

 <p>Category: Financial</p> <p>Responsible Office: University Controller</p>	<p>Procedure Title: Unrelated Business Income Reporting</p> <p>Document Number: 7305</p> <p>Effective Date: June 01, 2004</p> <p>This procedure item applies to: State-Operated Campuses</p>
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Summary

The State University of New York (University) conducts an annual tax survey to identify any revenue generating activities in the University's operations that may result in unrelated business income (UBI). UBI is any activity considered to be (1) a “trade or business” and (2) regularly carried on but (3) not substantially related to the organization’s exempt purpose. Any activity that does not meet all of these criteria is to be excluded from UBI.

Process

Each year the University conducts a tax survey to identify any revenue generating activities in the University's operations that may result in unrelated business income (UBI). The survey, sent annually to each state-operated campus, includes narrative description of UBI, worksheets, questionnaires, and a listing of potential UBI activities previously reported. Each campus is required to complete the survey for those activities considered state activities (i.e., State purpose funds, IFRs, residence halls).

An activity is not an UBI if it satisfies any of the following tests:

- **Not a Trade or Business:** If the activity does not constitute a trade or business, which presents sufficient likelihood of unfair competition with taxable entities then it should not constitute UBI. To be considered a trade or business, the activity must be conducted with a profit motive. Most potentially taxable activities would constitute a trade or business if conducted by taxable entities; therefore, look to other exceptions to exclude these activities from taxation.
- **Not Regularly Carried On:** If the activity is carried on sporadically or infrequently as compared to a commercial enterprise which is carried on regularly throughout the year or season, then it should not constitute UBI.
- **Substantially Related:** If the activity is substantially related to the State University of

New York's (University) exempt purpose, it should not constitute UBI. To be substantially related, the activity must contribute importantly to the University's exempt purposes.

Additionally, statutory exclusions provide another opportunity to exclude income from taxation. These exclusions are as follows:

- **Convenience Exception:** If the activity is carried on by the University primarily for the convenience of its students, faculty, or staff, it should be excluded from taxation. Prime examples of this exclusion on University campuses are bookstores and cafeterias.
- **Volunteer Workforce:** If a trade or business is conducted in which substantially all the work is performed for the organization by volunteers who are not compensated, then the activity should be excluded from taxation.
- **Passive Income; No Services Provided:** If the activity generates only passive income such as interest, dividends, royalties, annuities and real estate rental income, then it should be excluded from taxation. Contributions are also included in this category. All passive items are statutorily exempted from the unrelated business income tax. This exception provides a significant opportunity for exclusion. Examples of passive income arrangements would be royalties from affinity cards, and investments in partnerships that generate interest, dividends, royalties and other types of passive income.

Forms

Form 990T (Exempt Organization Business Income Tax Return)

Related Procedures

There are no related procedures relevant to this procedure.

Other Related Information

Unrelated Trade or Business (598)

Charities and Non Profit

Authority

26 USC § 511 (Imposition of tax on unrelated business income of charitable, etc., organizations)

26 USC § 512 (Unrelated business taxable income)

26 USC § 513 (Unrelated trade or business)

Office of the University Controller Accounting Requirements.

History

There is no history relevant to this procedure.

Appendices

There are no appendices relevant to this procedure.