Unrelated Business Income Tax (UBIT)

**Policy Statement**
Institutions of the University System of Georgia (USG) are tax-exempt as instrumentalities of the State of Georgia under Section 115 of the Internal Revenue Code. Similarly, institution foundations are exempt under Section 501 (c)(3) of the Internal Revenue Code.

As tax-exempt entities, USG institutions and foundations are exempt from federal income tax for activities that further their educational purpose. However, they are not exempt from income tax imposed on activities that are substantially unrelated to exempt purposes, called “Unrelated Business Income” or UBI, even though these activities may bring in funds to support exempt operations.

The University of Georgia follows the USG Board of Regents policy on Unrelated Business Income. A link to the USG Procedures Manual can be found under Related Information.

The University of Georgia also follows Internal Revenue Service guidelines for tax on unrelated business income of exempt organizations. A link to the IRS guidelines is also provided under Related Information.

**Reason for policy**
The University must follow procedures related to UBI and its associated tax in order to follow the Internal Revenue Service federal tax code.

**Procedures**
As defined by the Internal Revenue Services (IRS), an activity will have unrelated business income and be subject to unrelated business income tax if it meets three requirements:

1) The activity is a trade or business

2) the activity is regularly carried on, and

3) the activity is not substantially related to furthering the exempt purpose of the organization.

NOTE: There are several exceptions to this general definition of unrelated business income. See the FAQ's below for the exceptions.

UGA departments are required to complete a UBI questionnaire related to their business activity after the close of each fiscal year. The questionnaire is used to identify activities that may generate unrelated business income and would need to be included on the University’s tax return. The Accounting Office will review completed questionnaires for possible UBI activity. After completing the review, the Accounting Office will work with the school/college/unit financial staff to identify any UBI activity and help each unit determine what financial information is required for tax reporting purposes. Departments should not make this determination.

There are cases where an activity generates a source of funds that are used to carry-out the mission of the University. However, the IRS places particular emphasis on the size and extent of the activity. If an activity is conducted on a scale larger than reasonably necessary to carry out the exempt purpose, it is more likely to be treated as unrelated business income. Examples of unrelated business activities can be seen in the Policy Appendices section.
Please consult the IRS guidelines for UBIT and the USG Procedures Manual section on UBI for further information.

**Forms/Instructions**

**Policy definitions**

**Unrelated Business Income (UBI):** gross income from a trade or business regularly carried on by a college or university, which is not substantially related to the performance of its exempt purpose or function, except that the institution uses the profits derived from this activity.

**Trade or Business:** A trade or business includes any activity conducted for the production of income from selling goods or performing services. An activity must be conducted with the intent to make a profit to constitute a trade or business.

**Regularly Carried On:** Activities regularly carried on would be those that show frequency and continuity and are pursued in a similar manner as a for-profit organization that would conduct a comparable activity.

**Substantially Related:** Activities substantially related would be those that generate income and contribute to the accomplishment of the organization’s exempt purpose. The University of Georgia’s exempt purposes are education, public service, and research, so any income generated from activities whose purpose is NOT substantially related to one of those purposes would be characterized as unrelated business income and would be subject to federal income tax rules.

**Forms/Instructions**

**Responsible University Senior Administrator:** Vice President for Finance & Administration  
**Responsible University Administrator:** Associate Vice President- Finance Division  
**Policy Owner:** Accounting  
**Contact:** Director of Accounting  
**Phone Number:** 706-542-6874

**Record Retention**

For documentation related to unrelated business income tax, including working papers and questionnaires, record retention is seven (7) years.

**Policy Appendices**

Some examples of unrelated business activities:

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<th>Activity</th>
<th>Description</th>
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| Alumni                  | • Mailing list rentals or license fees to outside organizations  
                         | • Alumni usage of golf course, recreation center, etc.  
                         | • Sale of routine analytical or consulting services to non-institution users |
| Analytical Laboratory   | • Rental of laboratory facility to non-institution users  
                         | • Rental of scientific instruments to non-institution users |
| Athletics                                          | • Income from advertising that goes beyond mere acknowledgement of sponsorship  
|                                                  | • Income from an athletic event and from the sale of broadcast rights to such events  
|                                                  | • Rental of athletic facilities to local independent school districts  
|                                                  | • Sale of recreation/activity center memberships to alumni and the general public  
|                                                  | • Rental of institution facilities to professional sports teams  
|                                                  | • Rental of sports equipment to alumni and the general public  
| Bookstore                                        | • Bookstore or gift shop sale of items unrelated to the institution’s exempt purpose  
|                                                  | • Mail order catalog sales  
| Continuing Education                             | • Sale of programming services to non-institution users  
|                                                  | • Training programs customized to particular users  
| Endowment                                        | • Income from mineral operating interests  
| Food Services                                    | • Catering (food service) to non-institution users  
|                                                  | • Cafeteria/restaurant service to non-institution users  
|                                                  | • Franchise agreements with companies like Dunkin Donuts or Chick-fil-A®.  
| Marine Facility                                  | • Sale of aquarium collecting services to non-institution users  
| Mechanical Services                              | • Sale of equipment to non-institution users, other than sales of surplus equipment  
| Media Services                                   | • Sale of audio-visual services to non-institution users  
|                                                  | • Sale of advertising on institution television and radio stations  
| Medical Services                                 | • Rental of image analysis equipment to non-institution users  
|                                                  | • Pharmacy sales (both prescription and non-prescription) to non-patients  
|                                                  | • Sale of ophthalmology services to a private company  
|                                                  | • Sale of contact lens services to non-institution users  
|                                                  | • Sale of non-kidney-related clinical services to non-institution users  
|                                                  | • Sale of paternity evaluation services to non-institution users  
| Miscellaneous Services                           | • Sale of translation services to non-institution users  
|                                                  | • Sale of goods to non-profit agencies  
|                                                  | • Sale of childcare services to non-institution users  
|                                                  | • Participation in credit card or long-distance service sales  
|                                                  | • Sale of computer services to non-institution users, non-profit research institutes, and government agencies  

### Travel agency commissions and fees paid by non-institution users
- Sale of cell phone exchange services to non-institution users
- Sale of printing services to non-institution users

### Publications
- Sale of advertising space in periodicals

**Note:** This excludes “circulation income,” which includes amounts realized from reprints of articles and the sale of back issues, if the content of the publication relates to the accomplishment of the institution’s exempt purposes.

### Special Events
- Sale of tickets to the general public for art exhibits, programs, concerts, or “non-educational” tours

## FAQs
**What are the exceptions to unrelated business income?**
- **Convenience of Members:** Revenue from an activity conducted for the convenience of UGA faculty, staff, and/or students in connection with their respective roles does not generate unrelated business income. A typical example would include the university cafeteria/dining hall services provided to UGA faculty, staff and/or students.
- **Volunteer Exemption:** Eighty-five per cent (85%) or more of the work related to an activity is performed by volunteers.
- **Donation Exemption:** Eighty-five per cent (85%) or more of the income is related to donated merchandise, property or services, even if the labor to operate the activity is paid or volunteered.
- **Education Function Exemption:** Activities are important to the overall educational function of the institution, such as a performing arts theater, symphony, etc.
- **Passive Participation Exemption:** Passive income such as dividends, interest, annuities, royalties, licensing agreements, etc., without any active business participation or management.
- **Student Participation Exemption:** Activities include substantial student participation, which directly supports the institution’s educational program(s).

**How does unrelated business income affect UGA?**
Each year, UGA must perform an analysis to determine the amount of unrelated business income tax to be reported to the IRS. Auxiliary, continuing education, and departmental sales and service activities are areas of consideration for determining unrelated business income for the University.

## Related information
- [USG Procedures Manual Section 23: Unrelated Business Income (UBI)]
- [IRS Publication 598: Tax on Unrelated Business Income of Exempt Organizations]

[UGA F&A Unrelated Business Income]
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<th>Policy Dates</th>
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<tr>
<td>Date of Last Review: 02/20/2023</td>
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Previous Version of Policy: Please contact policy owner for previous versions