NY Funders Alliance: Unrelated Business Income Tax (UBIT) Policy Statement

Although nonprofits are tax-exempt, some activities unrelated to their charitable purposes are taxed under what is called “unrelated business income taxes.” With the 2017 Tax Cuts and Jobs Act, Congress made changes to how those unrelated business income taxes affect nonprofits.

NY Funders Alliance UBIT Policy Statement:

NY Funders Alliance supports the repeal of new Unrelated Business Income Tax (UBIT) policies under the Tax Cuts and Jobs Act. This new legislation will increase the amount of taxes paid by organizations in the nonprofit sector and will subsequently result in job losses and a decrease in available funds to communities.

Approved: NY Funders Board of Directors, January 2019

Effectively, the changes raised taxes on tax-exempt organizations in several areas. Transportation benefits that nonprofits provide to their employees (such as transit or parking subsidies) are now subject to unrelated business income tax. The structure of the tax itself also prevents charities from offsetting a loss from one unrelated business area with profits from another business area. The new Section 512(a)(6) of the Internal Revenue Code changes the way nonprofits calculate UBIT, and nonprofits must now “silo” their revenues and expenses for each “separate” “trade or business” and pay UBIT on each.

This tax increase does not serve in the best interest of nonprofits and will ultimately limit the money available to communities. The nonprofit sector should be supported and not penalized for helping offset transportation costs for employees. NY Funders Alliance supports the repeal of changes to UBIT in the 2017 Tax Cuts and Jobs Act.

UPDATE: Thanks to the efforts of nonprofits throughout the country, Congress approved, and the President signed, legislation to repeal the tax on transportation benefits provided by nonprofits to their employees. Taxes related to nonprofit separate trades and businesses have not yet been addressed.