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Unrelated Business Income Tax

Effective Date: 07/01/2014
Approval Date: 06/15/2014
Reviewed Date: Annually

GUIDANCE STATEMENT
To ensure adherence to all federal and state regulations for income taxation, the University Controller’s Office will evaluate known business activities to determine if it is subject to unrelated business income tax (UBIT) regulations. NCSU will report annually in its tax return any income generated from unrelated business activities.

Each year, the Controller’s Office is responsible for the timely filing of an accurate and complete Form 990-T tax return in accordance with Federal Tax Law (as well as a similar return with the state of North Carolina). The Form 990-T and CD-405 (NC DOR) must be filed regardless of whether or not the overall activities result in tax liability to NCSU.

PURPOSE OF GUIDANCE
North Carolina State University is an agency of the State of North Carolina and given tax-exempt status by the Internal Revenue Service. As a result, most revenue generating activities are tax-exempt because they are within the educational mission of providing direct and substantial benefits to its students or the research mission of advancing the current state of knowledge. However, NCSU may have some revenue generating activities that are subject to taxation because the revenue is derived from “unrelated business income” (UBI) as opposed to “related function income.”

Each activity generating unrelated business income must be able to document all revenues as well as all expenses incurred in creating those revenues. The expenses must include both the expenditures directly charged to the business activity as well as expenditures that may be included in overhead.

RESPONSIBILITIES
Chief Tax and Capital Asset Accountant, within the office of the University Controller; is responsible for working with various departments and units in determining if there is unrelated business income, allocating expenses, and filing the associated tax forms required by law.

Departments; It is critical that departments perform a methodical and comprehensive review of each income producing activity it conducts. Every income-producing activity must be analyzed to determine whether it is subject to UBIT. Departments should consult with the University Controller’s Office if they have any questions.

If an income-producing activity has been determined subject to the UBIT, an electronic or hard copy of the activity’s fiscal year income and expense calculations and supporting documentation must be submitted to the University Controller’s Office by July 31 after the close of year end.
PRIMARY GUIDANCE

- IRS Publication 598-Tax on Unrelated Business Income of Exempt Organizations

RESPONSIBLE UNIVERSITY OFFICE

The Tax Compliance Office, within the University’s Controller’s office, has direct oversight of this policy and its related procedures. This is for North Carolina State University internal use only.

WHO IS GOVERNED BY THIS GUIDANCE

Compliance with the policies and procedures defined herein is mandatory for all NCSU faculty, staff, and students who are working for or on behalf of the University who have procurement, receiving, and operational use of or access to University property. Full adherence will assist UCO personnel in accurately managing the University’s capital asset inventory and ensure compliance with federal and state laws, and private granting agencies and regulations.
| **DEFINITIONS** |
|-----------------|--------------------------------------------------------------------------------------------------|
| **Convenience Exclusion** | A business activity conducted by a college or university primarily for the convenience of its faculty, staff and/or students that is generally not taxable regardless of the nature of the activity. **CAUTION:** The convenience exclusion does not apply to alumni. |
| **Cost of Goods Sold** | The cost of articles held for sale to customers in the regular course of a trade or business. Generally, the costs are accumulated in an inventory account prior to sale. |
| **Deductions** | The ordinary and necessary expenses of carrying on a trade or business, which are deducted from gross profit. In computing the unrelated business taxable income of a tax exempt organization, those expenses that are deductible by commercial organizations are also deductible by the tax exempt organization. Where facilities or personnel are used for both exempt functions and the conduct of an unrelated business, it is necessary to allocate costs and income between the two uses on a reasonable basis. The portion of any such items allocated to the unrelated business is allowable as a deduction in computing taxable income. |
| **Depreciation** | Method for allocating the cost of buildings over time. Generally accepted accounting principles and federal regulations dictate that the value of capital assets must be written off as an expense over the life of the asset. |
| **Direct Cost** | An expenditure that can be identified specifically with a particular business activity relatively easily with a degree of accuracy. |
| **Gross Income** | Gross receipts less cost of goods sold or reserves provided. |
| **Gross Profit** | Gross income minus the cost of the goods sold. |
| **Ordinary and Necessary** | An expense is necessary if it is appropriate and helpful to the taxpayer’s business. An expense is ordinary if it is one that is common and accepted in the particular business activity. |
| **Overhead Costs (F&A)** | Expenditures that are incurred for joint objectives and cannot be readily identified with a particular business activity. These costs are often classified as overhead (F&A rate). **NOTE:** The Tax Compliance Office will work with unit to allocate the costs to a particular activity on a reasonable basis. |
| **Personal Business Property** | Furniture and equipment used in a business activity. |
| **Real Business Property** | Land and buildings used in a business activity. |
| **Regularly Carried On** | With a frequency and manner comparable to that of the same or similar activity by a taxable organization. The following are two examples of activities that are NOT considered “regularly carried on”:
1. The one-time sale of university computer equipment and programs.
2. The operation of a sandwich stand at one or several events would not be the regular conduct of a trade or business. However, conducting the sandwich stand one day each week year-round would constitute a regularly carried on trade or business. |
| **Trade or Business** | An activity carried on with a profit motive—an intention to produce a net income after deducting all direct and indirect costs. |
| **Unrelated Business Income (UBI)** | Income from a regularly carried on activity that is not substantially related to the exempt purpose of NCSU (Example, not educationally or research based) is classified as unrelated. Note: The fact that the income from the activity will be used to support the exempt purpose of NCSU does not make the activity related; it is the activity itself that must be mission related. |
| **Unrelated Business Income Tax (UBIT)** | An activity that is an unrelated business (and subject to unrelated business income tax) if it meets three requirements:
1. It is a trade or business.
2. It is regularly carried on.
   - The focus is on the frequency and continuity with which activities are conducted and the manner in which they are pursued.
3. It is not substantially related to furthering the exempt purpose of the organization.

An activity is not taxable if one or more of these conditions is absent. When an activity meets all three criteria, several exceptions found in the Internal Revenue Code must be reviewed to determine whether the activity may be excluded from the 990-T. |
INTRODUCTION

Under Internal Revenue Code Section 115, North Carolina State University is tax-exempt as an instrumentality of the State of North Carolina. The Internal Revenue Code provides that the exempt purpose of state colleges and universities include all of the purposes and functions described in Code Section 501(c)(3), and therefore, for federal income tax purposes, the University is exempt from tax on operating results related to its exempt purpose. This would include things such as charitable, education, scientific research, testing for public safety, literary, educational, to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals, etc. The University is not, however, exempt from tax imposed by Code Section 511, 512, 513 on activities which are unrelated to those exempt purpose.

The “tax-exempt” title can be misleading since a tax-exempt organization can still be subject to the unrelated business income tax (UBIT) on the net income earned from activities that are unrelated to its exempt purpose.

INCOME

GENERAL COMMENTS

All revenues are considered unrelated business income if all of the conditions listed below are met:

- **Unrelated to the exempt purpose of the University**
  - To be related to the University’s educational or research exempt purpose, there must be a substantial casual relationship, i.e., the activity must contribute importantly to the accomplishment of the exempt purpose (other than the University’s need to produce income).¹
    - **Size and extent:** Particular emphasis is placed 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.²
    - **Dual Use of Assets or Facilities:** Use for both exempt and commercial purposes will not necessarily exempt the income derived from commercial use unless the business activity “contributes importantly” to the accomplishment of exempt purposes.³

¹ IRC §1.513-1(d)(2)
² IRC §1.513-1(d)(3)
³ IRC §1.513-1(d)(4)(iii)
Regularly carried on.
- A trade or business is regularly carried on if it is conducted with a frequency and continuity of the activity and the manner in which it is pursued. Thus, the unrelated business income tax applies only to a business activity which is regularly carried on as distinguished from commercial transaction which are sporadic or infrequent.\(^4\)
- Short-term activities are not “regular” for an exempt organization, if the activities are of a kind normally conducted by a taxable business on a year-round basis. Intermittent, casual or sporadic activities are generally not regular. However, year-round activities are regular even if they are conducted only one day a week. Further, seasonal activities may be regularly carried on even though they are conducted only for a short period each year.\(^5\)

Considered a “trade or business.”\(^6\)
- Any activity carried on for the production of income that involves the sale of goods or the performance of services and that otherwise has the characteristics of a business enterprise is considered a “trade or business” for purposes of unrelated business income tax rules.
- Does the activity generate a profit? Some UBI generating activities show profits in some years and losses in others, so an activity does not always have to generate a profit in order to be considered UBI.
- Is the activity carried on in the same manner as a for-profit business that provides a similar good or service? If yes, then the activity would be subject to UBIT.

Not one of the exceptions described below

EXCEPTIONS TO UNRELATED BUSINESS INCOME
Certain activities of not-for-profit educational organizations that appear to be unrelated business income are generally not classified as UBI because of specific exemptions under the Internal Revenue Code. The most common examples of these activities are listed below:

- Dividends, interest, and annuities. This exclusion applies regardless of whether the interest and/or dividends were earned as part of a related or unrelated business activity.\(^7\)
- Royalty Income. Payments paid to owners of a patent, copyright, mineral interest or other property right for the use of it or the right to exploit it.\(^8\)
- Rental Income. In order for rental income to be excluded from UBIT, the activity must meet the following restrictions:\(^9\)
  - Rent must be real property.
  - Rent may not be based on the profitability of the activity leasing the property.

\(^4\) IRC §1.513-1(c)(1)  
\(^5\) IRC §1.513-1  
\(^6\) IRC §1.513-1(b)  
\(^7\) IRC §513(b)(1)  
\(^8\) IRC §512(b)(2)  
\(^9\) IRC §512(b)(3)
• Any services provided in connection with the leasing activity must be minimal. This involves services rendered solely to the occupant other than those usually rendered in connection with the rental of rooms or other space of occupancy.

• Gains or losses on the sale or exchange of investment property. This exclusion applies regardless of whether the property was used in a related or unrelated business activity.\(^{10}\)

• Income from research grants and contracts. There is a broad exemption for research conducted for any person, including for-profits and governmental entities. Routine testing, with no research value, does not fall under the exception.\(^ {11}\)

• Income from a trade or business activity in which substantially (more than 85%) all the work in carrying on the trade or business is performed by volunteers. \(^ {12}\)

• Activity of soliciting and receiving “Qualified Sponsorship Payments”\(^ {13}\)

• Income from a trade or business activity conducted by a college or university, primarily for the convenience of its faculty, staff, and/or students. CAUTION: The convenience exception does not apply to alumni.\(^ {14}\)

• Unrelated but required activities which the University is required to perform as a result of federal or state law are considered exempt.\(^ {15}\)

**COMMON ACTIVITIES THAT RAISE UBI CONCERNS\(^ {16}\)**

• Bookstore Operations

• Dormitory Rentals to the General Public

• Advertising Income

• Corporate Sponsorships

• Hotel and Restaurant Operations

• Travel Tours

• Operation of Parking Lots

• Participation in Partnerships

• Professional Entertainment Events

• Use of Recreational Facilities by General Public

• Summer Sports Camps

• Publishing Activities

• Affinity Credit Cards

• Sale, rental, or exchange of Mailing Lists

• Concession Sales

• Catering Activities

• Treatment of Alumni

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\(^ {10}\) IRC §512(b)(15)

\(^ {11}\) IRC §512(b)(7-9)

\(^ {12}\) IRC §1.513-1(e)(1)

\(^ {13}\) IRC §1.513-1(e)(2) & PLR8020010

\(^ {14}\) IRC §513(a)(2)

\(^ {15}\) 01 NCAC 43A.0304 & G.S. 143-64.01; 143-64.04

• Conferences, Meetings, and Training Programs
• Athletic Events/Television and Broadcast Rights
• Retirement Homes
• Intellectual Property Issues
• Internet Fundraising and Advertising Issues
• Ownership of S Corporation Stock
• Sale of Products Derived from Conduct of Related Activity
• Business Incubator Activities

DETERMINING TAXABLE LIABILITY

COST OF GOODS SOLD
The cost of goods sold includes the inventory cost of the article sold plus delivery costs, warehousing costs, etc. The costs of goods sold is subtracted from the gross income to determine the gross profit.

DEDUCTIONS
Deductions are subtracted from the gross profit to determine the unrelated business taxable income. The three types of deductions are:

• Direct expenses (charged to the business activity accounts);
• Allocated direct expenses (charged to other departmental accounts);
• Overhead Costs (F&A) or indirect expenses

DIRECT EXPENSES
Direct Expenses fall into two categories:

Deductible direct expenses charged to the business activity account
These include ordinary and necessary business expenses such as:

• Salaries, wages and applicable University benefit rates;
• Supplies and materials;
• Subcontracts and outside services;
• External interest paid;
• Facilities expense (rental, utilities, maintenance, and custodial cost) paid by the business activity for the occupied space;
• Equipment lease or rental;
• Other expenses associated with the activity (travel, communications, etc.)

Caution: Federal unallowable expenses (i.e., not eligible for reimbursement from the federal government) are deductible for tax purposes if they are ordinary and necessary business expenses of the activity.
Deductible direct expenses charged to departmental accounts other than the business activity account

These include ordinary and necessary business expenses that can be specifically identified with the business activity. These are the same types of expenses listed above. The only difference is that the expenses were not recorded directly into the business activity accounts. The University Controller’s Office will help identify and allocate these costs, based on information that must be supplied to them. Some of the typical expenses that fall into this category are:

- Salaries of people within the department who work on the business activity, but are charged to accounts other than those of the business activity (e.g., receptionists who cover multiple areas, managers responsible for multiple areas, etc.) For these expenses you should document percentage of time spent on the business activity;
- Supplies used in the business activity, but charged to a central departmental account;
- Facilities expense (utilities, maintenance, and custodial cost) paid by the department for the occupied space.
- **Note:** If any expense benefits two or more activities in proportions that can be determined without undue effort or cost, the expense should be allocated to the activities based on the proportional benefit. If an expense benefits two or more activities in proportions that cannot be determined because of the interrelationship of the work involved, then the expense may be allocated to the benefited activities on a reasonable basis.

OVERHEAD COSTS (Facilities and Administrative Rates-F&A)

Deductible expenses also include a pro rata share of expenses incurred for common or joint objectives that cannot be identified readily or specifically with any particular business activity.

These are generally University or departmental expenses that are indirectly related to the University’s business activity. A few examples are:

- General administrations costs
- Depreciation
- Facilities Expense (utilities and maintenance) paid by the University.
- **Note:** The Controller’s office will work directly with the departments to determine a reasonable basis for allocating the University’s F&A rate to the activity generating unrelated business income. The Contracts & Grants office has the rates posted for review [here](#).

POSSIBLE TAX LIABILITY

The presence of these activities does not necessarily mean that a tax liability exists. It may be determined that the activity is not subject to unrelated business income tax, or if it is a taxable activity, the revenue may be substantially or completely offset by expenses incurred.

The University Controller’s Office, working in conjunction with the department, will calculate overhead expenses to be charged against an activity that generates UBI. **Taxable income = Gross Income minus Cost of Goods Sold minus Direct Costs minus Overhead Costs.**
Gross Income \( \rightarrow \) Cost of Goods Sold \( \rightarrow \) Gross Profit \( \rightarrow \) Direct Costs \( \rightarrow \) Overhead Costs (F&A) \( \rightarrow \) Taxable Income

\( \text{Gross Income} \quad \$xxxx.xx \)
\( \text{Cost of Goods Sold} \quad \text{xxx.xx} \)
\( \text{Gross Profit} \quad \$xxxx.xx \)
\( \text{Direct Costs} \quad \text{xxx.xx} \)
\( \text{Overhead Costs (F&A)} \quad \text{xxx.xx} \)
\( \text{Taxable Income} \quad \$xxxx.xx \)

PROCEDURES

1. Each department will identify and report to the Controller’s Office, all revenue-generating activities with a potential for generating UBI. Use this policy and the attached activity questionnaire (IN DEVELOPMENT) (Appendix A) to make this assessment. The questionnaire should be filled out annually. An e-mail notification will be sent on a bi-annual basis to the University Business Officers (UBO’s) by the Controller’s Office as a reminder to fill out this questionnaire in the event that a revenue generating activity is anticipated or has occurred.

2. The Controller’s Office in conjunction with the department will work together to identify those activities that may produce UBI. For those activities that have the potential of being classified as UBI, the department will deliver to the Controller’s all financial documentation requested that relates to the activity.

3. The Controller’s Office will determine all direct and indirect expenses associated with an activity that may produce UBI. This will include an allocation of certain general and administrative expenses to the activity where applicable.

4. The Controller’s Office will keep a summary statement of UBI activity and will periodically review this summary to determine if the activity is active or has changed and is reportable on the 990-T return.

5. Using the attached checklist (Appendix B), periodic reviews of the other revenue accounts (40791,....) in the general ledger will be performed by the Controller’s Office to detect the existence of potential unrelated business income.

FILING REQUIREMENTS AND RATES

For each fiscal year, the University is required to file federal IRS FORM 990-T and North Carolina form CD-405 income tax returns to report net income (loss) earned from unrelated business activities subject to UBIT by November 15th following the fiscal year ending June 30th.

The University Controller’s Office will gather all information and prepare the 990-T and the corresponding NC-DOR form CD-405. These will be reviewed by the University’s Chief Tax Accountant, University Controller and signed by the University’s Vice Chancellor of Finance and Business.
UNRELATED BUSINESS INCOME

TAX STATUS AND DETERMINATION GUIDE

NORTH CAROLINA STATE UNIVERSITY

CHIEF TAX ACCOUNTANT

MARCH 31, 2014
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## TAX STATUS AND DETERMINATION GUIDE

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<td>ADVERTISING</td>
<td>Sale of commercial advertising space in campus newspapers, journals, magazines, or other periodicals.</td>
<td>R</td>
<td>IRC 513(c)</td>
<td>The sale of general consumer advertising in an exempt organization's publication is an unrelated trade or business since it does not contribute importantly to the organization's exempt purpose.</td>
</tr>
<tr>
<td></td>
<td>Sale of commercial advertising and underwriting time on a campus radio station. Students assist in subscription drives and underwriting and advertising sales programs.</td>
<td>E</td>
<td>Reg. 1.513-1 (d)(4)(iv)</td>
<td>The sale of general consumer advertising and underwriting by students contributes importantly to the University's educational purpose through the training of students.</td>
</tr>
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<td></td>
<td>Sale of advertising space in souvenir programs for sports events (or music or drama performances).</td>
<td>E</td>
<td>Reg. 1.513-1 (c)(2)(ii)</td>
<td>The sale of advertising in programs for sports events (or music or drama performances) is not considered to be regularly carried on.</td>
</tr>
<tr>
<td></td>
<td>Sale of commercial advertising in sports media guides. Sales are made by a full-time person through- out the year.</td>
<td>R</td>
<td>TAM 9147007 PLR 9137002</td>
<td>The advertising activity is a sophisticated promotion effort which is rendered over a relatively significant period of time. Moreover, the advertising solicitation is conducted in the same manner as a typical commercial enterprise.</td>
</tr>
<tr>
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<td>Sale of programming materials distributed in connection with a sponsored event which contain qualitative or comparative language, price information, a call to action, an endorsement or an inducement to buy, sell, rent, or lease the sponsor's product.</td>
<td>R</td>
<td>Reg. 1.513-4 (Proposed)</td>
<td>The payment is considered to be for the promotion or marketing of a company, service, facility, or product and constitutes taxable advertising income. Furthermore, all related activities in connection with the sponsored event that might otherwise be considered acknowledgments will also be considered advertising.</td>
</tr>
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**KEY:**

- E = EXEMPT
- R = REPORTABLE
- IRC = INTERNAL REVENUE CODE
- Reg = TREASURY REGULATION
- RR = REVENUE RULING
- GCM = GENERAL COUNSEL MEMORANDUM
- PLR = PRIVATE LETTER RULING
- TAM = TECHNICAL ADVICE MEMORANDUM
## TAX STATUS AND DETERMINATION GUIDE

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<tr>
<td>BOOKSTORE</td>
<td>Sale of books, athletic clothing, general school supplies, computer hardware and software, and items that are low in cost and in recurrent demand to University members and the general public.</td>
<td>E</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>The sale of items necessary for courses at an institution is related to the University's exempt purpose.</td>
</tr>
<tr>
<td></td>
<td>Same as above except the location of the bookstore is relatively inaccessible to the general public to which sales are infrequent.</td>
<td>E</td>
<td>Reg. 1.513-1(c)(2)</td>
<td>The remote location of the bookstore indicates that it is operated primarily for the convenience of University members. Furthermore, the sales to the general public are of a casual nature, indicating that the activity is not regularly carried on.</td>
</tr>
<tr>
<td></td>
<td>Sales of computers to students or faculty members.</td>
<td>E</td>
<td>Reg. 1.513-1(e)(2)</td>
<td>The sale of one computer to a student or faculty member is substantially related to exempt purposes; however, the sale of multiple computers, in a single year, to a single student or the sale of a computer to someone who is not a student, officer or employee of the University is not related.</td>
</tr>
<tr>
<td></td>
<td>Sale of computers at a discount to other educational institutions.</td>
<td>R</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>The sale of computers to individuals at other educational institutions is not related to the University's exempt purpose.</td>
</tr>
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</table>

**KEY:**
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| BOOKSTORE (continued) | Sales of audio recordings on magnetic tapes, vinyl records and compact disks. | E | PLR 8004010  
PLR 8025222 | Listening to phonograph records contributes to the musical education of students. Therefore, these sales, like the sale of books, are related to the exempt purpose of the University. |
| BROADCAST TOWER | Rental of space on campus building or freestanding tower to a third-party for placement of cellular transmission equipment. | E | IRC 512(b)(3) PLR 200104031 | If University allows third party to place its tower on University real estate (either ground or existing building, then income is considered tax exempt rent from real property. If the broadcast tower is owned by the University, and is permanently affixed to either the ground or an existing building, the rental of antenna space on the tower is not eligible for the rental exclusion. |
| CAREER SERVICES | Career services, such as resume critiquing, interview coordination, and other job placement assistance provided to alumni for a fee. | R | IRC 513(a)(2) TAM 9645004  
TAM 8020010 | The provision of resume services for alumni is not related to the University's exempt function. |
| CHILD CARE | Sale of child care services to the children of faculty/staff employees, students and the general public. | E | IRC 501(k) | The provision of care for children away from their homes is considered an educational purpose if substantially all of the care provided by the organization is for the purpose of enabling individuals to be gainfully employed, and the services provided are available to the general public. |
| CLINICAL TRIALS | Sale of clinical testing services to drug manufacturers when the drug under study has FDA approval. | E | RR 68-373 | The clinical testing of a drug that already has FDA approval is considered to be "testing for public safety," which is an exempt activity. |

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<td><strong>CLINICAL TRIALS (continued)</strong></td>
<td>Sale of clinical testing services to drug manufacturers, for the purpose of obtaining FDA approval prior to marketing. The subjects participating in the study are expected to benefit from the eventual marketing of the drug. Residents and interns are also involved in the conduct of the drug studies.</td>
<td>E</td>
<td>PLR 823002</td>
<td>&quot;For benefit&quot; drug testing is related to the exempt purpose of a research hospital. This testing occurs when the drugs are offered to patients who have the disease for which the eventual commercial use of the drug is intended. (&quot;Not for benefit&quot; testing involving patients receiving care for unrelated medical reasons is taxable.) The participation of residents and interns in the clinical studies also contributes importantly to the University's educational purpose.</td>
</tr>
<tr>
<td><strong>COMPUTER CENTER</strong></td>
<td>Sale of computer services to non-University members.</td>
<td>R</td>
<td>PLR 7902019</td>
<td>The sale of computer time to the general public is not related to the University's exempt purpose.</td>
</tr>
<tr>
<td><strong>COMPUTER SALES</strong></td>
<td>Infrequent sales of computer hardware and software to the general public where the location of the store is remote</td>
<td>E</td>
<td>Reg. 1.513-1(c)(2)</td>
<td>The remote location of the computer store indicates that it is operated primarily for the convenience of University members. Furthermore, the sales to the general public are of a casual nature, indicating the activity is not regularly carried on.</td>
</tr>
<tr>
<td><strong>CREAMERY</strong></td>
<td>Sale of ice cream products to non-University members</td>
<td>R</td>
<td>Reg. 1.513-1(d)(4)</td>
<td>The sale of Howling Cow Ice Cream to the general public is not related to the University’s exempt purpose.</td>
</tr>
<tr>
<td><strong>DEBT-FINANCED PROPERTY</strong></td>
<td>Rental of apartments to students and non-University members. The apartment building is subject to mortgage.</td>
<td>E</td>
<td>IRC 514(c)(9)(c)(i)</td>
<td>The rules pertaining to debt-financed property do not apply to the University, a “qualified organization” described under Section 170(b)(1)(A)(ii) provided that the terms of the purchase agreement is structured in accordance with the conditions set forth in IRC 514 (c)(9). Thus, these rentals are exempt under the exclusion for real property rents.</td>
</tr>
<tr>
<td><strong>DORMITORY RENTALS</strong></td>
<td>Rental of dormitory space during the summer to both tax-exempt and for-profit organizations who conduct educational classes, seminars and workshops on campus utilizing other university educational facilities such as library, auditorium, classrooms, etc.</td>
<td>E</td>
<td>RR 68-504</td>
<td>PLR 9014069</td>
</tr>
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<tr>
<td>EQUIPMENT RENTALS</td>
<td>Rental of equipment (e.g., outdoor recreation equipment, scientific instruments, etc.) to non-University members.</td>
<td>R</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>The rental of equipment to non-University members is not related to the University’s exempt purpose.</td>
</tr>
<tr>
<td>EQUIPMENT SALES</td>
<td>Sale of electronic equipment, buoys and tracking instruments to non-University members.</td>
<td>R</td>
<td>NCAC 43A.0304</td>
<td>The sale of equipment to non-University members is not related to the University’s exempt purpose. It is state mandated that first priority be given to other agencies, second priority to political subdivisions and non-profit tax-exempt organizations within the state.</td>
</tr>
<tr>
<td>FACILITIES RENTALS</td>
<td>Sale of obsolete equipment to the general public.</td>
<td>E</td>
<td>Reg. 1.512(b)-1(d)(1)</td>
<td>Gains and losses from the sale of property are excludable from unrelated business income taxes. However, income from inventory and other stock held for sale is not exempt.</td>
</tr>
<tr>
<td>EQUIPMENT/FACILITY RENTALS-MIXED</td>
<td>Unrelated rental of personal property with real property.  Amount to report as subject to UBI depends upon the percentage of personal property rental to total rent. For purposes of UBI, equipment is considered personal property.</td>
<td>E</td>
<td>Reg. 1.512(b)-1(c)(2)(ii)(b)</td>
<td>10% or less – Incidental; do not report personal property rental; 11%-50% - report only personal property allocation; &gt;51% - report total rental income as personal property subject to UBI.</td>
</tr>
<tr>
<td>FACILITIES RENTALS</td>
<td>Facility usage by non-University members (outside organizations) for educational conferences, workshops, and training</td>
<td>E</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>This activity may be considered in furtherance of the University’s educational purposes.</td>
</tr>
<tr>
<td></td>
<td>Facility rental by non-University or corporate entities for private meetings or unrelated activities</td>
<td>E</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>Rental income is excluded from UBI only when customary services such as heat, light, cleaning of public areas and trash collection are provided by the University.</td>
</tr>
<tr>
<td></td>
<td>Facility rental by non-University or corporate entities for unrelated activities where services are provided primarily for the convenience of the renter</td>
<td>R</td>
<td>Reg. 1.512(b)-1(c)(5) PLR 8024001</td>
<td>Provision of maid service is an example of services primarily for convenience of the renter. To shield University’s income from UBI, renter should contract with outside vendor to supply service.</td>
</tr>
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<tr>
<td>FACILITIES USAGE-(no lease)</td>
<td>Rental of facilities to non-University members for conferences and symposiums.</td>
<td>E</td>
<td>PLR 8024001</td>
<td>Reg. 1.513-1(d)(2) The use of the University's facilities and services by outside organizations for conducting educational activities is related to the University's exempt purpose. Even though the conferences are conducted by outside organizations, the activity is considered to be in furtherance of an educational purpose.</td>
</tr>
<tr>
<td></td>
<td>Rental of facilities to film companies and advertising agencies for film or photographic shoots. Supervision, custodial services, electricians, security, parking, and occasionally craftsmen are provided.</td>
<td>R</td>
<td>RR 80-298 PLR 7927015</td>
<td>The services provided are more extensive than those normally provided with real property rentals.</td>
</tr>
<tr>
<td></td>
<td>Rental of football stadium to local high schools.</td>
<td>E</td>
<td>GCM 37522</td>
<td>The promotion of sports is an educational activity and is therefore related to the University's exempt purpose.</td>
</tr>
<tr>
<td></td>
<td>Use of recreational facilities for classes offered to the general public and alumni.</td>
<td>E</td>
<td>RR 77-365</td>
<td>The conduct of University clinics, lessons, workshops and seminars at recreational areas, to instruct and educate individuals of all ages in a particular sport, is in furtherance of the University's educational purpose.</td>
</tr>
<tr>
<td></td>
<td>Use of University-owned golf course by alumni, spouse and guests of student, faculty and staff</td>
<td>R</td>
<td>PLR 9720035 PLR 200047049</td>
<td>Alumni are not sufficiently distinguishable from the general public. Spouses and guests are also treated as members of general public and do not fall within the convenience exception. (University Foundations files form 990-T)</td>
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### FILMS

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<td>The showing of films that are not commercially available. Some films relate to courses offered by the University. The showings are open to the general public.</td>
<td>E</td>
<td>Reg. 1.513-1(d)(2) and RR 75-471</td>
<td>The showing of films designed to educate the public, students of films, and aspiring film makers in new techniques and artistic developments in the film industry is related to the University’s exempt educational purpose.</td>
</tr>
<tr>
<td>Rental of films that are related to course curriculums. All rentals are to students.</td>
<td>E</td>
<td>Reg. 1.513-1(d)(2) and Reg. 1.513-1(e)(2)</td>
<td>The rental of educational films is related to the University's exempt purpose. Moreover, this service is provided solely for the convenience of University members.</td>
</tr>
</tbody>
</table>

### JOINT VENTURES

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<tr>
<td>Sale of patient services through a joint venture with the Veterinary Health Complex. The clinic is also used for clinical teaching and research.</td>
<td>E</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>The formation of a joint venture between the University and a for-profit entity is not taxable if it contributes importantly to the University’s exempt purpose. Joint venture relationships may be scrutinized by the IRS, however, to ensure that the University is not serving the private purpose of the for-profit entity.</td>
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<tr>
<td>LEARNING RESOURCES</td>
<td>Provision of instructional aides to University students, faculty, area school teachers and the general public.</td>
<td>E</td>
<td>Reg. 1.501(c)(3)-1(d)(3) Reg. 1.513-1(d)(2)</td>
<td>The activity is in furtherance of the University’s educational purposes.</td>
</tr>
<tr>
<td>LIFEGUARD, CPR, FIRST AID CLASSES AND RECERTIFICATION</td>
<td>Educational classes offered to the general public leading to certification in these areas.</td>
<td>E</td>
<td>Reg. 1.501(c)(3)-1(d)(3) Reg. 1.513-1(d)(2)</td>
<td>The activity is in furtherance of the University’s educational purposes.</td>
</tr>
<tr>
<td>LOCKER RENTAL STUDENT RECREATION CENTER</td>
<td>Lockers rented to University students, faculty, and staff. Lockers rented to spouses and dependents of University members.</td>
<td>E</td>
<td>Reg. 1.513-1(e)(2)</td>
<td>Service conducted primarily for convenience of University members is excluded from UBI.</td>
</tr>
<tr>
<td>PARKING SERVICES</td>
<td>Rental of parking spaces including the provision of security services.</td>
<td>R</td>
<td>IRS 512(b)(3) TAM (Proposed) RR 69-269</td>
<td>Intermittent activity-not conducted with competitive or promotional efforts of commercial enterprises.</td>
</tr>
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The operation of a parking lot for use by the general is considered an unrelated trade or business regardless of whether any services are provided for the convenience of the occupant. The operation of a parking lot by an exempt organization is conclusively deemed to be the provision of services for the convenience of the occupant, and therefore the income received is not rent. However, if any exempt organization leases the parking lot operation to a third party, the income would constitute rent depending on the type of services provided. On the other hand, the operation of a parking lot is not taxable if it is in furtherance of the organization’s exempt purpose.
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<td>PRINTING</td>
<td>Sale of library photocopying services</td>
<td>E</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>For example, the provision of parking services for patients and visitors of an exempt hospital, in an area without adequate parking, is not subject to unrelated business income tax since such an operation is consistent with the hospital's exempt purpose.</td>
</tr>
<tr>
<td>PRINTING</td>
<td>Provision of in-house printing and library bookbinding services for University faculty and associate institutions</td>
<td>E</td>
<td>Reg. 1.513-1(e)(2)</td>
<td>The sale of library reproduction services is related to the University's exempt educational purpose since it preserves the University's library materials and disseminates information.</td>
</tr>
<tr>
<td>PRINTING</td>
<td>Sale of printing services to non-University members</td>
<td>R</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>The sale of printing services to non-University members is not related to the exempt purpose of the University.</td>
</tr>
<tr>
<td>PRINTING SERVICE</td>
<td>Sale of digital printing service and supplies to the general public</td>
<td>R</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>The sale of printing services and supplies to non-University members is not related to the University’s exempt purposes.</td>
</tr>
<tr>
<td>RECREATIONAL MEMBERSHIPS</td>
<td>Sale of recreational membership cards to the general public and alumni</td>
<td>R</td>
<td>PLR 8020010</td>
<td>The sale of athletic facility memberships to the general public and alumni is taxable. The use of University facilities by the general public and alumni for their own personal recreational purposes is not related to the exempt purposes.</td>
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<td>RELIEF OF GOVERNMENT BURDEN</td>
<td>A favorable working relationship between the organization and the governmental unit it purports to serve is a strong indication that the activity lessens the burden of government.</td>
<td>E</td>
<td>RR 85-2 Reg. 1.501(c)(3)-1(d)(2)</td>
<td>The lessening of a governmental burden satisfies a charitable purpose under which an organization may qualify for tax-exempt status. In applying this exemption, the IRS has determined that it is necessary for an organization to identify the functions that a governmental unit considers to be its burdens and to then determine under what conditions the organization's activities actually &quot;lessen&quot; such burdens. An example of relief of governmental burden the statutory requirement for the establishment and maintenance of Statewide tumor registries provides the &quot;objective manifestation&quot; that a governmental unit considers a particular activity to be its burden. Moreover, funds for setting up the registry were provided by the State, subject to monitoring by the State.</td>
</tr>
<tr>
<td>RENTS (lease basis)</td>
<td>Rental of a campus building or space within a building.</td>
<td>E</td>
<td>IRC 512(b)(3)</td>
<td>Rents from real property are exempt.</td>
</tr>
<tr>
<td></td>
<td>Rental of athletic facilities and equipment to non-University members. Revenue is derived from rental of real property (95%) and personal property (5%).</td>
<td>E</td>
<td>Reg. 1.512(b)-1(c)(ii)(b)</td>
<td>Rents from personal property are not taxable if there is a mixed lease and the rents attributable to the personal property are &quot;incidental&quot; (10% or less).</td>
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<tr>
<td>RENTS</td>
<td>Rental of the football stadium to a professional sports team. Significant services are provided, including field maintenance and locker room facilities.</td>
<td>R</td>
<td>RR 80-298</td>
<td>The leasing of a football stadium to a professional team is not in furtherance of the University's educational purpose. Since the furnishing of substantial services for the convenience of the occupant is beyond those usually rendered in connection with the rental of space for occupancy only, the income is not excluded as rent from real property under Reg. 1.512(b)-1(c)(5).</td>
</tr>
<tr>
<td></td>
<td>Lease of clinical medical office space (10% personal property) and support services to non-University affiliated physicians for their private practices.</td>
<td>R</td>
<td>IRC 512(b)(3)</td>
<td>The real property exclusion is lost if services other than those customarily provided for the convenience of the lessee are provided. Moreover, because the physicians are not University members, the lease arrangement does not further the University's exempt purposes.</td>
</tr>
<tr>
<td>RESEARCH</td>
<td>Sale of research services to Eastman Kodak Company under a private grant. The research results are published in national journals and are made available to the general public.</td>
<td>E</td>
<td>IRC 512(b)(9)</td>
<td>The conduct of &quot;fundamental&quot; (as distinguished from &quot;applied&quot;) research performed by a University for &quot;any person,&quot; the results of which are made available to the general public, is not taxable.</td>
</tr>
<tr>
<td></td>
<td>Sale of research related clinical services including diagnostic procedures and tools developed by the University. All sales are to non-University members. Similar services are available commercially.</td>
<td>R</td>
<td>Reg. 1.513(b)-1(f)(4)</td>
<td>The provision of &quot;applied&quot; research services of a type ordinarily carried on as an incident to commercial or industrial operations is a taxable activity.</td>
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<td>ROYALTIES</td>
<td>Sale of licensed tangible biological materials and software programs.</td>
<td>E</td>
<td>IRC 512(b)(2)</td>
<td>Income from royalties, however measured, is exempt from the unrelated business income tax.</td>
</tr>
<tr>
<td>SALES (Misc.)</td>
<td>Sale of excess crops used in research. The crops are sold in an &quot;as is&quot; condition when mature.</td>
<td>E</td>
<td>Reg. 1.513-1(d)(4)(ii)</td>
<td>Income derived from the sale of goods which result from the performance of an exempt function is not taxable if the product is sold in substantially the same state it was in upon completion of the exempt function.</td>
</tr>
<tr>
<td>SALES</td>
<td>Sale of peptides to non-University members. No students are involved in the process.</td>
<td>R</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>The sale of peptides is not related to the exempt purpose of the University.</td>
</tr>
<tr>
<td></td>
<td>Sale of bikes, bike parts and equipment, and provision of bike repair services to University members.</td>
<td>R</td>
<td>GCM 35811</td>
<td>The sale of non-educational items with an ordinary useful life of more than one year is not included within the scope of the convenience exception. However, the possible remote location of a campus suggests that the repair service is operated primarily for the convenience of University members and is therefore an exempt activity.</td>
</tr>
<tr>
<td></td>
<td>Sale of emblematic items (T-shirts, mugs, caps, pennants, etc.) to alumni (95%) and the general public (5%). The sales are made by internet/mail order on a regular basis.</td>
<td>R</td>
<td>GCM 35811, PLR 8025222</td>
<td>The sale of emblematic items is not substantially related to the exempt purpose of the University. Moreover, these sales are not for the convenience of University members since alumni are considered members of the general public.</td>
</tr>
<tr>
<td></td>
<td>Sale of clothing and other items to the University community that are embossed with the University seal.</td>
<td>E</td>
<td>PLR 8025222</td>
<td>Bookstore or other on-campus sale of University logo items to members of the University community qualify under the convenience rule of Sec. 513(a). Sales to the general public are considered unrelated business income.</td>
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<th>ACTIVITY TYPE</th>
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</thead>
<tbody>
<tr>
<td>SERVICES (Misc.)</td>
<td>Sale of meter testing services to non-University members.</td>
<td>R</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>The sale of these services is not related to the exempt purpose of the University.</td>
</tr>
<tr>
<td></td>
<td>Sale of drug testing services to employers.</td>
<td>R</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>The sale of these services is not related to the exempt purpose of the University.</td>
</tr>
<tr>
<td></td>
<td>Sale of library services, including document delivery, to law firms,</td>
<td>E</td>
<td>RR 81-29</td>
<td>Providing library services or access to such services to non-exempt users for research purposes is related to the University's exempt purpose.</td>
</tr>
<tr>
<td></td>
<td>businesses, and members of the general public.</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Sale of storehouse goods to non-profit agencies.</td>
<td>R</td>
<td>Reg. 1.513-1(d)(2)</td>
<td>The sale of storehouse goods to non-University members is not related to the University's exempt purpose.</td>
</tr>
<tr>
<td>STOREHOUSE</td>
<td>Conduct of annual summer sports camps by University personnel for the general</td>
<td>E</td>
<td>PLR 8024001</td>
<td>Instruction of the general public in sports is in furtherance of the University's educational purpose. The University is not limited to</td>
</tr>
<tr>
<td></td>
<td>public and children of University students and employees.</td>
<td></td>
<td></td>
<td>instruction in business or related subjects in carrying out an educational program.</td>
</tr>
<tr>
<td>SPORTS CAMPS</td>
<td>Rental of campus facilities to outside organizations for the conduct of</td>
<td>E</td>
<td>RR 77-365</td>
<td>Instruction in sports furthers the educational purpose of the University. As long as the activity is educational, University involvement in</td>
</tr>
<tr>
<td></td>
<td>summer sports camps. Services such as meals, linen, and daily maid service</td>
<td></td>
<td>PLR 7908009</td>
<td>the activity is not required.</td>
</tr>
<tr>
<td></td>
<td>are provided.</td>
<td></td>
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<td></td>
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**KEY:**
- **E** = EXEMPT
- **R** = REPORTABLE
- **IRC** = INTERNAL REVENUE CODE
- **Reg** = TREASURY REGULATION
- **RR** = REVENUE RULING
- **GCM** = GENERAL COUNSEL MEMORANDUM
- **PLR** = PRIVATE LETTER RULING
- **TAM** = TECHNICAL ADVICE MEMORANDUM
### Summer Sports Camps

University-operated summer sports camps for pre-college age youth of University faculty, staff, students and the general public where sports facilities, dorm rooms, meals, linens, and maid service may be provided by the University to the participants.

**Tax Status:** E  
**Authority:** RR 77-365, PLR 7908009

The purposes of the sports camps are to improve athletic ability of participants, acquaint them with the University and when applicable, provide experience for camp counselors who may be college students. Such instruction in sports is therefore educational.

University contracts with third party who operates the summer sports camp. The University merely rents its sports facilities to the third party without provision of substantial services.

**Tax Status:** E  
**Authority:** RR 80-297

Income is excluded from UBI as rents from real property.

University’s contract with the third party includes provision of substantial services such as dorm room rental, meals, linen and maid service. University contracts with its concessionaire for provision of services (meals, linens, maid service, etc.) on behalf of third party camp operator.

**Tax Status:** R  
**Authority:** RR 80-298 PLR 8151005 PLR 8136028

Provision of substantial services precludes treatment of income as rents from real property and is subject to unrelated business income.

Third party camp operator contracts with outside vendors for services (meals, linens, maid service, etc.).

**Tax Status:** E  
**Authority:** PLR 8024001

When the third party contracts directly with an outside vendor for services, income received by the University for use of its facilities will be shielded from UBI and will qualify as rents from real property.

### Swim Lessons

Instruction in swimming offered to University members and the general public.

**Tax Status:** E  
**Authority:** RR 77-365

Instruction in sports is educational and thus related to the University’s purposes.

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**Key:**
- **E** = Exempt  
- **R** = Reportable  
- **IRC** = Internal Revenue Code  
- **Reg** = Treasury Regulation  
- **RR** = Revenue Ruling  
- **GCM** = General Counsel Memorandum  
- **PLR** = Private Letter Ruling  
- **TAM** = Technical Advice Memorandum
## TAX STATUS AND DETERMINATION GUIDE

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<td>TESTING</td>
<td>Sale of diagnostic and lab testing services involving technically advanced equipment to non-University members.</td>
<td>E</td>
<td>RR 85-110</td>
<td>The provision of lab testing services for non-University members is generally considered an unrelated business. However, special circumstances can exempt the activity if the services are not available within a reasonable distance, involve technically advanced equipment or emergency care.</td>
</tr>
<tr>
<td></td>
<td>Sale of diagnostic and lab testing services to non-University members. Student participation and instruction is involved.</td>
<td>E</td>
<td>RR 85-109</td>
<td>The provision of lab testing services to non-University members is generally considered an unrelated business. However, student participation in the lab testing furthers the University's exempt educational purpose.</td>
</tr>
<tr>
<td>TRAVEL TOURS</td>
<td>Sale of travel tours to alumni. No formal educational programs are conducted in connection with the tours.</td>
<td>R</td>
<td>RR 78-43 PLR 9027003</td>
<td>According to the IRS, a tour program is not a substantially related educational activity unless the following factors are present: (University Foundations files 990-T)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1) A bona fide educational methodology in the form of a formal educational program including organized study, reading lists provided in advance, library access, examinations leading to academic credit, and mandatory participation;</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2) The tour is conducted in a highly professional manner, with daily lectures and related classroom studies;</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>3) The tour is arranged to allow participants to study the subject of the tour intensively and receive college credit when appropriate;</td>
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<td>TRAVEL TOURS: (cont)</td>
<td>Tours of museums for patrons of the campus art collection. Purpose is to educate patrons, promote interest in the collection, and encourage them to be donors.</td>
<td>R</td>
<td>IRC 512 51 AFTR 2D 83-451</td>
<td>4) The tour is selected for its educational value and the qualifications of the tour leaders. Although the tours were generally held only once a year, they are conducted for the benefit of outsiders and not the University or its staff. There is no substantial relation to the exempt purpose of the University.</td>
</tr>
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</table>
Identifying Unrelated Business Income

I. GENERAL
Does the activity generate income from the sale of goods or the performance of services?

No
EXEMPT

Yes
Is the activity regularly scheduled and frequently carried on?

No
EXEMPT

Yes
Does the activity contribute substantially to the instructional or research purpose of the University?

Yes
If so, is the related activity carried on to a size and extent larger than necessary to accomplish the exempt purpose?

No
EXEMPT

II. STATUTORY EXCEPTIONS
Does the activity exist primarily for the convenience of the University's students, faculty, staff or patients?

Yes
EXEMPT

No

Do unpaid volunteers provide the income generating services? If so, do the volunteers generate over 85% of the total income earned by the activity?

Yes
EXEMPT

No

Do University students provide the income generating services as part of an educational curriculum? If so, do the students generate over 50% of the total income earned by the activity?

Yes
EXEMPT

No

Does the activity generate income from the sale of donated goods? If so, does the sale of donated goods represent over 85% of the total income earned by the activity?

Yes
EXEMPT

No

Does the activity generate income from the receipt of qualified sponsorship payments?

Yes
EXEMPT

No
Identifying Unrelated Business Income

Does the activity generate income from the receipt of contributions associated with the distribution of low cost materials?
- Yes: EXEMPT
- No: Distribution

Does the activity generate income from the exchange or rental of mailing list with another tax exempt organization?
- Yes: EXEMPT
- No: Exchange/Rental

III. MODIFICATIONS TO INCOME
Does the activity generate income from the rental of real property?
- Yes: Real Property
- No: Personal Property

Real Property
- Yes: Debt Financed
- No: Personal Services Provided

Personal Services Provided
- Yes: Debt Financed
- No: Personal Property

Personal Property
- Yes: Personal Services Provided
- No: Real Property

Are personal services provided in combination with the real property rental?
- Yes: DEBT FINANCED
- No: Real Property

Is the real property being rented debt financed? If so, is the occupancy by external tenants greater than 15% of the total space?
- Yes: Real Property
- No: Real Property

Does the activity generate income from royalties?
- Yes: Royalties
- No: Royalties

Does the activity generate investment income such as dividends, interest, etc or gain/losses from the sale of investment property?
- Yes: Investment Activity
- No: Investment Activity

Investment Activity
- Yes: Royalties
- No: Royalties

Does the activity generate income from sponsored research or clinical trials (involving medical training or patient care)?
- Yes: Spon. Research/Clinical Trial
- No: Spon. Research/Clinical Trial

Spon. Research/Clinical Trial
- Yes: Royalties
- No: Royalties

The income generated by the activity may be taxable.