UNRELATED BUSINESS INCOME TAX POLICY

Policy Statement

The university must identify and report unrelated business income on its annual tax return, and remit any tax due in compliance with federal, state, and local tax laws and regulations. Departments, schools, divisions or other university units generating income that does not directly further the university's tax exempt purpose must contact the Tax Department to determine if such income is subject to unrelated business income tax.

Reason for Policy/Purpose

The university is exempt from tax on income related to its core mission or “exempt purpose” (e.g. tuition revenue). Income from operating a trade or business not related to the university’s core mission is considered “unrelated business income” by the Internal Revenue Service and is subject to annual reporting and imposition of income tax.

This policy helps departments identify those activities that may generate unrelated business income and encourages departments to contact the Tax Department for guidance. The Tax Department is responsible for reporting unrelated business income on the university's annual tax return and paying estimated tax due on a quarterly basis.

Who Needs to Know This Policy

Faculty and staff

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Policy/Procedures

The university is responsible for classifying income in two categories: Related (non-taxable) versus unrelated (taxable). To be non-taxable, an activity must be substantially related to the purpose for which the university has its exempt status. In general, the university’s exempt status is based on its educational and research activities.

Any income that does not directly further the university's tax exempt purpose, i.e. education and research, has the potential to become unrelated business income. Income from an activity is subject to unrelated business income tax if the following three criteria are present:

1. The conduct of the activity is "not substantially related" to the performance of the university's exempt function;
2. The activity constitutes a "trade or business"; and
3. The activity is "regularly carried on" by the university.

More detail regarding these three criteria can be found in the Definitions section of this policy. Income from certain unrelated activities may be non-taxable because of a statutory exemption. These categories are discussed later in the policy as “Exclusions and Exemptions.”

Common Examples of Activities That May Generate Unrelated Business Income

1. Use of university facilities such as the Marvin Center, Smith Center, or a gym, pool or tennis courts by the general public for a fee.
2. Providing services in connection with the rental of university facilities to outside entities for unrelated events, such as rental of facilities for an event that includes catering and similar services. As a general guideline, providing any services beyond utilities and overall building maintenance may create unrelated business income.
3. Renting of personal property (e.g. GW-owned furniture) to non-GW users.
4. Sale of goods or services to non-GW users. This may include the sale of computers, programming services, translation, printing, routine testing, and catering.
5. Advertising. (For example, income from vendors that support the university’s athletics programs in return for an advertisement in the yearbook.)
6. Exclusivity agreements, such as selling Coke products, when significant services are provided by the university in return (e.g. extensive involvement of GW employees in joint marketing efforts to increase sales).

**Some Basic Exclusions and Exemptions from Unrelated Business Income**

1. **Convenience**: Income from an unrelated trade or business that is carried on primarily for the convenience of students, faculty or staff is not taxable. For example, when a university operates a laundry service for the purpose of laundering dormitory linens and students’ clothing, the revenue from the laundry service is not taxable as unrelated business income because the activity is for the convenience of the students.

2. **Investment Income**: Dividends, interest, capital gains and other income received from the holding of university investments are generally not taxable.

3. **Royalties**: A royalty is passive income received from entities external to the university for the use of university property or rights, and is usually paid as a percentage of receipts from using the property or as a fixed amount per unit produced. Royalty income is not taxable.

4. **Real Property Rents**: Rents from real property (buildings, apartments, commercial space) are not taxable. However, if real property is rented with the provision of additional services to the tenant the income may be taxable.

5. **Personal Property Rents**: Although rents from personal property (furniture, household appliances) are generally taxable, such rents may be non-taxable if they are an incidental amount (less than 10%) of the total rents received under a lease for real property.

6. **Research Funding**: The funding for any research conducted in any school, department or center within the university (including research conducted for the United States, its instrumentalities or agencies, or any state or political subdivision) is not taxable. However, where the activity constitutes mere testing it will not qualify as research and the income funding may be taxable.

**Dual Use of Facilities**

In many cases facilities and personnel are used to conduct both exempt and non-exempt activities. Income is categorized as unrelated by recording and identifying exempt (GW) and non-exempt (non-GW) users. For example, non-GW users are required to pay a fee to use Smith Center facilities. These fees are separately accounted for and reported as taxable income.

Expenses attributable to both activities must be allocated between the two uses on a “reasonable basis.” The revenue-producing department must maintain adequate records to support the allocation of expenses claimed as deductions, and should consult with the Tax
UNRELATED BUSINESS INCOME TAX POLICY

Department regarding the type of records that are required. Full and complete documentation is very important and must be retained.

Questions concerning the taxability of an activity that generates income, and the proper classification and allocation of associated expenses should be forwarded to the Tax Department. Departments should consult with the Tax Department prior to entering into a new or changing financial activity that may generate unrelated business income, as the form and terms of a transaction may materially affect its tax status.

Website Addresses for This Policy

GW University Policies

Contacts

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Definitions

Substantially Related

Any activity that provides an important contribution toward the accomplishment of the university’s tax-exempt purposes. Determining whether an activity is “substantially related” requires an examination of the relationship between the activity and the university’s primary exempt purpose. An activity is related to an exempt purpose only when the conduct of the activity has a causal relationship to the achievement of exempt purposes. The causal relationship must be substantial. (For example, patient fees for work done at the speech and hearing clinic by students are clearly related to the exempt purposes of education, as are Executive Education fees for the Business School).

Trade or Business

Any activity carried on for the production of income from the sale of goods or performance of services. The activity must be conducted in a manner similar to the style under which a for-profit business would operate.

Regularly Carried on

Identifies the frequency and continuity with which the activities are conducted and the manner in which they are pursued. If the activity is of a kind normally conducted by nonexempt commercial organizations on a year-round
basis, the conduct of such an activity by a university over a period of only a few weeks does not constitute the regular carrying on of trade or business.

Who Approved This Policy

Louis H. Katz, Executive Vice President and Treasurer
Beth Nolan, Senior Vice President and General Counsel

History/Revision Dates

Origination Date:       June 1, 2005
Last Amended Date:      March 26, 2009
Next Review Date:       January 31, 2017