

University of Texas School of Law Annual Nonprofit Organizations Institute

4C Master Class: UBI “Deep Dive”

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Your presenters



Jacob Zehnder
Senior Manager
Chicago, IL

Patrick Shields
Senior Manager
Phoenix, AZ

Agenda

- ▶ Introduction to unrelated business income (UBI)
- ▶ Exclusions and modifications to UBI
- ▶ Computing UBI – expense allocation
- ▶ Common scenarios that can give rise to UBI
- ▶ Effect of tax reform on UBI

Introduction to unrelated business income



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UBI basics – background and definitions

- ▶ IRC Section 511 – imposes a tax on unrelated business taxable income (“UBTI”) of organizations described in IRC Sections 401(a) and 501(c), as well as state colleges and universities
 - ▶ The tax on UBTI was first enacted in 1950.
 - ▶ Purpose: to eliminate any unfair competitive advantage that exempt organizations may have over their for-profit counterparts.

- ▶ IRC Section 512 – unrelated business taxable income (UBTI) is composed of:
 - ▶ Gross income from unrelated trade or business (unrelated business income), reduced by:
 - ▶ Allowable deductions directly connected to such trade or business

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"UBI "Deep Dive""