



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.

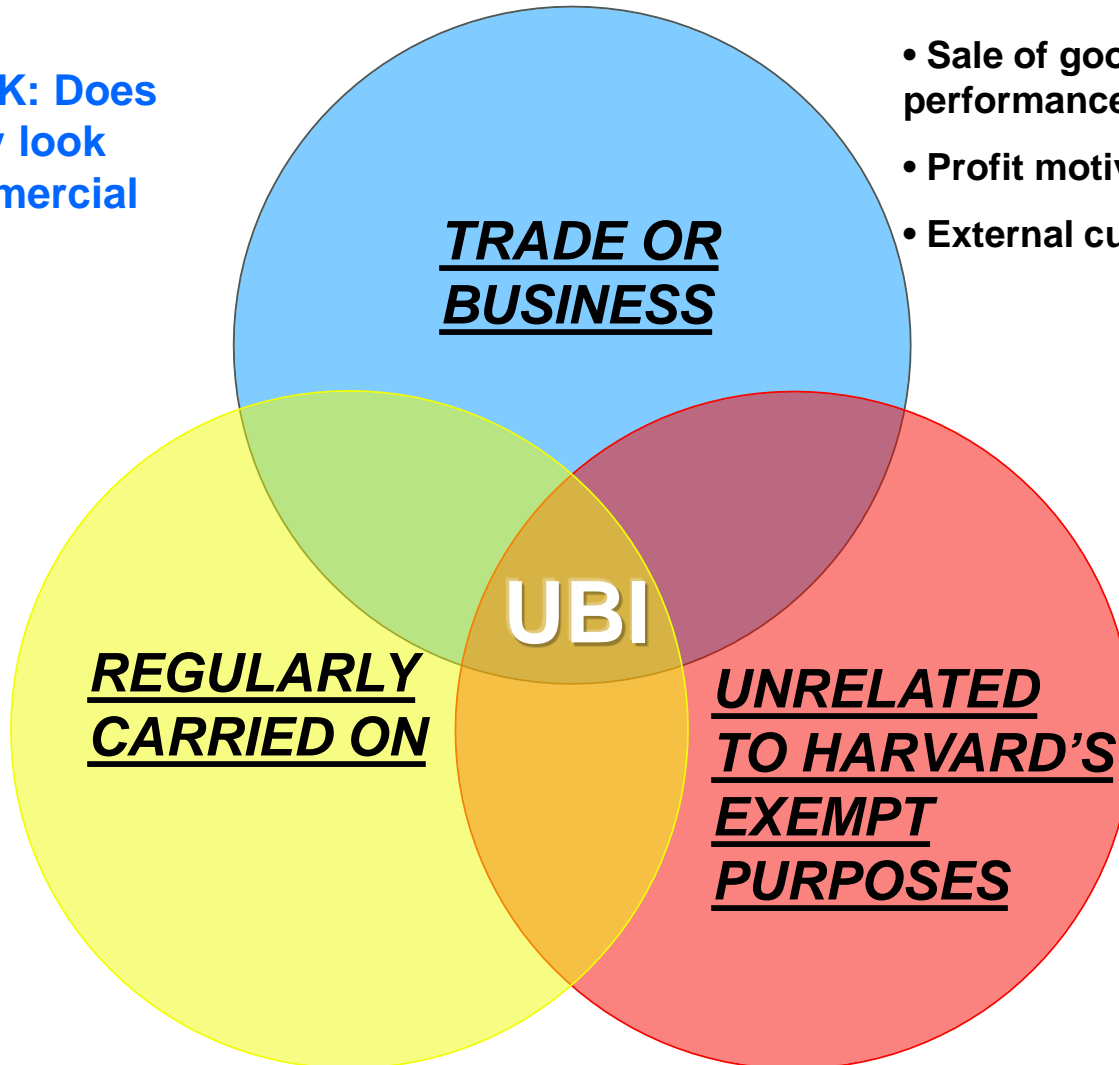


UBI is **ALL THREE** of the following

YARDSTICK: Does the activity look like a commercial business?

- Sale of goods or performance of services
- Profit motive
- External customers

- Year-round or seasonally
- Annual events do not qualify



- Not “substantially related” to education and research
- Highly fact-specific



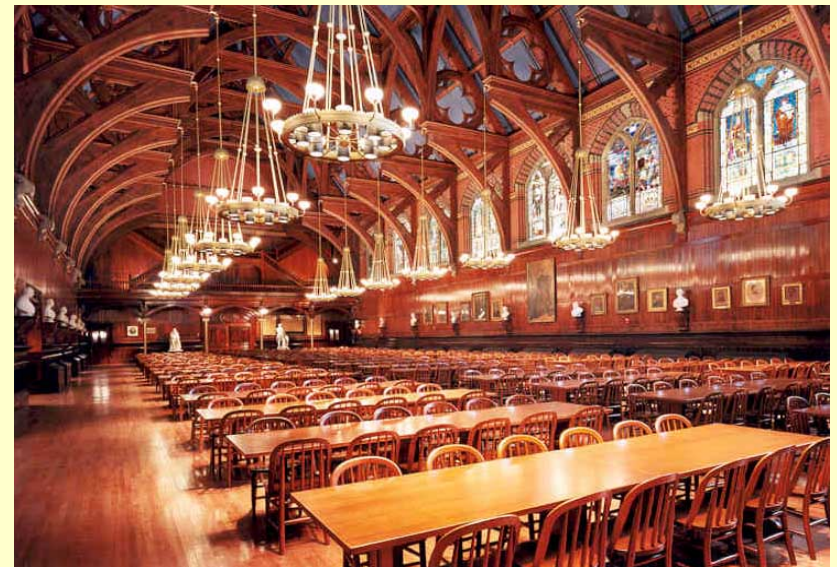
Exceptions to UBI

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

Health Services



Dining Services





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

Activity	Methodology Used
Parking	# of spaces rented
Rental	rentable square feet
Faculty Club	# of guests
Advertising	# of pages
Sales/Catering	revenue allocation
Hotel	room nights and revenue allocation



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 15th of the following year after the fiscal year end date (this is the extended due date, without extension due November 15th).
 - 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!