

# Unrelated Business Taxable Income: An Overview

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# Definition

- Three requirements
  - Trade or business
  - Regularly carried on
  - Unrelated

# Trade or Business

- Activity “carried on for the production of income from the sale of goods or the performance of services”
- Factors
  - Profit motive
  - Commercial competition
  - How activity is conducted

# Regularly Carried On

- Frequency, continuity, manner which pursued
- Compare with non-exempt entities engaged in similar enterprises

# Unrelated

- Not substantially related to the exercise or performance of organization's exempt function
  - Contribute importantly to accomplishment of exempt purpose
  - Size/extent of activities
- Fundraising insufficient
- Examples

# Exceptions to Trade or Business

- Volunteer exception
- Sale of donated merchandise
- Certain bingo games

# Exclusions from UBTI

- Dividends, interest, royalties, annuities
- Rents from real/personal property
  - Rent calculation
  - Limitation on rents from personal property
  - Services
  - Examples
- Capital gain
- Debt-financed property

# Deductions

- Net income concept
- Directly connected with carrying on trade or business
  - Dual use expenses



# Reporting

- Threshold: gross UBTI  $>$  \$1,000
- IRS Form 990-T
- Corporate income tax rates
- Estimated payments