

Tax Compliance for External Revenue-Generating Activities – Appendix A

Unrelated Business Taxable Income (UBI) Basics

I. Determining if Your Department Has UBI

An activity might generate UBI if it is **ALL THREE** of the following:

1. A trade or business

- From the sale of goods or performance of services **outside Harvard**
- Carried on for the production of income (“profit motive”)
- Goods sold or services provided to **non-Harvard** clients

2. Regularly carried on

- Like a commercial business (year-round or seasonally)
- Annual events are not considered regularly carried on

3. Unrelated to Harvard’s exempt purposes

- Not substantially related to education and research
- Determinations of “relatedness” are fact-specific

II. Relevant Exceptions to UBI

Convenience Exception

- Activities for the convenience of faculty, staff or students
- Example: college cafeterias and bookstores

Volunteer Exception

- Activities where substantially all of the work is performed by volunteers
- Example: volunteer-staffed gift shop

III. Passive Income Exclusion

- Royalties are not UBI
- Rental of real property is not UBI as long as no substantial services are provided
 - Substantial services include: catering services, audio-visual services, housekeeping services, etc.
 - Typically, anything beyond what a typical landlord would provide

IV. Allowable Deductions

- Business expenses connected with the UBI-generating activity are deductible
- Expenses must be directly connected with UBI-generating activity
- Expenses attributable to both exempt and UBI-generating activities must be allocated on a reasonable basis

V. Tax rate – 34% federal, 8.25% MA