



Business Matters at Sac State

Topic: Revenue –Could It Be Taxable? Unrelated Business Income (UBI)

Date: October 26, 2007

To: Deans, Associate Deans, Department Chairs, Directors, Managers, and Campus Business Partners

From: Kathi McCoy, Director of Auditing Services

Income that is received from a business activity that is unrelated to our educational mission may be reportable and taxable, unless it meets one of several specific exemptions. The IRS established the Unrelated Business Income Tax (UBIT) to avoid unfair competition between non-profit organizations (such as the university) and for-profit, taxable entities.

WHAT YOU NEED TO KNOW:

Internal Revenue Code requires us to report income that is received from activities that are unrelated to the educational mission, and pay applicable taxes on that income. At Sacramento State, Auditing Services provides campus information to the CSU – Chancellor's Office each year by November 15. The Chancellor's Office submits a consolidated UBIT form to the IRS.

Unrelated Business Income is the gross income derived from:

- A trade or business activity
- Regularly carried on, and
- Not substantially related to the university's exempt purpose or function

To determine tax liability, the expenses directly related to the activity are deducted from the gross income. Expenses that are associated with a separate but related activity, which is partially funded by the unrelated activity, cannot be used to offset the unrelated income. The net income is then subjected to a UBIT schedule. UBIT does not apply when activities are sporadic or infrequent. For example, revenue derived from an annual fund raising event would not be subject to UBIT. Contact Auditing Services, Kathi McCoy, and we will help determine if a revenue-producing activity is unrelated business income subject to taxation.

WHAT YOU NEED TO DO:

Please **notify Auditing Services** to report any income and revenue that your department receives that you think might fit the UBI criteria. This is a requirement so the University does not have tax sanctions and penalties for not reporting/paying UBIT.

Possible UBIT Examples: Revenue from

- Outside entities advertising in a university publication
 - athletics, dance, theatre, music, admissions, and outreach, etc.
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- Rental of University Facilities – access or use of university resources in exchange for some form of compensation
 - parking lots, recreational or athletic facilities, meeting rooms, computer facilities
- Camps – summer or winter session
- Sale of services of products

Questions:

- Is any rent or lease payment collected?
- Does the activity have any contracts or exclusive selling rights from outside corporations/companies?
- Does your department receive any advertising income – consumer advertising in a university publication?
- Does your department receive any income from endorsement by the university on any athletic sport events, equipment, contests, broadcasting rights, or air advertising?
- Does your department receive any income from corporate sponsorships?
- Does your department receive any income from parking lot fees collected at an event such as a concert?
- Does your department receive any income from the operation of business services, such as food concessions, printing, or copying?
- Does your department receive any income from the sale of publications to the general public?
- Does your department receive any income from organizing travel tours or placing alumni members for employment?
- Does your department receive any income from website activities, such as advertisements, hot links, digital information, software, or text or video images?
- Does your department provide any sponsors with free gifts for their support?

Contact and Reference Information: If you have any questions, please contact us at

- Kathi McCoy, Auditing Services, x87439, mccoyk@csus.edu
- Unrelated Business Income Policy: <http://www.csus.edu/umannual/admin/UMU18400.htm>
- Unrelated Business Income Guidelines: http://www.csus.edu/audit/UBIT_Guidelines.htm

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