Could It Be *Taxable*?

*Unrelated Business Income Tax (UBIT)*
The University and UBIT
a Federal Tax

• University is *subject to UBIT*

• *Report* income *unrelated* to our mission

• *Pay* *taxes* on that income

• It’s not how you *spend* the money, it’s how you *earn* it!
UBIT CRITERIA

ALL three elements required

1. Activity conducted as a *trade or business* (lots of activities fall into this one)
2. Activity *regularly carried on*, *and*
3. Activity is *not substantially related to the tax exempt mission* of the University
Definition

- Conduct of a Trade or Business = selling goods/services or performing services
- Regularly Carried On = exhibit frequency, i.e. NOT sporadic or infrequent
Definition

- *Not substantially related* to the University’s *tax exempt mission*, which is education, research, and public service.

  – How essential is this activity to accomplish the University’s tax exempt mission?

  – Does this activity contribute importantly to accomplishing that purpose?
Exceptions

- Substantially all the *work performed by volunteers*

- University is *not in competition* with taxable organizations

- *Annual* event

- Activity/service is for the *convenience of students, staff, faculty*

- Qualified sponsorship (discussed on next slide)

- Rent from real property
  - Income from renting parking facilities subject to UBIT
Problem Areas

- Including corporate logos or links on our materials:
  - Sponsorship or Advertising?

Qualified sponsorship
- sponsor cannot receive substantial return benefit (advertising)
- can use sponsor’s name, logo, and product lines (w/o phone #, address, website, etc.)

Advertising
- Call to action
- Inducement to buy
- Pricing information or discounts
- Statements of quality or comparisons
Problem Areas (cont’d.)

• **Sale of merchandise to public**
  – Pharmacy

• **Rental Income – Facilities Use**
  – Income received from public, alumni, spouse/children of students & staff – Rec Center
  – Use of Soccer Field by Sacramento Knights
Problem Areas (cont’d.)

• **Links on Sac State Web Pages**
  – IRS focus -- where does the link go?
    – For example, *if the link leads to the main web page*, the IRS may be less likely to view this as advertising, and the payment may be eligible for treatment as a qualified sponsorship payment.
    – However, *if the link goes to a page where goods or services are sold*, then the IRS may view the link as advertising.
UBIT Reporting 😊

- **IRS discovery** = lots of costly consequences! 😞

- **If unsure** (even if you haven’t asked in the past) call/email Auditing Services - Kathi McCoy ☎️

- **We’ll help** determine if the income is subject to UBIT reporting 😊
Auditing Services

Kathi McCoy

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UBI Policy: [http://www.csus.edu/umanual/admin/ADM-0155.htm](http://www.csus.edu/umanual/admin/ADM-0155.htm)

UBI Guidelines: [http://www.csus.edu/audit/UBIT_Guidelines.htm](http://www.csus.edu/audit/UBIT_Guidelines.htm)