

FI0330: Unrelated Business Taxable Income (UBTI) UBTI Procedures	
Version: 0001	Effective Date: 09/01/2022

Objective

This procedure outlines the steps that departments must take to comply with policy FI0330—Unrelated Business Taxable Income (UBTI).

Scope

This procedure applies to all departments at the University that engage in activities governed by FI0330.

Roles

This policy and its procedures apply to all University employees who are responsible for unrelated business taxable income reporting.

Definitions

UBTI: Unrelated business taxable income means the gross income derived from any unrelated trade or business regularly carried on by the University, less the deductions "directly connected" with carrying on the trade or business.

UBIT: Unrelated business income tax.

Procedure

I. Generally

- A. Every University department is responsible for monitoring any revenue generated from external activity and for reporting the activity to the Controller's Office. Departments must implement processes to ensure:
 1. Timely notification and consultation with the Controller's Office before starting such activity for guidance and potential mitigation of tax exposure.
 2. Accurate capture and reporting of revenue and expenses for each activity.
 3. Consistency and reasonableness of allocation methods associated with the costs of each activity.

- B. The Controller is responsible for ensuring schools and centers across campuses and locations comply with federal tax law and regulations regarding the reporting and taxation of UBTI. Also, the Controller is responsible for the timely preparation and submission of the Exempt Organization Business Income Tax Return (IRS Form 990-T).

II. Revenue Questionnaire

- A. Each department that makes external sales (non-departmental sales) is required to complete a [Revenue Questionnaire](#) for each activity, regardless of the amount of revenue generated.
- B. Departments must communicate any new external sales activities or changes to existing external sales activities to the applicable Chief Business Officer or designee.
- C. The Chief Business Officer or designee must communicate to the Controller's Office any new external-sales activities and any changes to external-sales activities. Accordingly, departments must complete the [Revenue Questionnaire](#) before engaging in external sales activities or before changing any external sales activities.
- D. Departments must complete a new [Revenue Questionnaire](#) when the department initiates new activities, or if the department changes a previously reported activity.

III. Annual Review

- A. In an effort to capture all UBI activities across all campuses, the Controller's Office sends an annual memo to all Chief Business Officers (CBOs) on June 15th. If June 15 falls on a Saturday or Sunday, the Controller's Office will send the memo on the next business day. Through this memo, the Controller's Office asks that all CBOs review revenue-generating activities for UBI, including new activities and changes to previously reported activities. The Controller's Office will attach a list of all "sales and service" and "other" I-accounts for each campus. Also, the Controller's Office will send a worksheet to report income and expenses for each activity.
 - 1. CBOs must respond to the Controller's Office memo no later than August 15th of each year.
 - 2. The Controller's Office will use completed [Revenue Questionnaires](#) to determine if the activity will be included in the University's Consolidated Exempt Organization Business Income Tax Return (Form 990-T), which the Controller's Office submits to the IRS.
- B. CBOs must verify the accuracy of the activity on each questionnaire returned to the Controller's Office from their respective departments.

IV. Annual UBI Worksheet

- A. Annually, CBOs must submit to the Controller's Office an Unrelated Business Income Worksheet no later than September 10th for the prior fiscal year (e.g., September 10, 2022 for fiscal year ending June 30, 2022). The worksheet must include all revenue and expenses associated with the UBI activity.
 - 1. Expenses include deductions that are directly connected. In order for a deduction to be directly connected with the conduct of an unrelated business,

deductions must have a proximate and primary relationship to carrying on that business.

2. For purposes of computing UBTI, expenses attributable solely to the operation of an unrelated business may be deducted in full. For example, the cost of the software purchased solely to track and report UBTI from the various partnership investments as it relates to the Consolidated Investment Pool (CIP).
3. Expenses incurred in connection with both an exempt purpose and the conduct of an unrelated trade or business (e.g., facilities or personnel) must be allocated between the two purposes using a reasonable basis of allocation. For example, allocating the cost of the Investment Office's staff (because only a portion of total income from the CIP is considered UBTI).
4. If a particular cost has been allocated, the department must specify the basis of allocation. Reasonable methods include hours of use, type of activity, or number of pages (for publications). Per IRC Reg. §1.512(a)(6), the gross-to-gross method of allocating expenses among related and unrelated activities is not permitted unless there is no price difference between goods and services provided in related and unrelated activities or adjustments are made for price differences. The Controller's Office may also allocate a reasonable amount of overhead expenses to each activity.

- B. CBOs must ensure the accuracy of all business activity information provided on UBI worksheets.

V. Notifications

- A. The Controller's Office will notify the applicable CBO if the Controller's Office is unable to obtain information from a department regarding UBTI determination or annual income/expenses for UBTI activities.
- B. If the applicable CBO is unable to obtain information from a department regarding UBTI determination or annual income/expenses for UBTI activities, the CBO will notify the Controller's Office. The Controller's Office will then notify the Treasurer and the Chief Financial Officer.

VI. Federal Income Tax Payment

- A. Federal income tax must be paid on the amount of UBTI generated by an activity. Total tax due will vary, based on losses from other University activities prior to 2018, losses carried forward from previous years, charitable contributions, and specific deductions.
- B. The Controller's Office will charge departments whose activities generate UBTI a proportionate share of the tax expense, which will be allocated at the time of the IRS payment and reporting in April/May of the following year.

Penalties/Disciplinary Action for Non-Compliance

University employees who fail to comply could face human resources adverse actions, up to and including termination. Departments that fail to comply might incur penalties and fees, for which their department will be responsible. In some cases, the penalties and interest could be large, and departments will be responsible for paying the entire amount from their departmental budgets. If a department fails to comply with this policy, the applicable Chief Business Officer may prohibit the department from engaging in activities that generate UBTI. If a department fails to comply with this policy, the applicable Chief Business Officer may prohibit the department from engaging in activities that generate UBTI.

Responsible Official & Additional Contacts

Subject Matter	Office Name	Telephone Number	Email/Web Address
Policy Clarification and Interpretation	Controller's Office	(865)974-2498	https://controller.tennessee.edu/tax
Policy Training	Controller's Office	(865)974-2498	https://controller.tennessee.edu/tax

Related Policies/Guidance Documents

Please see the [Controller's Office website](#) for additional information.