Unrelated Business Income

Northwestern University
Tax & Regulatory Services
Topics

• What is UBI and where is this reported?
• FY19 Revenue-Generating Activity from External Customers: Two Applicable Taxes
• Tips to Complete the UBI Questionnaire
• Updates for FY19 Reporting
• Process for submitting FY19 data
• Timing
• Questions
What is UBI?

- **Unrelated Business Income**
- Applies to federal tax-exempt organizations
- 3-part test:
  - Trade or business,
  - Regularly carried on, and
  - Not substantially related to the purpose that is the basis of the organization's exemption from tax.
- All revenue from external customers should be analyzed for UBI.
Where is this reported?

Northwestern’s IRS Form 990-T
Exempt Organization Business Income Tax Return
Revenue-Generating Activity from External Customers – FY19

Not substantially related to NU Exempt Purposes

- Calculate Taxable Revenue (Revenue less Cost Basis)
- Unrelated Business Income
  - 21% tax by IRS

Substantially related to NU Exempt Purposes

- Calculate Taxable Revenue (Revenue less Cost Basis)
- Net Investment Income
  - 1.4% tax by IRS
Tips to Complete UBI Questionnaire

• IRS assumption is that all external revenue is **taxable as UBI** unless determined otherwise.

• Copy-and-paste generic responses are not helpful and may be ignored in the analysis.

• Provide helpful responses:
  – NU missions are “education and research”
  – Were NU students actively involved?
Updates for FY19 Reporting

• 21% UBI tax or 1.4% Net Investment Income tax (not both)
• Foreign customers = “For Profit”
• Research, consulting/training, or rental?
• Have results been published?
• Is this available through a commercial provider?
• Signed acknowledgement
Process

• Gather FY19 financial data
• Answer qualitative questions
• Submit timely completed questionnaire to Aaron Rosen
Timing

• December 2019/January 2020
  – UBI questionnaire distributed for FY19 external revenues with FAQs and resources.
• January/February 2020
  – Aaron consolidates responses and follows up with facilities as needed to clarify.
• January through July 2020
  – 990 and 990-T preparation, drafting, and approval.
• February/March 2020
  – Tax team reviews consolidated responses.
• Mid-July 2020: 990 and 990-T filed with IRS.
Questions

• Please ask your questions that will be beneficial to the group today.
• Specific questions for your facility can be sent to Shereen Olickal and Aaron Rosen.