".

This policy is NOT intended to discourage or eliminate unrelated activities.



## **Three Types of Income**

- Related Income
- Unrelated Income – Report and pay taxes
- Excludable Income – Exclusions should be properly documented



## **Annual Questionnaire**

- Income from any form of advertising
- Income from Corporate Sponsorships
- Rental income
- Income from other sources

**Please complete by October 15, 2009**

**Signed by VP or Dean**



## **New Activity Questionnaire**

### **Trade or Business**

- Will this activity have income in excess of expenses upon commencement or at some point in the future?
- If yes, please attach a copy of the budgeted income and expenses.
- If it will become profitable at some point in the future, what date do you expect it to become profitable?

### **Regularly Carried On**

- Will this activity be carried on for an extended period of time?
- If no, does it occur annually or monthly?
- How long do you expect the project or activity to continue?

### **Substantially Related**

- Explain how the activity enhances or furthers the University's educational, teaching, research or community outreach exempt purposes.



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# Questions?

Please contact Kim Marley in the Controller's Office

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852-3337



## Related Links

<http://www.irs.gov/pub/irs-pdf/p598.pdf>

<https://www.baylor.edu/tax/index.php?id=37899>

[http://www.nacubo.org/Business and Policy Areas/Tax/Unrelated Business Income.html](http://www.nacubo.org/Business_and_Policy_Areas/Tax/Unrelated_Business_Income.html)

<http://www.irs.gov/pub/irs-pdf/i1120.pdf>

(p.17 – Corporate tax rates apply to UBI)