


## COMPTROLLER POLICY MANUAL

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|  | <b>POLICY: CMP 122</b>          |
|   | Section: 100 General            |
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|   | Responsible office: Comptroller |
|   | Origination date: 01/01/2000    |
| <b>Subject: Unrelated Business Income Tax</b>                                     | Effective date: 01/01/2000      |
|   | Revision date: 01/26/2016       |

### PURPOSE

To provide an overview of the unrelated business income tax (UBIT) as it relates to the university

### SOURCE

Internal Revenue Service

### CMP 122: Unrelated Business Income Tax

Under certain circumstances, the university may be required to pay taxes on unrelated business income. Income earned from unrelated trade or business that is not substantially related to the university's tax-exempt purpose may be subject to taxation. Use of the unrelated income for the university's tax-exempt purpose does not avoid UBIT.

The tax-exempt purpose of a state university is somewhat broad; therefore, the activities subject to UBIT are relatively limited. The University is exempt from federal income tax for engaging in activities which include charitable, scientific, testing for public safety, literary or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals.


Listed below are several specific examples of university activities that generate income, but are not subject to UBIT:

1. advertising revenue for the student-operated campus newspaper
2. day-care center open only to children of students, faculty, and staff
3. student residence halls
4. laundromat for students, faculty, and staff
5. university sporting events, including admissions and television/radio rights
6. sale by the university bookstore of books, writing supplies, and other items for the convenience of students
7. in general, services provided primarily for the convenience of students, faculty, and staff
8. in general, research activities, except for product testing and other research for commercial or industrial application.

Typical unrelated business activities include but are not limited to:

1. Advertising not related to educational purpose
2. Use of recreational facilities by alumni and general public
3. Operation of parking lots to the general public
4. Rental of equipment to the general public
5. Rental of facilities to the general public with substantial services

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| <b>CMP 122: Unrelated Business Income Tax</b>  |
| <p>The rules concerning UBIT are very complex and there are exceptions to the general rules described in this policy. Determining whether income is subject to UBIT can be subjective and depends on the facts and circumstances of each case. Each NAU department is responsible for notifying in writing the Comptroller's Office of any revenues being generated that may be subject to UBIT for an analysis and interpretation.</p> <p><b>DEFINITION</b></p> <p><b>Unrelated Trade or Business</b></p> <p>A trade or business (i.e., carried on for the production of income, whether or not profit results) regularly carried on (including seasonally) by the organization, that is not substantially related (aside from providing funds) to the exercise or performance of its exempt purpose or function.</p> |

**CROSS-REFERENCES**

[CMP 309 Unrelated Business Income](#)