

Financial Services Manual (FIN)

FIN 122: Unrelated Business Income Tax

Effective: 7/3/1995

Revised: 7/1/2022

Purpose

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

Source

Internal Revenue Service

Policy

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. To the Internal Revenue Service, the tax-exempt purposes of a state university include: religious, 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 generally subject to UBIT:

1. advertising revenue for the student-operated campus newspaper
 2. day-care center open to children of students, faculty, and staff only
 3. student dormitories
 4. laundromat for students, faculty, and staff only
 5. university sporting events, including admissions and television/radio rights
 6. sale by university-owned 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
- and
8. in general, research activities, except for product testing and other research for commercial or industrial application.

The rules concerning UBIT are very complex and there may be exceptions to the general rules described above. Determining whether income is subject to UBIT depends upon the facts and circumstances of each case. Each ASU department is responsible for notifying in writing the Financial Services accountant responsible for that department's accounts of any revenues being generated that may be subject to UBIT for an analysis and interpretation by Tax Services.

Annually, ASU is required to file IRS Form 990-T, "Exempt Organization Business Income Tax Return" to report unrelated business income for the fiscal year. Departments earning unrelated business income must report their fiscal year unrelated business income and expenses to Tax Services for inclusion in the tax return.

IRS rules require that filed 990-Ts be available for public inspection and copying for three years after the due date of the return. Requests to inspect the 990-T filed by ASU should be directed to the Financial Services Office.