



REVENUE PRODUCING ACTIVITIES AND UNRELATED BUSINESS INCOME TAX

**HAND IN HAND WE LEARN
MAY 1, 2019**



Objectives

- To gain a better understanding of revenue producing activities and unrelated business income and tax at the University of Kentucky
- To help the University comply with IRS regulations



Revenue Producing Activities

- Revenue producing activities (RPA) are revenues generated from the sale of products and/or services provided by the University and/or University employees in the course of their duties.
- RPA generated by grants or contracts (sponsored projects) are program income
- RPA may be subject to federal income tax



Revenue Producing Activities

- BPM E-6-2 Revenue Producing Activities
- Policy provides guidelines for departments to follow prior to initiating any RPA documenting:
 - Purposes of the activities
 - Activities risks
 - Business plans
 - Pricing
 - Required approvals



Revenue Producing Activities

- Certain RPA are administered at the University level and the policies outlined in the BPM are not applicable to these activities:
 - Tuition, mandatory course and program fees
 - Continuing education income, provided within academic mission
 - Room and board
 - Admission to University sporting and entertainment events
 - Delivery of health care services
 - Use, sale or transfer of University real property
 - License for rights under a University patent, trademark, including software support and maintenance
 - Retail food and beverage services, including catering



Revenue Producing Activities

- Examples of RPA that are administered at the departmental unit level that are subject to the BPM policies:
 - Sales of goods and services
 - Book sales
 - Diagnostic testing services
 - Consultation fees
 - Admission to departmental events
 - Rental fees for building space



Revenue Producing Activities

- Management's evaluation of RPA includes the following:
 - Determining if the activities are consistent with the mission of the University and the units generating the revenues
 - Determining if the activities unfairly compete with the private sector
 - Determining if engaging in the activities involves unreasonable risks



Revenue Producing Activities

- Department unit personnel
 - Complete RPA Questionnaires to identify the purposes and risks of the activities
 - Prepare business plans to propose pricing and estimate costs



Revenue Producing Activities

- Department Fiscal Officer
 - Reviews RPA Questionnaires and business plans
 - Prepares revenue/cost analyses
 - Identifies if contracts are needed and works with the Office of Legal Counsel
 - After RPA approval, requests establishment of cost objects in SAP
 - Establishes monitoring and oversight to ensure any necessary sales tax and unrelated business income tax (UBIT) reporting
 - Establishes appropriate accounts receivable, cash collections and cash handling, and procedures for fiscal control



Revenue Producing Activities

- Dean/Director
 - Reviews RPA Questionnaires and business plans for consistency with the units' missions
 - Reviews revenue/cost analyses to determine feasibility to support activity
- Area Fiscal Officer
 - Reviews all items from Dean/Director
 - If approved, forwards to Accounting and Financial Reporting Services (AFRS)



Revenue Producing Activities

- AFRS
 - Reviews RPA Questionnaires, revenue/cost analyses, and business plans
 - Determines if the Office of Sponsored Projects Accounting, the Office of Legal Counsel, Risk Management or other units also need to review
 - Identifies unrelated business income (UBI)
 - Develops procedures to capture UBI for annual reporting
 - Notifies department fiscal officers of approvals or disapprovals and if additional conditions will be required
 - Coordinates with department fiscal officers for monitoring and oversight of the activities



Revenue Producing Activities

- Changes to approved RPA need to be evaluated through the same approval process as new requests



Unrelated Business Income Tax

- Unrelated business income (UBI) is certain income of a nonprofit organization
- Unrelated business income tax (UBIT) is tax imposed by the IRS on UBI



Unrelated Business Income Tax

- BPM E-6-3 Unrelated Business Income Tax
- Policy provides guidance for departments to follow:
 - To determine if RPA are subject to UBIT
 - Responsibilities and procedures for UBIT
- Departments with existing RPA may be requested by Accounting and Financial Reporting Services (AFRS) to complete an Annual Unrelated Business Income Questionnaire



Unrelated Business Income Tax

The University is exempt and excluded from most federal income taxes, but is required to pay federal income tax on net income from activities unrelated to the exempt mission of the University: education, research and public service.



Unrelated Business Income Tax

An activity is an unrelated business (and subject to unrelated business income tax) if it meets all three requirements:

- It is a trade or business, with the intent of realizing a profit
- It is regularly carried on, and
- It is not substantially related to the tax exempt mission of the University



Unrelated Business Income Tax

- A trade or business generally includes any activity carried on for the production of income



Unrelated Business Income Tax

Unrelated business income is generated by activities of an exempt organization which are considered regularly carried on:

- Shows a frequency and continuity
- Is pursued in a manner similar to comparable commercial activities of nonexempt organizations
- If only done once a year, if it is done every year, it is considered regularly carried on



Unrelated Business Income Tax

Business activity is substantially related when it helps achieve the mission of the University:

The mission of the University of Kentucky relates to

- Education
- Research
- Public service



Unrelated Business Income Tax

Federal Tax Requirements:

- It is very important that all unrelated business activities of the University be reported on the 990T federal tax return. The Internal Revenue Service can and will assess costly penalties and interest charges for underpayment of taxes.



Unrelated Business Income Tax

Examples of RPA Exempt from UBIT:

- Admission fee revenue from athletic events
- Admission fee revenue from performances of students
- Admission fee revenue from theater performances by professional artists open to students and to the general public
- Advertising revenue from advertising in the student newspaper, when the newspaper, including selling of advertising, is run by students as part of an educational program
- Annual fund-raising events



Unrelated Business Income Tax

Examples of RPA Exempt from UBIT:

- Businesses provided for the convenience of students, faculty, and staff
- Mailing list rentals to commercial organizations, depending on university's level of involvement
- Periodicals – acknowledgment of a sponsor or the sponsor's name or logo or product line, including electronically published material
- Qualified Sponsorship Payment – no arrangement or expectation that sponsor will receive any substantial benefit other than the use or acknowledgement of their name or logo
- Rental income from real property



Unrelated Business Income Tax

Examples of RPA Exempt from UBIT:

- Research – Income derived from research by government, tax-exempt, college, university
- Revenue from the sale of donated merchandise
- Sale of paintings and art projects by students done in art classes
- Substantially all the work related to the event or activity is provided on a volunteer basis
- Summer camps
- Use of a facility by students for recreational purposes and its physical education program



Unrelated Business Income Tax

Examples of RPA that may be subject to UBIT:

- Advertising revenue received from a company placing an ad in an athletic or performing arts program
- Advertising revenue received from ads on the internet
- Advertising revenue that goes beyond mere acknowledgement of sponsorship
- Alumni and public use of recreation center
- Commissions received from long distance carriers
- Hyperlink to a sponsor's website where an endorsement appears for the sponsor's product



Unrelated Business Income Tax

Examples of RPA that may be subject to UBIT:

- Pharmacy sales to the general public
- Professional entertainment events operated in a commercial manner and not part of an educational program
- Rental of campus facilities to professional sports teams
- Rental of laboratory facility to non-university users
- Rental of recreation equipment to the general public and alumni



Unrelated Business Income Tax

Examples of RPA that may be subject to UBIT:

- Rental of sports facilities such as stadiums, soccer fields, etc. where services are provided
- Rental payments for the lease of space on antenna towers and transmission facilities
- Sale of advertising space in periodicals, telephone directory, or yearbook
- Sale of art objects at exhibits



Unrelated Business Income Tax

Examples of RPA that may be subject to UBIT:

- Sale of audio-visual services to non-university users
- Sale of computer or programming services to non-university users
- Sale of printing services to non-university users
- Sale of equipment to non-university users
- Travel tour programs that are not educational (i.e. sightseeing, recreational, social, cruise, etc.)



Unrelated Business Income Tax

Determining UBI

- Advertising



Unrelated Business Income Tax

Annual UBIT Questionnaire

- Department administrator or equivalent unit business office will review UBIT policy and complete an annual UBI questionnaire to submit to AFRS
- The annual questionnaire will be due on September 1st each year for the prior fiscal year
- AFRS will review and make determinations on UBIT



Unrelated Business Income Tax

RPA Subject to UBIT:

- AFRS determines if RPA are subject to UBIT
- AFRS provides guidance to departmental personnel on the accounting required
- Department units track all direct costs and indirect costs to determine net income from the RPA and submit the documentation to AFRS
- AFRS will charge the department units their share of any assessed UBIT tax associated with the RPA
- AFRS will complete the Form 990T federal tax return and arrange for payment



Resources

BPM E-6-2 Revenue Producing Activities:

<https://www.uky.edu/ufs/sites/www.uky.edu.ufs/files/bpm/E-6-2.pdf>

RPA Questionnaire:

<http://www.uky.edu/ufs/sites/www.uky.edu.ufs/files/eforms/RevenueQuestionnaire.pdf>

BPM E-6-3 Unrelated Business Income Tax:

<https://www.uky.edu/ufs/sites/www.uky.edu.ufs/files/bpm/E-6-3.pdf>

UBI Questionnaire:

<http://www.uky.edu/ufs/sites/www.uky.edu.ufs/files/eforms/UBITQuestionnaire.pdf>



? Questions ?

All questions regarding RPA and UBIT should be directed to Rashmin Manandhar in AFRS at (859) 257-8638 or rashmin.manandhar@uky.edu