

TO: Chief Business Officers

FROM: Ron Maples, Assistant Vice-President & Controller

SUBJECT: Tax Reporting Compliance Questionnaires
Unrelated Business Income Tax (UBIT) Questionnaire

Please complete and return all pages of this document (even if certain sections do not apply to your department) to the Controller's Office no later than August 31. A completed questionnaire should be submitted on all revenue generating activities (except research) for FY2010. Thereafter, a questionnaire is required only if a change has occurred (i.e. change in a previously reported activity or new activity started). If you have any questions about the content of this questionnaire, or what should be included, contact Melissa Johnson at 4-2493 or johnsonm@tennessee.edu. Thank you for your assistance with these important compliance efforts.

The purpose of the following questionnaires is to request your assistance in assessing the University's tax reporting requirements. Your assistance is vital to ensuring that the University completely and accurately complies with legally-mandated reporting provisions covering (a) unrelated business income, (b) foreign activities, (c) state sales tax, and (d) activities in other states.

A general description of the University's reporting requirements follows.

UNRELATED BUSINESS INCOME

The IRS requires tax-exempt organizations such as The University of Tennessee to declare and pay tax on net income from any activity unrelated to the basic purposes for which the income tax-exemption was granted. The University's tax-exempt purposes are primarily education, research, and public service.

The IRS considers an activity to be unrelated if it meets all of the following criteria:

- it is not substantially related to the organization's tax-exempt purposes,
- it is a trade or business (defined by the IRS as any activity carried on for the production of income from selling goods or performing services),
- it is regularly conducted (frequency and continuity are key in this assessment).

The University is **not** prohibited from engaging in activities which generate unrelated business income, but the IRS requires that we report net operating results, including net losses, from each unrelated activity. Net losses may be used to offset net income and, therefore, reduce the total tax liability of the University.

The attached questions are designed to help assess the revenue producing activities conducted in your department. Only consider revenue produced from sources outside the University; do not

report revenue produced from sales of goods and services to other UT departments. If the revenues generated by your area are clearly related to the stated exempt purposes of the University, please make a note on the questionnaire.

Please indicate whether or not, in your opinion, this activity constitutes unrelated business income. The Controller's Office will review the completed questionnaires, and you may be asked to provide further information about potentially unrelated activities.

FOREIGN ACTIVITIES

The IRS requires that we disclose certain foreign activities. These disclosures include whether the University has ownership or signature authority over any foreign bank accounts, whether the University has any offices in foreign countries, and other various activities. To comply with these reporting requirements, we are asking for your assistance in identifying all foreign activities and transactions conducted by your department. The information is requested with this questionnaire.

TENNESSEE STATE SALES TAX

Although the University is entitled to exemption from sales tax on its purchases, an exempt organization making sales of tangible personal property or services has the same responsibility as any other vendor, even though sales are made to members, students, patients, employees or other persons directly associated with the organization. The tax is imposed on the gross sales price of tangible personal property, the gross proceeds of leases and rentals of tangible personal property, the gross charge for taxable services, and the gross receipts or proceeds of sales of amusements. To assess compliance with state sales tax requirements, please indicate whether your department is involved in these activities.

ACTIVITIES IN OTHER STATES

If the University has a presence in, and derives revenues from within another state, there may be requirements to register to do business, and possibly file an income tax or information return as a tax-exempt organization. The information is requested with this questionnaire.