

## UNRELATED BUSINESS INCOME

As a tax-exempt organization, Auburn University is exempt from paying federal income taxes on its income from activities substantially related to its educational purpose. However, the University is subject to income tax on activities that generate unrelated business income.

An activity generates unrelated business income when **ALL THREE** of the following statements are true:

1. The activity constitutes a trade or business
2. The activity is regularly carried on **AND**
3. The activity is not substantially related to the University's tax exempt purpose.

Once an activity's income is deemed to be unrelated business income, Auburn must report that income on its annually required Form 990-T that is submitted to the IRS and must pay tax on its net unrelated business income.

Further discussion of the characteristics of unrelated business income follows below:

1. Trade or Business:
  - a. Any activity conducted for the production of income from selling goods or services
  - b. Conducted with an intent to make a profit
2. Regularly carried on:
  - a. Frequent and continuous activity
  - b. Pursued in a manner comparable to commercial activities of non-exempt organizations
  - c. Not regularly carried on if:
    - i. Very infrequent basis
    - ii. Short period of time during the year
    - iii. Without competitive and promotional efforts
3. Not substantially related: (if the activity does not fall into our exempt purpose listed below)
  - a. The activity does not contribute importantly to the accomplishment of the exempt purpose of the University
  - b. University's exempt purpose
    - i. Teaching and instruction
    - ii. Research
    - iii. Public service