

UBIT Essentials

HIGHER EDUCATION TAXATION ESSENTIALS

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With you today..

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Agenda

- ▶ Unrelated Business Income (UBI)
- ▶ Statutory Exemptions and Exclusions to UBI
- ▶ Expense Allocation Rules
- ▶ Siloing and Other Hot Topics

Unrelated Business Income

UBI Background

- ▶ First enacted by Congress in 1950 to eliminate unfair competition between tax-exempt and for-profit organizations
- ▶ Under the UBI rules, a tax-exempt organization's income could no longer qualify for exemption merely because its profits were destined for charitable purposes
- ▶ Revenue Act of 1951 expanded scope of UBI to include public colleges and universities.

UBI Background – Continued

- ▶ Allowed taxation of profits of business that were not substantially related to purposes of the exempt organization
- ▶ Rationale for taxing exempt organization on unrelated business profits:
 - ▶ Unfair compensation for market share;
 - ▶ Unfair competition for capital; and
 - ▶ Increase federal tax revenue

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