

Unrelated Business Income Tax Frequently Asked Questions

What is UBIT?

UBIT is the abbreviation for Unrelated Business Income Tax which is a federal income tax placed on non-profit organizations including state colleges and universities for conducting business activities that are regularly carried on, and not substantially related to their education mission. As colleges and universities became increasingly interested in maximizing revenue from trades or businesses unrelated to their educational mission, Congress passed the Unrelated Business Income Tax of 1950. Their primary purpose was to give the IRS a means to penalize a tax-exempt organization that conducts unrelated business income activities instead of revoking their tax-exempt status and to place colleges and universities on the same playing field as for-profit businesses engaged in the same business activity that pay federal corporate tax.

An activity must meet three tests in order to be classified as an unrelated trade or business.

It must be:

- 1) a trade or business,
- 2) regularly carried on, and
- 3) not substantially related to the institution's exempt educational or scientific research purposes.

Any net income from such an activity is subject to the unrelated business income tax, while losses from one unrelated business activity can offset income from other unrelated activities. All unrelated business income tax activities must be reported on the University's income tax return (IRS FORM 990-T).

Why is understanding UBIT important?

It is very important that all unrelated business activities of the University of Missouri be reported on the Federal tax return. The Internal Revenue Service can and will assess costly penalties and interest charges for underpayment of taxes.

What kinds of activities may result in UBIT?

The following are examples of activities that are not related to the mission of the University and may be subject to unrelated business income tax.

1. Income from advertising placed by a company during sporting events, in programs, or in journals that goes beyond acknowledgement of sponsorship.
2. Meeting, conferences, and seminars that are non-educational.
3. Rent of space to the general public in facilities financed by tax exempt bonds.
4. Summer Sports Camps that are not part of educational programs offered by the University.
5. Sale of art objects at exhibits.
6. Commercially sponsored scientific research if the results are not made available to the public.
7. Lab services to the General Public.
8. Pharmacy sales to non-patients.

Can the costs associated with running these activities be deducted when calculating UBIT?

Yes, many direct costs related to the operation of unrelated business activities may be deducted against their revenues. Some examples include: compensation of directors, salaries and wages, repairs and maintenance, telecommunications, bad debts, interest, and depreciation. For more information contact your campus accounting office.

Are there any types of revenue that are exempt from UBIT?

An activity that would ordinarily be considered unrelated and subject to income tax is exempt from UBIT if any of the conditions listed below exists:

Member Convenience: An unrelated activity conducted by the University for the benefit of its students, faculty, and staff is not subject to UBIT. The bookstores, and laundry facilities are examples of activities conducted for the benefit of students, faculty and staff.

Rental or Real Property: In general, the rental of real property is not subject to unrelated business income tax unless personal services are rendered that are not customarily or usual to the rental of space.

Volunteer Work: UBIT does not apply to income from an activity in which substantially all of the work is performed without compensation.

In addition, dividends, annuities, and other investment income are all excluded from UBI.

What are the University's procedures for accounting and documenting for UBIT activities and the income they generate?

Each campus accounting office department maintains a list of potential unrelated business income activities. The campus accounting offices work with the departments to account for and document the unrelated business income.

What should I do if I believe there may be unrelated business activity in my department?

If you believe there may be unrelated business activity in your department you should contact your campus accounting office.