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
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)
Unrelated Business Income Tax

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
Unrelated Business Income Tax

Exempt from UBIT (Not all inclusive)

- Sale of by products resulting from research activities if sold in substantially the same state it is on the completion of the research
- Services of facilities otherwise unavailable in the community that fulfill an important community or medical need
- Services, facilities, or equipment which are technically advanced or unique
University members vs general public

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

- General public – non-University members to include alumni, spouses, dependents, and guests
Unrelated Business Income Tax

UBI reported for UCD FY 13-14

- Catalog sales to non-University customers at the Bookstore and Swaggie Store
- Sale of recreation membership cards and swimming privilege cards to the general public at the Campus Rec (ARC)
- Sale of Aggie surplus equipment and supplies
- Catering sales to services to non-University related groups
- Use of UCD Davis Facilities and Services for private events
Unrelated Business Income Tax

UBI reported for UCD FY 13-14

- Short term rentals of residence hall rooms and apartments
- Sale of wellness, fitness, and recreation programs to the Campus community
- Sale of parking spaces to the general public at the UCD Medical Center
- Sale of passport application acceptance services to outside customers
- Rental of Schaal Aquatic Center for use by swim/dive/water polo groups
Unrelated Business Income Tax

UBI reported for other campuses FY 13-14

- 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
Unrelated Business Income Tax

UBI reported for other campuses FY 13-14

- 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
- Sale of telephone, web, and mail services
Unrelated Business Income Tax

UBI reported for other campuses FY 13-14

- 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
Unrelated Business Income Tax

Activities found to be exempt for UCD

- Lease of space on campus owned building to a transmission company (rental of real property)
- Revenue generated by the University’s airport (found to be an essential government function)
- Sales by the Honey Pollination Center (80% donations, not intended for profit, support purpose and research)
- Rental of the Mondavi Center (rental of real property)
- Concession sales at Mondavi (integral to event)
Unrelated Business Income Tax

Activities found to be exempt for UCD

- Sales by the Olive Center (65% donations, not intended for profit, support purpose and research)
- Video, sound, graphics support for visitors (serving special need for outreach efforts to promote and aid in research)
- Veterinary Genetics laboratory (related to exempt purpose of education & research, and technically advanced)
- Veterinary Medical Teaching Hospital (related to exempt purpose)
Unrelated Business Income Tax

Activities found to be non-reportable for UCD

- Book and bead sales by the Cal Aggie Alumni Association
- Corporate sponsorships and advertising
Activities to be further analyzed

- By product sales at the Meat Lab
- Retail clinics (Dermatology, Facial Plastics, Optics)
- Pharmacy – sales to non-patients
- Laboratory services to non-patients
Unrelated Business Income Tax

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
Unrelated Business Income Tax

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
Unrelated Business Income Tax

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 with gross revenue of $1,000 or more
- IRS 990 due date is 11/15
Unrelated Business Income Tax

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)
Unrelated Business Income Tax

References, 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 UBI
- Reportable activity carried to consolidated 990

Review guidelines
NFQ_packet.doc

Tax Status and Determination Guide
Ubit-taxdeterm(3).doc

Tax Reporting &Compliance UBIT webpage

IRS Publication 598
SALVADOR DALI
SURREALISM MUSEUM

¡It's the one painting he never sold. It was just too dang freaky!
Questions?