UBI BASICS

What Administrators Need to Know About Unrelated Business Income Tax

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What is UBI?

• Unrelated Business Income is income derived from any unrelated trade or business which is regularly carried on by an organization.

• Harvard University is subject to taxation at regular corporate rates on UBI.

• Why is there UBI? In 1950 Congress enacted a tax on UBI to prevent unfair competition between the charitable and private sector.
UBI is **ALL THREE** of the following

**YARDSTICK:** Does the activity look like a commercial business?

- **TRADE OR BUSINESS**
  - Sale of goods or performance of services
  - Profit motive
  - External customers

- **REGULARLY CARRIED ON**
  - Year-round or seasonally
  - Annual events do not qualify

- **UNRELATED TO HARVARD’S EXEMPT PURPOSES**
  - Not “substantially related” to education and research
  - Highly fact-specific
Exceptions to UBI

**Convenience:** Services provided by Harvard to **faculty, staff, and students** as part of their roles at the University
Exceptions to UBI - others

- Activities performed by volunteers

- Sales of donated merchandise
  Distribution of low-cost merchandise ($10.60 or less for 2017 and adjusted for inflation annually)

- Exchanges or rentals of membership lists between charities
Exclusions from UBI

**Passive income:** Certain types of income are excluded from UBI. Examples:

- **Royalties**
- **Investments**
- **Rental of Real Property**
Allowable Deductions

• Business expenses directly connected with the UBI-generating activity are deductible

• Expenses attributable to both exempt and UBI-generating activities must be allocated on a reasonable basis

• Tax rate is 34% (federal); 8% (MA)
Deduction Methodology

Activity-based costing exercise

• Ideally, find common unit of cost and allocate between UBI and non-UBI

• Can use revenue allocation

• Must normalize for additional markup
## Examples

<table>
<thead>
<tr>
<th>Activity</th>
<th>Methodology Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parking</td>
<td># of spaces rented</td>
</tr>
<tr>
<td>Rental</td>
<td>rentable square feet</td>
</tr>
<tr>
<td>Faculty Club</td>
<td># of guests</td>
</tr>
<tr>
<td>Advertising</td>
<td># of pages</td>
</tr>
<tr>
<td>Sales/Catering</td>
<td>revenue allocation</td>
</tr>
<tr>
<td>Hotel</td>
<td>room nights and revenue allocation</td>
</tr>
</tbody>
</table>
Other Adjustments

• Remove internal rental charges, substitute building expenses
  ▪ Recalculate tax depreciation
  ▪ Generally yields larger deduction

• Remove interest on tax-exempt debt

• Allocate other overhead charges
How is UBI Reported?

• Reported on IRS form 990-T
  ▪ Due on May 15\textsuperscript{th} of the following year after the fiscal year end date (this is the extended due date, without extension due November 15\textsuperscript{th}).
  ▪ M-990T is the state of Massachusetts UBI filing requirement, same due dates as above.
  ▪ File various other states filing requirements: California, New Mexico and Oklahoma
Can UBI jeopardize our exempt Status?

• Harvard qualifies for tax-exempt status under Section 501 (c)(3) of the Internal Revenue Code.
• There is no specific rule when UBI is excessive, case by case basis
• As a general rule should be less than 10%
• Private Business Use- can not exceed 5%
Our Goals:

• Increase awareness of Harvard’s tax obligations
• Reduce exposure to tax liabilities & interests and penalties associated with UBI
• Proactive vs. Reactive approach
• Accurate recordkeeping by the departments
Q&A?

• Please contact the Tax Reporting office for any questions related to UBI.

[Link to UBI Financial Policy]

THANK YOU!