

Don't Get Bit by UBIT!

Even tax-exempt organizations like the American Inns of Court may have to pay taxes on certain types of income. The **Unrelated Business Income Tax (UBIT)** is a tax on income derived from activities that are *regularly carried on* and *substantially unrelated* to the organization's exempt purpose. It is important to understand what types of income are considered "unrelated", or, more specifically, what types of revenue-generating activities may expose an Inn to UBIT. Following are some of the common or most likely types of activities that could generate unrelated business income.

Advertising—Advertising sold for publications, like an event program, magazine, or a website, that are qualitative in nature (i.e., the advertisement contains self-laudatory language or includes some inducement to purchase a good or service).

Merchandise—Selling t-shirts, caps, and coffee mugs, with or without the organization's logo affixed.

Administrative or Professional Services—If one Inn were to charge another Inn for administrative services.

It is also important to understand what types of income are NOT subject to UBIT.

- **Member dues**
- **Event registration fees (for events related to the Inn's exempt purpose)**
- **Contributions**
- **Sponsorships (that do not include any qualitative advertising opportunity for the sponsor)**
- **Interest and dividends on savings and investments**

Please keep in mind that, even if the Inn were to incur a tax liability, the revenue generated from an unrelated activity may provide an important level of support to the Inn. While dealing with UBIT requires some paperwork (i.e., filing a Form 990-T and possibly a state corporate income tax return) may be a nuisance, if the residual income is sufficient, it may be worth the hassle. The important thing is to be aware of the fact that income derived from certain activities may subject the Inn to UBIT and to plan accordingly.

If you think your Inn may have income that is subject to UBIT and have questions about what to do, please contact your Director of Chapter Relations or send an email to taxes@innsofcourt.org.