



University of North Carolina Wilmington
Unrelated Business Income

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The University of North Carolina Wilmington is tax exempt under the Internal Revenue Code Section 115 as an instrumentality of the State of North Carolina. Therefore, for federal income tax-exempt purposes UNCW may engage in activities which include charitable, scientific, testing for public safety, literary, educational, to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals.

UNCW is not, however, exempt from tax imposed by Code Section 511, 512 and 513 on activities which are unrelated to those exempt purposes. Each fiscal year UNCW is required to file an Exempt Organization Business Income Tax Return (Form 990-T) with the Internal Revenue Service. We are required to report any unrelated business income generated by the activities of our academic and support units.

There are three elements that must be present for an activity to be considered unrelated to the University's tax-exempt purposes:

- (1) The activity must be a **"trade or business"** – generally includes any activity carried on for the production of income from selling or performing services. (reg 1.513-1(b))
- (2) It must be **"regularly carried on"** – if they show a frequency and continuity, and are pursued in a manner similar to comparable activity by a taxable organization. (reg 1.513-1(c) (1))
- (3) It must **"not be substantially related"** to the University's exempt purposes. (reg 1.513-1(d) (2))

Unrelated business income is the income from a trade or business that is regularly carried on by an exempt organization and that is not substantially related to the performance by the organization of its exempt purposes or function, except that the organization uses the profits derived from this activity.

Any business activity conducted by a college or university primarily for the convenience of it faculty, other employees, and/or students is not taxable, regardless of the nature of the activity.

The following are examples of potential unrelated business income-generating activities:

- ❖ Passport Revenue (Auxiliary)
- ❖ Some types of Catering Revenue (Aramark)

- ❖ Any form of advertising that generates revenue for the University
- ❖ Sale of any goods or services to non-University persons or entities
- ❖ Seahawk Store Revenue (Athletics)
- ❖ Box Stuffing Revenue (Post Office)

All departments are asked to notify the Controller's Office or Tax Office of any new programs that may generate revenues that fit the definition of unrelated business income.

For additional information on Unrelated Business Income please contact the Tax Department at extension 22757.