Top Legal Traps Your Non-Profit Organization Needs to Avoid

Unrelated Business Income Tax

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Overview

- Agenda
  - Definition
  - Modifications to the General Rule
  - Exceptions to the General Rule
    - Corporate Sponsorship Discussion
Definition of UBIT

- Unrelated Business Taxable Income is derived from:
  - A trade or business,
  - Regularly carried on
  - Not substantially related to the organization’s exempt purpose
Modifications

- **Passive Income**
  - Dividends, interest income, annuities, and income related to certain lending arrangements.

- **Royalties**
  - Payments for the use of a valuable intangible right. Measured by production or by gross or taxable income from the property and all deductions directly connected with such income.
  - “Services” limitation
**Modifications**

- **Rent**
  - Rents from real property, and incidental amounts of personal property leased with the real estate.
    - Exception if rent depends on income or profits
    - “Services” limitation

- **Capital Gains**
  - Gains from the sale, exchange, or other disposition of capital gain property, other than property held as inventory.
    - Controlled entity exception
    - Debt-financing exception
Exceptions

- Volunteers
- Convenience
- Contributions
- Trade Shows and State Fairs
- Bingo
- Mailing Lists
- Corporate Sponsorship Payments