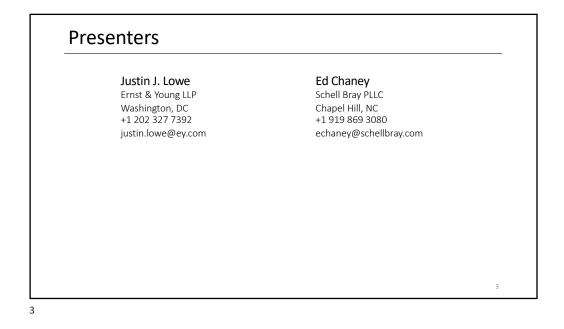
Commercial activities and the unrelated business income tax

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UBIT overview

- Under Internal Revenue Code (IRC) Section 511, UBIT applies to otherwise taxexempt organizations (EOs) described in IRC Section 401(a) (qualified benefit plan trusts) and Section 501(c), as well as most state colleges and universities.
- It is a tax on the gross income (less directly connected expenses) derived from (1) a trade or business, (2) regularly carried on and (3) not substantially related to the organization's exempt purpose.
- An activity is "substantially related" if it "contribute[s] importantly" to an organization's exempt purposes.
- Too much unrelated business activity may indicate a substantial nonexempt purpose and jeopardize exemption.

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UBIT overview

- Under IRC Section 512(b), passive income, such as dividends, rents from real property, interest and royalties, is generally not subject to UBIT unless:
 - Such income (other than dividends) is paid to a charity by a more than 50% controlled entity and the payment reduces the controlled entity's net unrelated income (and tax liability) or increases its net unrelated loss.
 - Or
 - Income is generated by debt-financed property that is not used in furtherance of exempt purposes.
- Whether a commercial activity is taxable often requires determining the character of the income (e.g., royalty vs. sales commissions).

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