

SMU Tax Policies and Procedures

Subject: UBTI - Exploitation rule

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Policy

Activities carried on by the University in the accomplishment of the exempt purpose sometimes generate goodwill or other intangibles that can be exploited in commercial or non-University activities.

When computing unrelated business taxable income, and expenses generated from exploited exempt activity cannot be used in the computation of unrelated business taxable income to the extent that the deduction would result in a loss. The expenses incurred by exempt activities are not deductible when computing net unrelated business income. The costs are necessary for the exempt purpose of the University and therefore, do not qualify as an expense directly related to the unrelated business activity.

Procedure

Expenses generated from exploited exempt activity cannot be used as a deduction against income generated from unrelated business income. Department heads or financial officers cannot report exploited exempt activity expenses against unrelated business income when reported the unrelated business taxable income to the Tax department. Please contact the tax department if you have questions regarding appropriating expenses directly related to the unrelated business activity.

Reference

Regulation section 1.512(a)-1(d); Publication 598