

UBIT

Unrelated Business Income Tax

Confusion between UBI & Sales Tax

- UBI is Income Tax on gross revenue earned by the sales of goods or services and **taxed by the Internal Revenue Service**
- Sales Tax is tax on the transfer of tangible goods **imposed by the State of Idaho** at the time of the transfer.

Why do I have to deal with UBI?

- Sometimes the revenue earned is beyond the exempt purpose of the university
- The purpose of UBI is to level the playing field when tax-exempt organizations stray into activities outside of their exempt purpose and are in competition with commercial or non-exempt businesses who are paying taxes for these activities.

Income Tax Required by IRS

- University of Idaho is exempt from Income Tax under section 501(a) as long as the revenue that is earned is directly related to the university's mission statement. The mission statement is at: <http://www.uihome.uidaho.edu/mission/>
- Unrelated Business Income is revenue earned that is not related to the exempt purpose of the university.
- The **source** of the revenue is evaluated (not the use of the funds).

UBI Activities

(Must have all three)

- 1. Not substantially related to the exempt purpose of the organization
- 2. Trade or business (means any activity which is carried on for the production of income and which presents a sufficient likelihood for unfair competition with for-profit business endeavors of a comparable nature. Actual competition need not be present for taxation of unrelated business income.)
- 3. Regularly carried on

1. Not Substantially Related to the Exempt Purpose

- Revenue from activities that are not related to the exempt purpose of the university. The Mission statement gives the exempt purpose of the university as a research II, land-grant institution committed to undergraduate and graduate-research education with extension services responsive to Idaho and the region's business and community needs.

2. Trade or Business

- Trade or business generally includes any activity carried on for the production of income from selling goods or performing services. An activity does not lose its identity as a trade or business merely because it is carried on within a larger group of similar activities that may, or may not, be related to the exempt purposes or the organization. IRS Publication 598.

3. Regularly Carried On

- Business activities of an exempt organization ordinarily are considered regularly carried on if they show a frequency and continuity, and are pursued in a manner similar to comparable commercial activities of nonexempt organizations.

Basis for Exemption from UBIT

(From the Key Examples on Worksheet)

- Substantially related to the university's exempt purpose (mission statement)
 - Education, Research and Extension Services to the community
 - Issues with by-products
- Convenience of students and employees exception
 - Copy Machines, Faxes, Vending Machines, etc
 - Activity not for the general public

Basis for Exemption from UBIT

(From the Key Examples on Worksheet)

- Gift/donation exception
 - Activity involves sale of merchandise (approximately 85% of which was donated)
- Volunteer exception
 - Unpaid students , employees or member of the general public (approximately 85% of the work)
- Corporate sponsorship or Advertising
 - Contracts should be reviewed before university signs
 - Advertising is not related and subject to UBI (but still has some exclusions)

Basis for Exemption from UBIT

(From the Key Examples on Worksheet)

- Passive Income exception
 - Patents, Royalties, Licensing fees, Use of logo, Rents but if mixed with personal property less than 10%
- Regularly or Irregularly Carried On
 - How often does the activity happen? If infrequent, casual or sporadic exempt
- Unique or Technically Advanced
 - Activity that no one else in area has the expertise for doing

Basis for Exemption from UBIT

(From the Key Examples on Worksheet)

- Trade or Business or Not
 - Activity generates revenue from sale of goods or services
 - No profit motive –Need to prove with a profit and loss statement each year
 - Failed “Sweat test” nothing given in return (dividend income)
 - Agency fund
 - Logo items sold to related party