

TAX REFORM AND HIGHER EDUCATION

What Students, Families, and Institutions Need to Know

Talking Points: Unrelated Business Income Tax

- Despite being *tax-exempt organizations*, nonprofit entities are subject to normal corporate tax rates on certain activities defined as “unrelated business income.” Whether an activity is subject to the unrelated business income tax (UBIT) is determined through a three-part test that asks: is it a trade or business; is it regularly carried on; and is it substantially related to the exempt organization’s mission?
- The House Tax Reform Act of 2014 contained several proposals that would increase UBIT owed by many colleges and universities including: treating name and logo royalties as unrelated business taxable income; modifying rules concerning qualified sponsorship payments; and computing unrelated business taxable income separately for each trade or business in a so-called “basketing” fashion.
- Many of these provisions, particularly the “basketing” proposal, which requires all losses and gains to be calculated by activity rather than in the aggregate (something not applicable in corporate taxation), would result in disparate treatment for nonprofit organizations by holding them to standards and rules not applicable to corporations.
- While colleges and universities should pay taxes on unrelated business activities not related to their educational, research, and community service missions, they should not be held to special standards that result in a higher tax burden that is not imposed on any other sector or industry.