Dickinson College (the “College”) is responsible for classifying income in two categories: related (non-taxable) versus unrelated (taxable). To be non-taxable, an activity must be substantially related to the purpose for which the College has its exempt status (educational, research, etc.). Income that does not directly further the College's tax-exempt purpose has the potential to become unrelated business income. Income from an activity is subject to unrelated business income tax if the following three criteria are present:

1) The conduct of the activity is "not substantially related" to the performance of the College's exempt function;
2) The activity constitutes a "trade or business"; and
3) The activity is "regularly carried on" by the College.

Income from certain unrelated activities may be non-taxable because of a statutory exemption. These categories are discussed below as “exclusions and exemptions.”

**Common Examples of Activities That May Generate Unrelated Business Income**

- Use of College facilities such as the athletic areas, meeting spaces, guest houses, etc. by the general public for a fee.
- Providing services in connection with the rental of College facilities to outside entities, such as rental of facilities for an event that includes catering and similar services. As a general guideline, providing any services beyond utilities and overall building maintenance may cause unrelated business income.
- Renting of personal property to non-College users.
- Sale of goods or services to non-College users. This may include the sale of computers, printing, testing and catering.
- Advertising
- Exclusivity agreements where significant services are rendered by the College in return (e.g. extensive involvement of College employees in joint marketing efforts to increase sales).
- Partnership investments

**Some Basic Exclusions and Exemptions from Unrelated Business Income**

- Convenience - Income from an unrelated trade or business that is carried on primarily for the convenience of students, faculty or staff is not taxable. For example, where a college operates a laundry service for the purpose of laundering dormitory linens and students’ clothing, the revenue from the laundry service is not taxable as unrelated business income because the activity is for the convenience of the students.
- Investment Income - Dividends, interest, capital gains and other income received from the holding of College investments are generally not taxable.
- Royalties - A royalty is passive income received from entities external to the College for the use of College property or rights, and is usually paid as a percentage of receipts from using the property or as a fixed amount per unit produced. Royalty income is not taxable.
- Real Property Rents - Rents from real property (buildings, apartments, commercial space) are not taxable. However, if real property is rented with the provision of additional services to the tenant the income may be taxable.
- Personal Property Rents - Although rents from personal property (furniture, household appliances) are generally taxable, such rents may be non-taxable if they are an incidental amount (less than 10%) of the total rents received under a lease for real property.
- Research Funding - The funding for any research conducted in any department within the College (including research conducted for the United States, its instrumentalities or agencies, or any state or political subdivision) is not taxable. However, where the activity constitutes mere testing it will not qualify as research and the income funding may be taxable.

**Dual Use of Facilities**

In many cases facilities and personnel are used to conduct both exempt and non-exempt activities. Income is categorized as unrelated by recording and identifying exempt and non-exempt users. For example, non-College users are required to pay a fee to use guest housing. These fees are separately accounted for and reported as taxable income.

Expenses attributable to both activities must be allocated between the two uses on a reasonable basis. The revenue-producing department must maintain adequate records to support the allocation of expenses claimed as deductions, and should consult with Financial Operations regarding the type of records that are required. Full and complete documentation is very important and must be retained.

Questions concerning the taxability of an activity that generates income, and the proper classification and allocation of associated expenses, should be forwarded to Financial Operations. If a department anticipates entering into a new or changing financial activity that may generate unrelated business income, Financial Operations should be consulted prior to entering into the new activity, as the form and terms of a transaction may materially affect its tax status.

**Related Information**

Kline Center and Athletic Facilities (Athletics)
Conferences and Special Events (Campus Operations)
External Advertising Policy (College Relations)
Investment Policy
Auxiliary Enterprises
Joint Venture Policy
<table>
<thead>
<tr>
<th><strong>History/Revision Information</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responsible Office/Division:</strong></td>
</tr>
<tr>
<td><strong>Effective Date:</strong></td>
</tr>
<tr>
<td><strong>Last Amended Date:</strong></td>
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<tr>
<td><strong>Next Review Date:</strong></td>
</tr>
<tr>
<td><strong>Also Found In:</strong></td>
</tr>
</tbody>
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