

Unrelated Business Income Tax Frequently Asked Questions

Why is understanding UBIT important?

Unrelated Business Income Tax (UBIT) is a tax placed on non-profit organizations, including state universities, for conducting regular business activities that are not related to their educational mission. The Unrelated Business Income Tax legislation of 1950 gave the Internal Revenue Service (IRS) the ability to penalize a tax-exempt organization for generating unrelated business income (as opposed to revoking their tax-exempt status). UBIT treats universities similar to for-profit businesses engaged in the same business activity. Activities are classified as unrelated if they are:

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

Net income from such activities is subject to unrelated business income tax. All unrelated business income tax activities must be reported annually on form 990-T. The Internal Revenue Service and the Missouri Department of Revenue will assess penalties and interest charges for the 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 Truman State University:

1. Advertising income from sporting events that goes beyond acknowledgement of sponsorship.
2. Meeting, conferences, and seminars that are non-educational.
3. Rental of space to the general public in facilities financed by tax exempt bonds.
4. Catering (food services) to users not affiliated with Truman State University or its mission.
5. Summer camps that are not part of the University's educational mission.
6. Sale of recreation center memberships to the general public.
7. Sale of goods to outside entities or the general public (e.g., art sales at an exhibit).
8. Commercially sponsored research if the results are not made available to the public.
9. Medical treatment services or pharmaceutical sales to the general public.

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

Direct costs related to the operation of unrelated business activities may be deducted against revenues. Examples include compensation, repairs and maintenance, and depreciation. However, the presence of offsetting direct costs does not exempt institutions from filing the required 990-T tax returns.

Are there types of revenue that are exempt from UBIT?

Revenue may be considered unrelated, but exempt from UBIT, if any of the conditions listed below exist:

1. Unrelated activities conducted for the benefit of students, faculty, and staff may not be subject to UBIT. The bookstore and recreational programs are examples of such activities.
2. 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.
3. UBIT does not apply to income from an activity in which substantially all labor is provided by volunteers.
4. In addition, dividends, annuities, and other investment income are generally excluded from UBIT.

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

The Truman State University Business Office determines whether an activity is subject to UBIT. If your department is contemplating an activity that will generate revenue unrelated to tuition or educational fees, then please contact the Business Office at (660) 785-4153 to discuss potential UBIT before beginning the activity. In the event unrelated activity is authorized by Truman State University's administration, then the annual cost of the 990-T along with any associated tax will be the budgetary responsibility of the University department(s) that benefit from the unrelated business income.