University of Texas School of Law Annual Nonprofit Organizations Institute

4C Master Class: UBI "Deep Dive"

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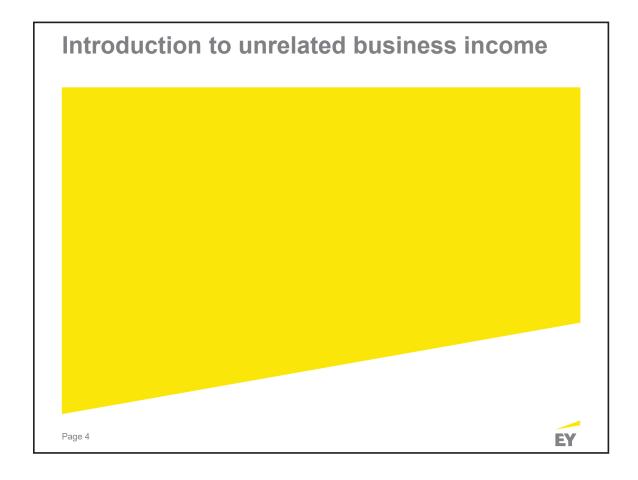
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Agenda

- ► 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

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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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