

UBIT

Unrelated Business Income Tax

WHAT IS UBIT ?

UBIT is a tax imposed on the unrelated business income generated by tax exempt organizations. Congress mandated UBIT in 1950 to minimize unfair competition between nonprofit organizations, which were traditionally exempt from taxes, and for-profit businesses which have to pay taxes.

Although SLCC is a non-profit, educational entity, **the College is required to pay Federal income tax at the corporate rate on net income from activities that are unrelated to the exempt education mission of the College.**

WHAT IS UNRELATED BUSINESS INCOME?

Unrelated Business Income consists of income generated by the College from activities that are not related to the exempt mission of the College. Income from an activity is considered unrelated if all of the conditions listed below are met:

- ✓ The activity is conducted as a trade or business, and is
- ✓ Regularly carried on, and is
- ✓ Not substantially related to the exempt mission of the College

TRADE OR BUSINESS

The term “trade or business” generally includes any activity carried on for the production of income from selling goods or performing services.

REGULARLY CARRIED ON

An activity is considered to be “regularly carried on” if it is conducted with a frequency, continuity, and pursued in a manner similar to comparable commercial (private sector) activities.

NOT SUBSTANTIALLY RELATED

UBIT relates to income generated from activities that are not substantially related to the exempt mission of the College. To determine if an activity is related or unrelated, one must decide how essential or how important it is to accomplishing the College’s exempt purposes. The activities that generate the income must contribute importantly to the accomplishment of our mission.

EXCEPTIONS

Even if the three unrelated business income tests described above have been met, there are several exceptions. The most notable exceptions are for rental of real estate (room rent) and for activities that are conducted for the convenience of students, faculty and staff, such as the cafeteria and bookstore.

BUDGET CENTER MANAGER RESPONSIBILITY

All activities that generate income from non-educational sources (excluding grants) must be carefully reviewed to determine whether an exempt purpose is being served. **Please notify the Business Office (Doug Hansen, ext. 4084) of such activities so that a proper determination under the UBIT rules can be made.**

Remember, the fact that a department needs the funds for an exempt purpose does not necessarily mean the income producing activity is substantially related to that exempt purpose.