

Unrelated Business Income Tax (UBIT) Guidelines and Survey – EWU Bookstore

In general, bookstore operations are related activities and not subject to UBIT. The IRS will typically fragment sales into three major categories:

- directly educational materials (nontaxable);
- non-educational, convenience exception (nontaxable); and
- other merchandise sales (taxable).

Directly educational materials -- nontaxable

Sales to students, faculty, and other employees of items that are directly related to the University's educational purpose, such as books, records, tapes, general school supplies (notebooks, paper, pens, pencils) and athletic wear used in the school's athletic and physical education programs.

Computer and related products: there must be direct evidence that such sales programs lead to the enhanced computer literacy of faculty, staff, and students. The IRS guideline states while the sale of a single computer to a student or faculty member is not taxable, sales of multiple computers to such individuals and sales of a single computer to alumni and members of the general public may be taxable.

Non-educational, convenience exception -- nontaxable

Non-educational items that may fall under the **convenience exception** include items that are low in cost and in recurrent demand. The convenience exception is applicable only to members of the university. Any sales to non-members (e.g., the general public) are taxable unless the sales are not "regular". Where bookstores are open for sales to the general public, sales to the general public clearly do not fall within the convenience exception.

Qualified items include clothing embossed with the University's insignia; clothing used in university sports and activities and low-cost wearing apparel; novelty items (e.g. jewelry, mugs, pillows) imprinted with the University's name or seal; and low-cost items with recurrent demand (e.g. film, cards, health and beauty aids, candy, newspapers, greeting cards and magazines).

"Convenience exception" does not apply to items with a useful life of more than one year, unless it is a logo novelty item or logo clothing. In the absence of clearly established special circumstances, items not directly related to the University's exempt purposes that have an ordinary useful life of more than one year are not encompassed by the convenience exception. However, if the University can demonstrate that its campus is located a considerable distance from commercial retail facilities, it may be able to successfully argue that other items with a useful life of more than one year are nontaxable under the convenience exception.

Other merchandise sales -- taxable

Items do not fall into the above two categories, and are therefore subject to UBIT, include wearing apparel, cameras and photographic equipment and supplies, tape recorders, radios, record players, television sets and small appliances (IRS The College and University Examination Guidelines, 1994).

UBIT Survey Questions for EWU Bookstore:

1. Does EWU Bookstore sell any items that might be considered “taxable merchandise” as defined above (i.e., potentially subject to UBIT)? If so, is the trade or business *regularly carried on*, AND *substantially unrelated* to the University’s exempt purpose?
 - a. Can these UBI sales be identified for tax reporting purposes?
 - b. And can you attribute a portion of expense incurred toward selling these UBI items?
2. Does the EWU Bookstore regularly sale convenience items to the general public (other than students and employees)?
 - a. If so, are these sales distinguishable at the POS or other method?
3. Does EWU Bookstore sale items that have a useful life greater than one year which do not have the university insignia?
 - a. If so, are these items distinguishable at the POS or other method?
 - b. Can the EWU Bookstore demonstrate that it is located a considerable distance from commercial retail facilities?
4. Does EWU Bookstore advertise (e.g., local newspaper, etc.) sales open to the general public (e.g., sidewalk sales)?
 - a. Are such sales extraordinary and infrequent (not regular)?
 - b. Are such sales limited to items with the university insignia? If not, are such sales to the general public separately tracked through the POS register or other mechanism?
5. Computer sales and related products:
 - a. Does EWU Bookstore sale computers and related products en mass to anyone other than students or university employees?
6. Reporting period covered by this survey _____
7. Name and title of person completing this survey _____

For questions about this survey contact:

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