

INFORMATION FROM USM

Summary of Reportable Tax Information and Detail of Information Needed to Prepare Form 4562, for each unrelated business income activity

Purpose: Information needed to compile System-wide tax return reporting financial activity associated with activities that represent unrelated business income according to the Internal Revenue Code and IRS guidance. Each institution will be expected to review revenues and the nature of operations for any activity occurring on the institution that appears on the listing '**List of Activities That Should Be Reviewed For Possible Reporting of UBIT**', evaluate these activities using criteria for tax reporting, track and identify revenues and expenses associated with unrelated business income activities, and accumulate documentation that would, in an audit, facilitate the substantiation of amounts reported on the System's annual IRS Form 990-T, Exempt Organization Business Income Tax Return.

Format: Information is to be provided by unrelated business income tax activity, meaning that revenues, expenses, and information required to complete the depreciation forms must be provided on a separate, distinct set of forms for each reportable activity. A reportable activity is an individual activity, or group of activities that constitute an integral operation.

If the institution has two or more unrelated business income tax activities, a separate and distinct Summary of Reportable Tax Information for UBIT Activity, and Detail of Information Needed to Prepare Form 4562 is to be provided for each.

It is critical that a documentation trail be developed as a part of the process to compile the information, and maintained by the institution in the event of an audit, whether by the Internal Revenue Service, the independent auditors, or even the System Office of Internal Audit. This documentation must facilitate tracing of amounts from the institution's accounting system to the information reported on the **Summary of Reportable Tax Information**.

Note: Each institution (vice president for administration) will be required to assert positively that:

1. the institution has performed a review of institutional activities to identify potential activities that might generate unrelated business income,
2. assessed, for determination of whether tax reporting is required, the business-purpose of potential activities that might generate unrelated business income, and
3. compiled financial information for each identified unrelated business income activity and documented the information sources for revenues and each expense, including the basis for any allocation of expenses, in such a manner that the build-up and support for the financial information reported can be clearly tied back to the institution's underlying financial records.

INFORMATION FROM USM UBIT Reporting Requirements

Suggested approach - Unrelated Business Income Tax reporting

What Activities to Report:

In evaluating whether an activity should be reported on the tax return, document the facts and analysis for each factor critical to the conclusion reached.

You should document and substantiate the profit motive for any reported activity showing consistent net losses year after year or else discontinue reporting it on the income tax return. Verifiable evidence includes authoritative documentation such as meeting minutes that indicate the implementation of a new operational approach reasonably expected to enhance profitability.

Explain any instances where UBIT activities reported last year are not being reported this year.

Each reported activity should be described in detail. If contractors are involved, are they truly independent and bear the risk of loss or are they merely agents of the university, much like employees? If the operation is run by an independent contractor that pays the university a fixed amount or a percentage of the gross revenue, and the university does not provide services of a type or level beyond those that are customary in a rental situation, then the activity is not a trade or business to the university, and therefore not taxable.

Document Source References:

Reference the source of every figure on all forms and schedules.

The source should be thoroughly disclosed for any figure that does not tie directly to the institution's accounting system, and the rationale for its use explained. The rationale for methodology inherent in all allocation calculations should be made clear and be persuasively justified.

The above documentation should be maintained by the institution as support for UBIT tax reporting.

Revenue:

Document the cut-off rule used when a single event straddles fiscal years. Strive for consistency over time and across activities.

Where an activity comprises a mixture of UBIT and non-UBIT components that need to be identified:

- describe distinguishing criteria,
- describe procedures and roles, and
- describe audit trails of such determinations, and indicate where kept.

If the presence of the imposition of MD Sales Tax is used to distinguish components, then justify through explanation.