Unrelated Business Income Tax Questionnaire to Determine Compliance with Internal Revenue Service Requirements on Unrelated Business Income Tax

**Procedures and Guidelines**

Please read this Unrelated Business Income Tax (UBIT) questionnaire, complete, sign, and return all pages of this document to the Controller’s Office no later than November 30, 2015. Please sign and complete even if certain sections do not apply to your department. The completed questionnaire and any questions about its content should be sent to Mandy Kreitzer at mkreitzer@niu.edu.

**Unrelated Business Income (UBI)** – Northern Illinois University is exempt from taxation under Section 115 of the Internal Revenue Code. However, the University is required to pay Federal income tax on net income from activities unrelated to the exempt mission of the University: education, research, and public service. This questionnaire is intended to assist departments in identifying activities that may generate unrelated business taxable income (UBI) for fiscal year 2014/2015. Activities determined to be taxable must be reported on the University’s annual Exempt Organization Business Income Tax Returns (Form 990-T) filed with the Internal Revenue Services (IRS). It is very important that all unrelated business activities of the University be reported on the Federal tax return. The IRS can assess costly penalties and interest for underpayment of taxes.

Three elements must be considered to determine if an activity may be subject to Unrelated Business Income Tax (UBIT). The activity must:

1. Be conducted as a trade or business, AND
2. Be regularly carried on by the University, AND
3. Not be substantially related to the tax exempt mission of the University.

**Trade or Business:** Includes any activity carried on for the production of income from selling goods or performing services. Generally, a trade or business has a profit motive.

**Regularly Carried On:** UBIT applies only to a business activity that is regularly carried on, as opposed to transactions that are only infrequent. An activity is considered regularly carried on if it is conducted with a frequency and manner comparable to similar activity conducted by a taxed business.

**Not Substantially Related:** The activity must not be substantially related to the exempt mission of the University. To decide if an activity is related or unrelated, determine the nature of the activity and how essential it is for accomplishing the mission of the University: education, research, and public service.

**Guidelines**

1. Departmental fiscal agents are to notify the Controller's Office of any revenue received in return for services rendered, rental of property, or activities. Although revenue may not be unrelated income, the University must be prepared to demonstrate to the IRS that it has
examined each activity that generates revenue and made a valid determination that the activity is or is not "unrelated business income." The Controller's Office, in conjunction with the fiscal agents, shall make the final decision as to whether or not the income is related or unrelated.

2. The use of revenue generated from the activity for the purpose of improving the quality of instruction or activity congruent with the educational mission makes no difference on reporting requirements. It is the source of income that is of concern to the IRS.

3. All revenue information submitted by the fiscal agents will be reviewed by the Controller's Office. Fiscal agents may subsequently be asked to complete a financial statement/worksheet. This information will then be used by the Controller's Office to prepare the University's consolidated tax return.

4. Controller's Office will exclude the following from IRS reporting, any activity which:
   a. Exists primarily for the convenience of the University's students, faculty or staff.
   b. Is infrequent, i.e., the activity is not regularly scheduled and infrequently carried on.
   c. Is "substantially related to the University's exempt purpose" provided the activity is not carried on to an extent greater than necessary.
   d. Is not a "trade or business."
   e. Has 85% or more of the income from the activity generated from the sale of donated goods.
   f. Is derived from labor which is at least 85% volunteer.

5. The questionnaire attached is designed to help assess the revenue producing activities conducted in your area during the fiscal year ending June 30, 2015.

Unrelated Business Income Activities
The following are examples of activities that are generally not related to the exempt mission of the University and are, therefore, subject to unrelated business income tax. Does your area generate external revenues from any of the following activities? Please do not include revenue from sales to other University departments, but do include external revenue even if net result is a loss after deducting the related expenses.

A. Advertising
B. Athletic or recreational facility use for non-NIU events; facilities use by the public
C. Bookstore and gift shop sales to the public
D. Catering and food service sales to the public
E. Commercially sponsored research
F. Computing resource leasing (i.e. software maintenance and support)
G. Dormitory rentals to the public
H. Entertainment events (i.e. concerts, movies, etc…)
I. Exclusive provider and sponsor agreements
J. Hotel or restaurant services provided to the public
K. Leasing and rental activities
L. Licensing agreements where services are provided to the licensee
M. Merchandising operations
N. Other sales and services provided to the public
O. Parking revenue from private companies or contract agreements
P. Participation or ownership in a partnership or joint venture with non-NIU entity
Q. Any other activities that are not directly related to the tax-exempt purpose of the University.