



UNRELATED BUSINESS INCOME TAX

HAND IN HAND WE LEARN
APRIL 26, 2018



Objective

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



University Exemption Status

The University of Kentucky (the University) is excluded from 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

Unrelated business income tax (UBIT) is tax imposed by the IRS on certain income of a non profit organization.



Unrelated Business Income

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



Trade or Business

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



Regularly Carried On

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



Substantially Related

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



Federal Tax Requirements

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



Examples: Income Activities 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



Examples: Income Activities 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



Examples: Income Activities Exempt from UBIT

- Research – Income derived from research for 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.



Examples: Income Activities 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 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



Examples: Income Activities 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



Examples: Income Activities 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



Examples: Income Activities 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.)



What to do if you suspect an activity might be subject to UBIT

Report it by obtaining the University of Kentucky activities questionnaire form from:

<https://www.uky.edu/ufs/accounting-and-financial-reporting#links>.

- [UBIT Questionnaire \(DOC\)](#)

Complete the form for any current or new activities that may be subject to UBIT and send to Accounting and Financial Reporting Services, 371 Peterson Service Building, 0005.



What happens next?

- AFRS staff will review all UBIT activities questionnaires received from the departments and provide guidance to departmental personnel on whether an activity is subject to UBIT.
- AFRS will also provide guidance to each department on the accounting required for any activity subject to UBIT.
- Important to track all direct costs and indirect costs to determine net income from the activity.
- The unit will be charged its share of any assessed UBIT tax associated with the activity.
- AFRS will complete the Form 990T tax return and arrange for payment.



Future BPM

- A new UBIT BPM will be added soon to the Business Procedures Manual.
- Units will need to complete and turn in an annual questionnaire to help identify UBIT activities.
- The questionnaire will be due on September 1st each year for the prior fiscal year period.



? QUESTIONS ?

All questions regarding UBIT should be directed to AFRS at 859 257-6235.