

UNRELATED BUSINESS INCOME TAX AND ITS IMPACT ON TAX-EXEMPT TRADE ASSOCIATIONS

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ABSTRACT

Not-for-profit (tax-exempt) organizations have been the recent focus of the IRS as evidenced by the extensive and sweeping changes made to the Form 990. Moreover, the IRS has learned through their audits that many tax-exempt organizations fail to report their unrelated business income activities and many are not even aware that an unrelated business income tax exists.

An underlying premise regarding unrelated business income taxation (UBIT) laws is that income derived from activities unrelated to a not-for-profit organization's purposes is taxed as if earned by a comparable for-profit organization. Accordingly, income, net of related expenses (deductions) is subject to tax at the regular corporate rates.

According to Internal Revenue Code (IRC) Sec. 512 (a)(1), unrelated business taxable income is defined as gross income derived by any organization from any unrelated trade or business regularly carried on by it.

A trade association is an organization that is created and funded by businesses that operate in a specific industry. Many of these associations are tax-exempt organizations governed by bylaws and directed by officers who are also members. Trade associations assist with the collaboration between companies and generally provide goods and services to its members such as producing conferences, networking, providing educational classes, business documents, and other related materials.

With the renewed focus by the IRS on tax-exempt organizations and their unrelated business activities, trade associations may find themselves facing a tax burden levied on them for activities they thought were substantially related to their tax-exempt purposes but were determined to be unrelated by the IRS.

The purpose of this paper and the conference presentation is to discuss UBIT concerns specific to tax-exempt trade associations.