Unrelated Business Activities, Income, & Tax

Presented by
Tax Reporting & Compliance
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Unrelated Business Income Tax

What is unrelated business income tax (UBIT)?

- Tax assessed to the tax-exempt organization on income generated from unrelated business activities
Unrelated Business Income Tax

What are unrelated business activities (UBA)?

- Revenue producing activities that meet **all** three criteria:
  1. Do not support the UC’s tax-exempt purpose of education & research
  2. Primary purpose is earning a profit
  3. Competes with other businesses (regularly carried on)
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Exempt from UBIT (Not all inclusive)

- Royalties
- Fundamental research
- Real estate rents
- For the convenience of students or employees
  - Remote location - relatively inaccessible to general public
- Substantially (85%) volunteer work
- 85% merchandise sold was originally received by university as gift or contribution
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University members vs general public

- University members – staff, faculty, students, and patients

- General public – non-University members to include alumni, spouses, dependents, and guests
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UBI reported for UCD FY 12-13

- Catalog sales to non-University customers at the Bookstore
- Sale of recreation membership cards and swimming privilege cards to the general public at the Campus Rec (ARC)
- Sale of computer services to non-University users at the Computer Center
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UBI reported for other campuses FY 12-13

- Sale of parking space to the general public
- Rental of outdoor recreation equipment
- Passport processing fees
- Rental of facilities to non-University users
- Sale of subscriptions for the Wellness Letter
- Sale of shuttle bus ads
- Rental of laboratory space and laboratory equipment to non-University users
- General advertising
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UBI reported for other campuses FY 12-13

- Sale of advertising space in magazine/newspaper
- Revenue from conferences
- Use of live-scan machine by non affiliates
- Sale of alumni services such as letters of reference services, vocational testing, & resource services
- Sale of printing & reprographic services to outside
- Sale of telephone, web, and mail services
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UBI reported for other campuses FY 12-13

- Sale of travel tours to alumni
- Sale of convenience store items to non-University purchasers
- Rental of space on radio antenna tower
- Bookstore’s online sales to the general public
- Sales of emblematic items to the general public
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Scenario 1 - Subject to UBIT?

- Sale of child care services to the children of faculty/staff employees, students and the general public
  **EXEMPT**
  - The provision of children away from their homes is considered an educational purpose if it enables parents to be gainfully employed
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Scenario 2 - Subject to UBIT?

- Instruction in swimming offered to University members and the general public
  
  EXEMPT

  - Instruction in sports is educational and thus related to the University’s purpose
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Why does UC collect information on UBIT?
Compliance with IRS regulations

- Annual filing of the Exempt Organization Business Income Tax Return (IRS Form 990-T) for UBIT
- Reports unrelated activity of $1,000 or more
- IRS 990 due date is 11/15
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Reporting Criteria – questionnaires a must for:

- Each “new” activity initiated during the year with a potential for generating UBI
- Any activity reviewed in prior year that has changed its mode or scope of operations
- Highly visible activities that are similar to activities determined to be unrelated at other campuses (advertising, facilities usage, joint ventures, printing)
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Reference, Policies and Process
University of CA – Policy A-61 - updated on January 17, 2012
- Direction on the recording and reporting of revenue and expenses
- Responsibilities per function to ensure compliance

Annual Nonfinancial Questionnaire
UC UBI Questionnaire - Short Version (2).docx
- Report on any activity (old or new) that has a potential for generating unrelated business income.
- Reportable activity carried to consolidated 990

Review guidelines
NFQ_packet.doc

Tax Status and Determination Guide
Ubit-taxdeterm (3).doc
¡It's the one painting he never sold. It was just too dang freaky!
Questions?