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**UNRELATED BUSINESS INCOME TAX**

As an association director, you need to be aware of certain situations where an association that is considered tax-exempt may still owe taxes. This is called UBIT (unrelated business income tax), and it occurs when an association receives income from activities that are not related to the purposes that allowed the association to claim tax-exempt status. There are three major criteria to determine if income you have received is liable for UBIT:

1. Income from activities that are **considered a business or trade**
2. The activities in question are **substantial** and/or **regularly carried on**
3. The activities are **not substantially related to** the exempt purpose of your organization

It is often possible to avoid UBIT liability by structuring activities in a way that they will not be subjected to taxation. “Passive” revenues (for example, interest and dividends), are exempt from UBIT as long as your association observes certain rules. Some sponsorships can generate tax-free revenue if the sponsor is recognized and acknowledged in accordance with IRS regulations. Many associations also structure legal arrangements that characterize income from affinity programs as “royalty” income, which is not subject to UBIT.

Your association needs to be cautious about assuming too much UBIT liability; if revenues subject to UBIT rise to within 30-40% of your total annual budget, it may cause the IRS to reassess your tax-exempt status. To avoid this situation, many associations will create a for-profit subsidiary to assume their excess tax liability. If your association owes more than $1000 in UBIT, you will have to file a Form 990-T at the end of the year.

**EXAMPLES OF SITUATIONS WHERE UBIT WOULD APPLY**

* If your organization sells advertising on its website or in print publications, the advertising would be subject to UBIT if it promotes the advertiser’s business
* If your organization received income from services provided to outside entities that do not further your mission, that income may be subject to UBIT
* If your nonprofit has a physical campus that houses a for-profit business (for instance, a coffee stand in the lobby), that business’ income may be subject to UBIT