
How to Manage Unrelated Business Income (UBI) for Nonprofits

[Music]

If you're leading a nonprofit organization, understanding how unrelated business income affects you is critical for maintaining compliance and protecting your tax-exempt status.

Unrelated business income, or UBI, is income generated from a trade or business activity that meets three criteria, as defined by the Internal Revenue Service, that the activity is 1) a trade or business, 2) the activity is regularly carried on, or 3) the activity is not substantially related to the organization's exempt purpose.

For example, if a museum operates a cafe that serves the general public without an educational component related to the museum, the income from that cafe would likely be considered UBI. Not all income earned is subject to UBI. One exception includes income from activities primarily staffed by unpaid volunteers. Another exception is services provided for the convenience of members, such as a university bookstore selling course materials. Passive income, such as dividends, interests, certain royalties and rents for real property are generally excluded from UBI, if your nonprofit organization earns \$1,000 or more in gross income from unrelated business activities.

You must report the income and any related expenses on IRS Form 990T on an annual basis. Failure to do so can result in penalties and jeopardize your tax-exempt status. We also recommend that you maintain separate records for unrelated business activities and for accurate reporting and compliance to manage UBI effectively. Regularly examine revenue streams for potential UBI implications. Document the relationship between the activities and your tax-exempt purpose and consult with tax professionals regarding complex situations.

[Music]

Madison, WI

1221 John Q Hammons Drive
Suite 100
Madison, WI 53717

Phone: (608) 831-8181
Fax: (608) 831-4243

Brookfield, WI

18650 W. Corporate Drive
Suite 200
Brookfield, WI 53045

Phone: (262) 641-6888
Fax: (262) 641-6880

Colorado Springs, CO

P.O. Box 62786
Colorado Springs, CO 80962

Phone: (719) 413-5551

Contact Us:

Email: info@SVAaccountants.com
Web: SVAaccountants.com