

OUTSOURCING AND THE UNRELATED BUSINESS INCOME TAX:
A SURVEY OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS

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By

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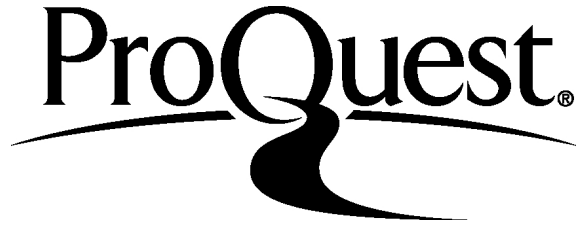
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FOUNDATIONS,
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OUTSOURCING AND THE UNRELATED BUSINESS INCOME TAX: A SURVEY
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Higher education institutions continually explore opportunities to streamline costs and improve efficiency. In many instances this results in the decision to outsource or privatize operations. Many of the operations that are outsourced are considered unrelated business-type activities according to the Internal Revenue Code. As such, these activities are required to pay U.S. income tax on their net profits. These unrelated business type activities include things like food service, bookstores, parking facilities, conference centers, and hotels. This study examines these two issues—outsourcing and unrelated business income tax—in combination. The study surveyed college and university business officers across the United States and inquired about their position within the organization, characteristics of their organization, outsourcing activities at their institution, individual's perceived understanding of Unrelated Business Income Tax (UBIT), and the perceived compliance with UBIT regulations. The results of the survey first conclude that college and university business officers self-reported an above average understanding of the application and compliance with unrelated business income tax. Secondly, however, the study concluded that the unrelated business income tax was of minor significance in decisions to outsource HIED operations.

DEDICATION

To the memory of my grandfather, Nicholas L. Pannunzio, Sr.

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When I began this journey, it seemed as if I would never reach the end. While the process was demanding and challenging, I am overjoyed to finally be writing these final words. This experience has absolutely been a test of endurance—I am pleased to have made it to the finish line. Over the years, I have read many dissertation acknowledgments, and many writers express their difficulty with these final words. I find these to be the easiest to compose.

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If you can dream it, you can do it! - Walt Disney

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CHAPTER I

INTRODUCTION

Higher education has been faced with the need to increase efficiency and expand utilization of scarce resources at a blinding pace. The period of time from December 2007 through June 2009 is known as The Great Recession, which caused crushing economic effects and tremendous financial turmoil. As a result of this event and an ever shifting economy, higher education institutions need to “re-think” operations. “Doing more with less” has been a frequently used mantra in higher education, but the economic and financial realities of today’s operating environment demand that we do just that—more with less. A rather unconventional solution to these demands is simply to do less with less. However, the expectations of various constituent groups will not permit educational institutions to assume such a reductionist approach. As a result of this market driven phenomenon, institutions continue to expand the consideration of outsourcing operations. Commonly proprietary or business-type operations in non-profit higher education institutions have been rendered over to the private sector. Operations such as food service, bookstores, payroll processing, and information technology services have been frequently outsourced with varying degrees of success (Angelo, 2005). However, as increased economic pressure continues to build and scarce resources continue to wane, the potential application of outsourcing solutions has likewise expanded. As reported by Angelo, additional areas of non-traditional outsourcing including housing, safety services, and grounds maintenance have now entered the arena as potential candidates for outsourcing.

Although outsourcing is not uncommon in higher education, no study has examined the influence of the unrelated business income tax on such decisions. The net profits from proprietary, or business-type activities, are subject to the requirements of Internal Revenue Code Section 512—unrelated business income tax. Adopted in 1950 by the United States Congress, the unrelated business income tax was introduced so that non-profit organizations could not gain a competitive tax advantage—and subsequent pricing advantage—over for profit institutions when engaging in business type activities. As a result of this association, this study seeks to examine the influence of unrelated business income tax relative to outsourcing decisions in higher education settings.

Statement of Purpose

This study will examine from a non-experimental survey research design the factors that influence college and university business officers' decisions to outsource proprietary higher education operations. Further, building upon the existing research by Gupta, Herath, and Mikouiza (2005) and Spikes (1993), this study examines an additional dimension in the outsourcing decision-making paradigm to include the influence of Internal Revenue Code §512—unrelated business income tax. Some studies have examined the reasons why outsourcing occurs—increased program visibility, increased efficiency, cost reductions, enhanced service (Armstrong, 2007; Pack, 1987). Similarly, Spikes' (1993) dissertation examined the broad impact of unrelated business income tax on higher education institutions. However no study has examined the impact of the unrelated business income tax as a factor in the decision to outsource. Colleges and universities associated with a particular U.S. state are provided tax exemption under

Internal Revenue Code Section 115 as institutions of the state government. With few exceptions, private non-profit higher education institutions are deemed tax exempt under Internal Revenue Code Section 501(c)(3). These exemptions provide that the institutions are exempt from United States' federal income taxation for activities related to its exempt purpose—specifically state government, religious, charitable, or educational purposes. However, activities beyond those exempt purposes—such as housing, parking facilities, athletic sponsorships, licensing—are subject to the provisions of Internal Revenue Code §512, the unrelated business income tax.

Tax exempt organizations as described above are not prohibited from engaging in commercial or proprietary activities under Internal Revenue Code Sections 115 or 501(c)(3). Insofar as these activities do not assume a primary role in the institution, the tax exempt status should not be hindered. Not only are proprietary activities—activities which could otherwise be provided from the open market or private, commercial sector—subject to taxation, the institution must also engage in compliance with the provisions as established by the Internal Revenue Service. The additional layer of tax compliance requires a special set of professional skills, which in turn adds to the cost of sustaining those proprietary operations (IRS Studies Colleges and Universities, 2010). This study surveys college and university business officers to determine whether or not the unrelated business income tax provisions influence decisions to outsource proprietary operations in higher education in the United States. It is hypothesized that knowledge relevant to the unrelated business income tax will be limited and further that Unrelated Business Income Tax (UBIT) has rarely been incorporated as a factor in outsourcing decisions.

Statement of the Research Problem

In 2008, the Internal Revenue Service began a three year inquiry into higher education institutions and compliance with the unrelated business income tax. The final report was issued in May 2013 entitled the College and University Compliance Project (CUCP). The final report was based upon 34 field audits of higher education institutions. The two most significant findings resulting from this compliance initiative addressed the areas of unrelated business income tax and executive compensation. While on the face these issues do not seem to provide any resounding concern for higher education administrators, the scope of the CUCP included institutions such as Harvard, Notre Dame, Purdue, Central Florida, Lamar, North Carolina, Texas A&M, Suffolk, and Georgia, among others. The colleges and universities subjected to IRS examination represent some of the leading higher education institutions in the United States. The broad scope of the Internal Revenue Service examinations and the subsequent final CUCP report have significant implications for how institutions operate moving forward. The need for a detailed review of business practices, decision-making paradigms, and tax compliance initiatives on campuses will continue to remain essential following this inquiry by the Internal Revenue Service. Additionally, in February 2014, the U.S. Congress had a comprehensive tax code revision bill introduced. This pending legislation includes significant revisions to Internal Revenue Code §512, which will likely have an impact on colleges and universities. This study seeks to identify a baseline of UBIT understanding among college and university business officers at the present time. Furthermore, based on the final CUCP report this study seeks to identify any

operational changes colleges and universities have implemented or plan to implement as a result of the IRS report. Failure to comply with UBIT provisions can result in significant penalties and interest being imposed by the Internal Revenue Service. These penalties include accuracy related penalties, which can be as much as 20% of the unpaid tax. Further, the willing and knowing intent to not report UBIT can be assessed a fraud penalty as high as 75% of the tax due. As such, attentive awareness of UBIT compliance is essential for all higher education institutions and administrators in the United States.

Research Questions

Based on a non-experimental survey research design, this study examines the following questions:

1. Why do administrators—specifically college and university business officers—choose to outsource?
2. What influence does UBIT and UBIT compliance have on decisions to outsource?
3. What is the level of understanding of UBIT among college and university business officers? What are the common area(s) of expertise of college and university business officers?

Significance of the Study

The results of this study will provide a framework for the level of understanding of UBIT among college and university business officers. The analysis of the survey results will further provide insight into the academic preparation and professional experience of college and university business officers. The results of this study can be

used by colleges and universities to improve their operational structures with regard to UBIT.

Definition of Terms

Carnegie classification: The revised Carnegie classification system as established by The Carnegie Classification of Institutions of Higher Education, 2010 Edition was used for this study (Carnegie Foundation for the Advancement of Teaching, 2010).

Chief Business Officer: This administrative position is also referred to as the Chief Financial Officer or CFO. Academic CBOs date back to medieval European universities of the 11th and 12th centuries (Calver & Vogler, 1985). The CBO is charged with the responsibility of maintaining the fiscal accounts of the institution and compliance with all regulations associated with financial affairs (Calver & Vogler, 1985).

College and University Compliance Project (CUCP): The College and University Compliance Project was initiated by the United States Department of the Treasury–Internal Revenue Service in 2008. Four hundred randomly selected colleges and universities were provided detailed questionnaires concerning tax code compliance issues. Of the 400 questionnaires, the IRS selected 34 institutions based on the institution’s response to the questionnaire. The final report identified non-compliance with issues relating to unrelated business income tax and executive compensation (Internal Revenue Service, 2013).

Internal Revenue Code: Created as a result of the February 26, 1913, passage of the United States Constitution’s 16th Amendment and the adoption of the Revenue Act of 1913, all federal tax laws are organized in the Internal Revenue Code (Jones &

Rhoades-Catanach, 2013). Subsequent substantial revisions were made to the code in 1954 and 1986 (Jones & Rhoades-Catanach, 2013). The formal title remains the Internal Revenue Code of 1986.

Internal Revenue Code §501(c)(3): As provided in the Internal Revenue Code of 1986:

Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

(Internal Revenue Code, 1986)

Internal Revenue Code §512: As provided in the Internal Revenue Code of 1986:

Except as otherwise provided in this subsection, the term “unrelated business taxable income” means the gross income derived by any organization from any unrelated trade or business (as defined in §513) regularly carried on by it, less the deductions allowed by this chapter which are directly connected with the carrying

on of such trade or business, both computed with the modifications provided in subsection (b). (Internal Revenue Code, 1986)

Internal Revenue Service: A United States federal agency housed within the Department of the Treasury. Founded in 1862 as the Bureau of Internal Revenue for the purpose of collecting income tax revenue to fund the Civil War, the agency's name was formally changed in the 1950s to the Internal Revenue Service. This agency is responsible for collection of all income and excise taxes levied by the United States Government (Internal Revenue Service, 2013).

Outsourcing/Privatization: Outsourcing is the process of contracting with another firm or individual to perform specific business functions, which are currently performed within the existing organization. For the purposes of this study the terms "outsourcing" and "privatization" are used as synonyms.

Proprietary activities: Business-type activities conducted by a governmental or non-profit organization. If not provided by the governmental agency or non-profit entity, private industry would otherwise deliver said product or service (Governmental Accounting Standards Board-Statements 20 & 62, 1993, 2011)

Treasury regulations: Tax compliance guidance promulgated by the U.S. Department of the Treasury. The regulations provide official interpretation and additional detail of the Internal Revenue Code (Internal Revenue Service, 2014).

Revenue Procedure: Revenue Procedures are official interpretations by the Internal Revenue Service of the Internal Revenue Code, tax statutes, tax treaties and other

regulations. Revenue Procedures provide taxpayers with the determination of how a particular aspect of the tax code will be applied to a particular set of circumstances.

Revenue Ruling:

Revenue Rulings, which address issues of substantive tax law, arise from various sources, including rulings to taxpayers, technical advice to district offices, studies undertaken by the IRS, court decisions, suggestions from practitioner groups, and so on. A revenue ruling is the Commissioner's 'official interpretation of the interpretation of the law' and generally is binding on revenue agents and other IRS officials. Courts typically give revenue rulings far less weight than regulations, regarding them simply as the Commissioner's view of the law. The IRS states that taxpayers generally may rely on published revenue rulings in determining the tax treatment of their own transaction that arise out of similar facts and circumstances. (Graetz & Schenk, 2013, p. 73)

Unrelated Business Income Tax: The term "unrelated business taxable income" means the gross income derived by any organization from any unrelated trade or business regularly carried on by it, less the permissible deductions which are directly associated with the operation of such trade or business (Internal Revenue Code, 1986).

CHAPTER II

LITERATURE REVIEW OF UNRELATED BUSINESS INCOME TAX AND OUTSOURCING

This chapter examines the unrelated business income tax (UBIT) provisions of the Internal Revenue Code as well as the context of outsourcing in higher education. The first section of this chapter explores the historical context of the unrelated business income tax. This review examines the relevant Internal Revenue Code sections as well as their intended purposes as established through deliberation in the United States Congress. Beyond this statutory discussion are several court cases that have resulted in a particular influence on the development and structure of the UBIT law and its enforcement. Following this, an analysis of the current law is provided. Lastly, a review of recent legislative and compliance activity concerning the unrelated business income tax is presented. Following this contextual discussion of the unrelated business income tax is an overview of the research concerning outsourcing and privatization of business-type activities in higher education. Throughout this chapter the emphasis is placed on the effect on colleges and universities. This chapter provides substantial background for the remainder of this study.

Central to the issue of this dissertation are these two interrelated topics—Internal Revenue Code §512—unrelated business income tax and decisions to privatize or outsource proprietary activities in higher education. While no existing literature examines these two topics in combination, a fair amount of research has been published on each issue independently. This literature review examines each topic independently

and subsequently identifies the gap in the literature concerning the two issues as a collective.

Unrelated Business Income Tax

Historical Background

The United States Congress did not create the unrelated business income tax until 1950. However, an examination of prior decisions is useful in order to gain an understanding of the circumstances that ultimately led to the establishment of Internal Revenue Code Section 512 and the resulting imposition of income tax on exempt organizations. The 1924 Supreme Court case of *Trinidad v. Sagrada Orden De Predicadores* provided the framework for the “destination of income” test. The exempt organization in this case, *Trinidad*, was operated for benevolent, religious, scientific, or educational purposes. The organization raised the majority (over 90%) of its operating funds from real estate and investment holdings as well as sales of wine, chocolate, and other incidental items.

The Internal Revenue Service (IRS) asserted that the organization was not operated for its exempt purposes since the vast majority of its operating funds were derived from unrelated or outside sources. As such, the IRS contended the organization should be subjected to income taxation. In its ruling, the Supreme Court found that dividends, rent, and interest are traditional and necessary sources of income for such organizations. Furthermore, the court ruled against the IRS with regard to the sales of other cursory items citing those sales were merely incidental to the accomplishment of the organization’s exempt purpose. As a result of this case, the court established the

“destination of income” test, which provides that the taxability of income in exempt organizations is to be based on the use of said income as opposed to its source.

Therefore, it is of no consequence if income is derived from commercial or business-type activities so long as said income is used for the exempt purpose for which the organization was formed.

Several later court cases have also based decisions on the destination of income test established in the *Trinidad* case. In certain cases, courts have interpreted the test to infer that an organization does not lose its exempt status even in the presence of extensive business-type activities. Following the decision of the *Trinidad* case, two additional decisions were rendered in the judicial system creating an unusual opportunity for exempt organizations. In a 1927 case, *Sand Springs Home*, a corporation engaged in charitable activities which also operated water and electric utilities, sold oil and gas, and owned and operated a cotton gin. All of these activities were undertaken while also competing with other taxable entities. Although nearly all of Sand Springs’ income resulted from proprietary activities, the court held that the circumstances in this case were nearly identical to the *Trinidad* case and *Sand Springs Home* case would remain tax exempt. For many years following this decision, no rulings or decisions regarding the denial of an organization’s tax exemption for participating in business-type activities were rendered by the courts.

In 1938 the *Roche’s Beach Inc.* case was filed and expanded the destination of income test. A charitable exempt foundation owned all the stock of Roche’s Beach. Roche’s Beach operated a profitable bathing beach, which all profits of the beach were

contributed to the tax exempt foundation for use in its charitable endeavors. The IRS argued that Roche's Beach was a taxable entity as it had no charitable purpose itself. The Court ruled that tax exemption should not be denied to a "feeder" organization. The rationale was that Roche's Beach Corporation was designed to be operated in order to feed its profits to the exempt foundation. Hence, if the corporation itself operated the charity directly, the tax exemption would still withstand. That is, although the corporation had no charitable purpose itself, the tax exemption was granted because the profits were rendered to an organization for an exempt purpose. The Court upheld the tax exemption citing Roche's Beach as a "feeder" corporation for the exempt foundation.

The destination of income test had resulted in considerable abuse by tax exempt organizations—particularly colleges and universities. In 1951 a group of benefactors of the New York University School of Law purchased the C.F. Mueller Company—the nation's largest spaghetti noodle manufacturer (Harvard Law Review Association, 1968). Citing the 1938 ruling by the Second Circuit in the case *Roche's Beach, Inc.*, NYU argued that its ownership of the C.F. Mueller Company was covered under its tax exemption as an educational institution (Harvard Law Review Association, 1968). The Court agreed with this analysis and ruled that the destination of income test prevailed and all profits of Mueller were tax exempt (Harvard Law Review Association, 1968). This seminal ruling became known as The Macaroni Monopoly case.

The Revenue Act of 1950

Prior to 1950 the previous cases illustrate the "freedom" exempt organizations were afforded with regard to operating business-type activities. In effect, these exempt

organizations were able to generate tax free earnings from business activities so long as those earnings were used for the exempt purpose of the entity. The ability to produce at a lower than market price and plow tax-free earnings back into the organization for expansion created significant disadvantages to tax paying for-profit competitors.

The Revenue Act of 1950 was structured to address these issues. The destination of income test and tax-exempt feeder corporations were eliminated. No longer were for-profit organizations permitted to generate profits and channel them back into an exempt organization. The most substantial element of the 1950 legislation was the establishment of the unrelated business income tax known as the Supplement U tax. This legislation required that exempt organizations pay income tax on any profits derived from any trade or business not substantially related to the organization's exempt purpose. The goal of this legislation was to eliminate the issues surrounding unfair competition between tax exempt and taxable organizations. Secondly, this legislation would generate a new revenue stream for the federal government.

The Revenue Act of 1950 added §§421-424 to the Internal Revenue Code of 1939. Section 421 established income tax to be applied to the unrelated net business or proprietary income of these exempt organizations:

- Labor, agricultural, or horticultural organizations;
- Corporations or any community chest, fund, or foundation organized and operated exclusively for religious (except churches or associations of churches), charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals;

- Business leagues, chambers of commerce, real estate boards, or boards of trade;
- Corporations which were organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount, less expenses, to an exempt organization, if their income was payable to one of the exempt organizations listed above.

Several other types of organizations were exempted from compliance with the new tax including: social clubs, civic leagues, governmental entities, social welfare organizations, and religious organizations among others.

Unrelated business income was defined in §422 as the gross income generated from activities unrelated to the exempt purpose of the organization less any applicable expenses related to the trade or business activity. An exemption was provided in order to lessen the compliance for smaller organizations engaging in immaterial unrelated business activities. The exemption provided that UBIT compliance only became effective after the organization earned in excess of \$1,000 of net unrelated business income.

By definition, an unrelated or trade was defined as any activity not substantially related with the exempt purpose of the organization (Internal Revenue Code, 1950). Despite this clear definition exemptions were established if: (a) substantially all the work or services were performed by non-compensated individuals; (b) the trade or business was conducted for the convenience of its members, students, patients, officers, or

employees; or (c) merchandise received by the organization as gifts or contributions was subsequently sold (Internal Revenue Code, 1950).

Under the new 1950 UBIT law, certain other sources of unrelated income were exempted from the tax law:

- Dividends, interest, and annuities;
- Royalties;
- Rents from real property;
- Gains from the sale, disposition, or exchange of long lived assets (i.e., property, plant, and equipment). Inventory was excluded from this exemption;
- Income resulting from government sponsored research;
- Income resulting from research performed at a college, university, or hospital.

These passive income activities were deemed essential to the exempt charitable and educational missions of these organizations and therefore were not subjected to income taxation.

Since the adoption of UBIT in 1950, many additions and changes have been made to the original legislation. Despite these changes in the law, the original spirit and structure of the law have remained the consistent. The following sections examine the changes that are most closely associated with higher education institutions.

The Revenue Act of 1951

In 1951, additions to the exempt group subject to the unrelated business income tax occurred. Colleges and universities of a state or other governmental unit were included as being subjected to the tax. At the time it was determined that college and

universities were involved in unrelated business activities and certain leaseback arrangements that would otherwise be taxable if provided by other exempt organizations. Similarly, private colleges and universities were also subjected to the tax with the 1951 law. In order to avoid an environment of unfair competition between public and private higher education institutions, the application of unrelated business income tax was extended to both groups. Moreover, the 1951 legislation expanded the tax to any corporation wholly owned by one or more governmental colleges or universities.

The Internal Revenue Code of 1954

Reorganization was accomplished with the 1954 Internal Revenue Code. The unrelated business income tax provisions of 1938 encompassing §§421-424 of the Revenue Code were reclassified to §§511-514 in 1954 without any significant changes. The 1954 Code extended UBIT provisions to additional exempt organizations. Additional exemptions were added to the UBIT provisions in 1960 and 1966 as well.

The Tax Reform Act of 1969

Substantial revisions of the unrelated business income tax occurred with the Tax Reform Act of 1969. The most significant change was that the tax was extended to all exempt organizations, except for organizations exempted by the U.S. Congress under Internal Revenue Code §501(c)(1). While many organizations had remained exempt from UBIT, Congress became aware of other exempt organizations, which were substantially involved in commercial activities but were not subjected to the tax. In order to equalize the tax treatment of exempts, Congress extended the application of UBIT to all exempt organizations. Also included in the 1969 law changes were redefinition and

expansion of income subject to unrelated business income. This expansion of UBIT was designed to eliminate much of the tax avoidance abuse.

The Tax Reform Act of 1986

The next major revision to U.S. tax law occurred during the Reagan administration in 1986. Following years of deficits and extreme inflation from the 1960s and 1970s, the Reagan administration and the U.S. Congress took on the tax code as a mechanism for economic growth. After several piecemeal revisions to the tax code, 1986 dawned as the year for a complete redevelopment of the Internal Revenue Code of 1954. The exempt organization unrelated business income tax provisions are located in §§511-515 of the Internal Revenue Code of 1986. The exempt organization sections of the Code remain the same today. An overview discussion of each section of the Code follows.

Internal Revenue Code §511

Section 511 establishes the specific entities, which are subject to the unrelated business income tax provisions. As outlined in this section, nearly all exempt organizations are subject to the tax. The only exception to the imposition of unrelated business income tax is organizations which are exempt under §501(c)(1) of the 1986 Internal Revenue Code. Specifically noted in §511 are State colleges and universities, which are identified as organizations which are subject to the tax. Furthermore, any corporations, which are wholly owned by state colleges and universities, are also subject to the tax. Following the 1986 codification of Section 511 no future revisions or changes have been made to this section of the tax code.

Internal Revenue Code §512

Section 512(a) provides a comprehensive definition of “unrelated business taxable income” as the gross income derived from any unrelated trade or business (as defined in Section 513) that is regularly carried on by it, less the deductions allowed by this chapter which are directly connected with the carrying on of such trade or business subject to modifications as provided later in this section.

Section 512(b) enumerates the modifications referenced in the definition above. Dividends, interest, royalties, certain rents, gains and losses from property and certain research revenues were established as exclusions from unrelated business income tax compliance. The section also identifies specific items which are to be included as taxable income such as income from debt-financed property as well as any interest or royalties received from controlled corporations.

Section 512(c), 512(d), and 512(e) address special unrelated business income rules for partnerships, agricultural and horticultural organizations, and S-corporations respectively. Section 512 has undergone various superficial titling and organizational changes since the 1986 codification. The overall spirit of the section remains consistent with the 1986 legislation. The most significant addition to §512 was made with the American Jobs Creation Act of 2004, which addressed treatment of remediation efforts for brownfield sites and the subsequent sale or disposal of the remediated property in context of the unrelated business income tax.

Internal Revenue Code §513

Section 513 provides the definition of unrelated trade or business. This section provides three elements, which identify an activity as an unrelated trade or business. The unrelated trade of business must: (a) constitute a trade or business; (b) be regularly carried on; and (c) not be substantially related to the exempt purpose of the organization (26 U.S. Code §513(a)).

Section 513(c) defines trade or business as “any activity carried on for the production of income from the sale of goods or performance of services” (26 U.S. Code §513(c)). This definition is the same as the one provided in Internal Revenue Code Section 162. As a result of this linkage to §162, if an activity does not possess the attributes of a trade or business as described in §162, then its income would not be treated as unrelated business income. The rationale supporting this tax treatment is that the organization’s activity is not in competition with other taxable organizations. This approach to defining trade or business again emphasizes the primary objective of the unrelated business income tax as a mechanism for eliminating unfair competition between taxable and nontaxable entities.

The second element of §513 addresses that a trade or business activity must be regularly carried on. In order to make this determination, Treasury Regulation 1.513-1(c) states that the frequency, continuity and manner of pursuit should be similar to comparable commercial activities of nonexempt organizations. The emphasis of this section is that of placing exempt organizations on an identical tax basis with those of nonexempt organizations with which they seek to compete. Business activities, which

are generally performed on a year-round basis for taxable entities, are not deemed regularly carried on for exempt organizations when conducted only for a brief time; for example, if an exempt operates a sandwich stand at a state fair for one week. This would not constitute a regularly carried on activity for the exempt organization. Despite this exception, the operation of a trade or business for one day each week would constitute the regularly carrying on of a trade or business. Special rules are applied to intermittent activities and are provided in Treasury Regulations 1.513(c)(ii) and (iii).

The third element of §513 addresses the need for the activity to be “substantially related” to the organizations exempt purpose(s). In order to make such a determination, a careful examination must be made of the relationship between the business activities that generated the income and the accomplishment of the organization’s exempt purpose (Treasury Regulation 1.513-1(d)(1)). The business activity must have a causal relationship as well as substantial. A business type activity must do more than provide funds for use in accomplishing the organization’s exempt purpose. The Treasury Regulation requires that the activity “contribute importantly to the accomplishment of those purposes” of the exempt organization (Treasury Regulation 13.513-1(d)(2)). When making the determination of the importance of the activities’ contribution, the size and extent of the business activities must be considered in relation to the exempt function of the organization. When a business type activity is conducted on a scale larger than needed to meet the exempt function, the income attributable to the portion of the activities in excess would be considered to be taxable unrelated business income (Treasury Regulation 1.513-1(d)(3)).

Certain activities are exempted from trade or business status by §513(a) which include: (a) activities where substantially all the work in carrying on the trade or business is performed without compensation; (b) activities carried on by a §501(c)(3) organization by a state college or university for the convenience of its members, students, patients, officers, or employees; (c) sales of merchandise of which a substantial part have been received as gifts or donations.

Section 513 also addresses rules relating to specific business-type activities as related or unrelated trades or businesses. These activities include conventions and trade shows, public entertainment activities, certain hospital services, bingo games, and pole rentals. Aside from minor titling and date changes, §513 has remained relatively untouched by Congressional action since 1986.

Internal Revenue Code §514

While most passive income (dividends, rents, royalties, interest, gains and losses from the sale of property) is excluded from unrelated business income taxation, section 514 addresses the issues surrounding “debt financed” property which is not substantially related to the exempt organization’s mission. Hence these “debt financed” properties may be includable in the exempt organization’s unrelated business income.

As defined in the Treasury Regulations, debt financed property is any property which is held to produce income with respect to which there is an “acquisition indebtedness” at any time during the taxable year (Treasury Regulation 1.514(b)-1). Not subject to these provisions are debt financed properties where 85% or more of the use of the property is devoted to the organization’s exempt purpose (Treasury Regulation

1.514(b)-1). Therefore, the unrelated business income tax is not applied to the extent that a portion of the property is used relating to the organization's exempt purpose.

Additional exceptions relating to debt financed property can be found in Treasury Regulation 1.514(b)-1(b).

The term acquisition indebtedness is defined in Treasury Regulation 1.514(c)-1(a) as the outstanding amount of the principal indebtedness incurred: (a) in acquiring or improving the property, (b) before the acquisition or improvement of such property if the debt would not have been incurred but for the acquisition or improvement, and (c) after acquisition or improvement of such property if the debt would not have been incurred but for the acquisition or improvement and the incurrence of the debt was reasonably foreseeable at the time of acquisition or improvement (Treasury Regulation 1.514(c)-1(a)). Several exceptions to the previously defined term of "acquisition indebtedness" exist. These exceptions and special conditions are detailed in the Internal Revenue Code section 514(c).

The determination of income resulting from debt-financed property, which is includable as unrelated business income is established by degree to which the property is debt financed. Internal Revenue Code section 514(a)(1) provides that the percentage of debt-financing is determined by dividing the average acquisition indebtedness for the tax year by the average adjusted basis of the property during the year. Much like all other unrelated business income transactions, a reduction in taxable income is permitted by allowing expense deductions. Since adoption in 1986, no major revisions have been made to Section 514.

Internal Revenue Code §515

Section 515 of the Internal Revenue Code provides that a credit may be taken for unrelated business income taxes levied by a foreign government and possessions of the United States. This section of the Code has not been modified since 1954.

The Current State of Unrelated Business Income Tax

Recent discussion concerning UBIT has equally involved legislative discussions and compliance initiatives. In December 2014, U.S. House Ways and Means Committee Chairman Dave Camp introduced a comprehensive tax reform bill to Congress. Included within his plan are proposed changes to unrelated business income tax which include:

- Royalties from the sale or licensing of a tax exempt organization's name or logo specifically subjected to the unrelated business income tax.
- A provision that each unrelated business activity be reported separately. Currently the aggregated total of all unrelated activities are reported cumulatively. This requirement would eliminate the potential for one profitable activity's income being offset by another activity's losses.
- A narrowing of the rules concerning income generated from research. If the research is made public, then the associated income would not be subjected to UBIT. However, if the research is not made publicly available the associated income will be treated as unrelated or proprietary income.
- Revisions to the qualified sponsorship payment rules. This rule change would require that sponsorships that refer directly to the sponsor's product line would

not be deemed qualified sponsorship payments and as a result subject to UBIT as advertising income.

- Revisions to late filing fees, the revocation of exempt status for certain insurance organizations, and an excise tax for executive compensation exceeding \$1 million.

While this bill was introduced, it is anticipated to receive many changes as it progresses through committee. Initial reports have suggested that an adoption and implementation of this bill make take until 2017. As of April 2016, the bill has only received introductory remarks in Congress and has been referred back to the Ways and Means Committee.

The second most significant development in the unrelated business income tax arena comes from the Internal Revenue Service. Compliance inconsistencies have spurred interest by the Internal Revenue Service and have led to the investigation of several institutions of higher education with regard to compliance with UBIT regulations.

A June 2010 article in *Accounting Today* (IRS Studies Colleges and Universities, 2010) addressed the decision of the Internal Revenue Service to open examinations on over 30 tax-exempt higher education institutions related to treatment of business income and executive compensation. Four hundred private and public higher education institutions were surveyed between 2008 and May 2010 concerning compliance with unrelated business income tax provisions of the Internal Revenue Code. This segment of tax exempt organizations comprises the largest component of non-profits in terms of revenues and assets. The institutions were sub-categorized into three groups including

small, mid-size, and large. Among the notable findings in the IRS report is that few organizations reported ever filing a 990-T for unrelated business income (48% for small, 29% of midsize, and 4% of large). Further, more than 60% of the reporting entities in each group cited that there was no reliance on outside services or consultants concerning unrelated business activities.

The final report released in 2013 entitled the Colleges and Universities Compliance Project (CUCP) signals that much of the compliance with UBIT is handled internally on higher education campuses. With regard to higher education institutions, the sheer magnitude of institutions reporting never having filed a 990-T is of concern. Furthermore, as identified by Craig and Weinman (1994), higher education institutions continue to expand services and partnerships as a means of generating additional income. This practice has become a significant aspect of collegiate athletics. Due to these new approaches in managing institutional assets, additional considerations and complexities associated with UBIT will continue to become increasingly prevalent. The final CUCP Report cited four key areas of compliance with UBIT in higher education:

1. Disallowance of expenses due to an activity incurring repeated losses indicating a lack of profit motive (Kalick, 2013).
2. Improper expense allocations by disproportionately over allocating expenses to unrelated business activities (Kalick, 2013).
3. Errors in calculating Net Operating Losses (Kalick, 2013).
4. Misclassification of activities as exempt when in fact the activity is unrelated (Kalick, 2013).

As a result of these findings by the IRS, continued examination of UBIT compliance will likely remain a targeted effort for the IRS. The primary unrelated activities examined by the IRS included: fitness and recreation centers, golf courses, sports camps, arenas, advertising, and facility rentals (Kalick, 2013).

Compliance with UBIT has long remained a point of contention with the IRS. Yetman, Yetman, and Badertscher (2009) examined the proprietary activities of non-profit organizations as reported on the publicly available IRS 990 information returns. The 990 information returns were compared with the 990-T tax returns to determine the reliability of taxable income disclosed on the informational Form 990. Using the tax year 1995 population of 9,000 information returns available, the authors made written requests to 2,316 non-profits requesting copies of the 990 information returns as well as the related 990-T tax returns. The authors reported that nearly all non-profits responded with copies of the 990 information returns and approximately 70% provided copies of the confidential 990-T returns (Yetman et al., 2009).

As a result of this analysis, it was determined that 54% of the paired 990 and 990-T returns reported identical taxable income information (Yetman et al., 2009). Another 20% of the sample reported differences between the 990 and 990-T as a result of reporting gross revenues on Form 990 and net revenues on the Form 990-T following the permissible deductions to determine any tax liability (Yetman et al., 2009). The remaining final 25% of the sample was unable to determine the differences in revenue reporting on the 990 versus the 990-T (Yetman et al., 2009). It was noted that health organizations (i.e., hospitals) tended to over report taxable revenue on their Form 990. It

was hypothesized that public opinion may be a factor for this variance (Yetman et al., 2009). The authors concluded by emphasizing the importance of the commercialization of nonprofits and the need for continued inquiry and research into the tax reporting of these organizations as well as compliance.

Based upon Yetman et al.'s (2009) analysis it is evident that significant variability in reporting UBIT is evident with non-profit organizations. While these variances have no single definitive explanation, various authors have presented hypotheses. While the Yetman study examined non-profits broadly, the key question still remains around institutions of higher education.

Similarly, Craig and Weinman (1994) examined the growing effects of higher education institutions selling scoreboard advertisements, corporate sponsorships, and other non-traditional sources of revenue and the implications of the unrelated business income tax. Due to the fiscal challenges of athletic programs (most are loss leaders for institutions) the authors cite the decision of program administrators to seek out new and additional non-traditional sources of funding (Craig & Weinman, 1994). These new methods of fundraising often give rise to the unrelated business income tax. Hence, sales of corporate sponsorships—as determined through various high profile court proceedings—are considered a taxable activity (Craig & Weinman, 1994). As a result, knowledge of and compliance with UBIT regulations are a heightened responsibility for higher education administrators, sports administrators, and athletic program directors.

While the prevalence of UBIT activities on higher education campuses continues to grow and the regulatory expansion of such activities by the Internal Revenue Service

and Congressional interest, it is thought that decisions to outsource many UBIT-subject activities may be more attractive to administrators. Recall that proprietary activities can be procured from the open markets and the private sector. Therefore, two key questions arise:

1. Why do administrators choose to outsource?
2. What influence does UBIT and UBIT-compliance have on those decisions?

Outsourcing and Privatization

Some activities on campuses just appear to be better served by the private sector. For many years, functions such as foodservice, bookstores, and information technology maintenance have been provided by the private sector. As economic challenges loom following the financial crisis of 2008, the budgets of institutions of higher education have been squeezed nearly to the breaking point. In light of the continuing national and local fiscal challenges it is unlikely that relief from strained budgets will be realized in the near future. Administrators are continually faced with the need to creatively and economically serve their constituents—students. Cost containment has become the “new normal” for most higher education administrators. As a result, the issue of outsourcing services has re-gained popularity.

Pack (1987) analyzed the marked increase in public-private alternatives throughout the 1980s. His research suggested two primary reasons for privatization of public sector services: (a) opposition to future growth of the public sector and (b) the perception that the private sector is a more efficient producer (Pack, 1987). However, as privatization has moved from intermediate goods and services (i.e., payroll processing

and janitorial services) to more complex services (i.e., education, public safety, etc.) there are increasing challenges with regard to efficiency and equity grounds (Pack, 1987).

Despite the perceived public willingness to accept privatization, Pack concluded that wholesale privatization of public services may not be the appropriate solution.

Similar to Pack's research (1987), Gupta et al. (2005) advanced the analysis of privatization decisions specifically at institutions of higher education. While nearly 18 years had passed since Pack's initial discussion, Gupta et al. designed a quantitative survey for the purpose of measuring the degree of implementation and satisfaction with outsourcing at higher education institutions. The survey measured six factors, which were deemed to be of primary significance in making the privatization decision. It was tested for validity with 138 presidents and/or vice presidents of all public and private higher education institutions in Maryland, North Carolina, and Virginia. The key factors include: financial implications, human resource implications, institution's mission and cultural implications, managerial control and efficiency, quality, and legal and ethical implications (Gupta et al., 2005). The survey respondents were 30% from state sponsored schools and 70% from private schools (Gupta et al., 2005).

Following an analysis of the 62 usable surveys, Gupta et al. (2005) found that the possible motivations for outsourcing are cost savings and budgetary constraints, improvement of service quality, lack of capability, safety or liability of service concerns, governing body demands, and pressure from peer institutions. While the authors acknowledged that the instrument was only used in three states, it provides a base framework for privatization decisions in higher education in other locations. Another key

conclusion reached in Gupta et al.'s (2005) research was that several of the survey participants were not familiar with outsourcing and the need for future training to expand the knowledge about outsourcing among leaders on campuses. Although the conclusions reached in this analysis were based on top administrators, this study shall survey business officers on campuses to determine their awareness of UBIT and its perceived influence on privatization decisions.

Another study of significance was by Glickman, Holm, Keating, Pannait, and White (2007). These authors made effort to address the issue of outsourcing using a detailed case study of one campus' food service operations. The focus of the study was George Washington University in Washington, D.C. The study similarly established that the decision to outsource was driven by considerations of economies of scale, costs, inadequate resources/workers to provide the service, and the desire to enhance service quality (Glickman et al., 2007). While the initial privatization in this study was unsuccessful, it provides a window into several of the common economic and quality factors that influence the privatization decision. This study shall expand upon these notions of economy and quality and include the additional dimensions of unrelated business income taxation and compliance. No study has included the influence of UBIT in outsourcing decisions. However, the existing literature establishes the significance of UBIT in higher education operations and the potential for its influence in the decision to outsource operations in the higher education sector.

Although there is a considerable amount of academic literature concerning outsourcing, the vast majority examines issues related to commercial for-profit

organizations. The limited amount of published research concerning outsourcing in higher education emphasizes the more common operational elements such as bookstores, foodservice, and information technology. A limited number of articles have introduced outsourcing relative to grounds maintenance and law enforcement. As additional aspects of HIED operations continue to come under administrative scrutiny, new publications may explore the increasingly broad scope of outsourcing in HIED.

Summary of the Literature

Since 1950 the UBIT portion of the Internal Revenue Code has not changed too dramatically. However, the continued need for additional revenue and the political pressures to close the United States' ongoing budgetary deficit have prompted the 113th Congress to explore expansion of the UBIT legislation. At the same time colleges and universities continue to struggle with budgetary restrictions and reductions in state supported subsidies. Outsourcing activities on campuses continues to gain momentum and expand in scope. There is a critical link between these two seemingly divergent topics. The link is that many of the business type activities that campuses choose to outsource are often subject to the unrelated business income tax. As a result of this nexus, this study seeks to gain a more thorough understanding of the influence, if any, that the unrelated business income has in connection with decisions to outsource operations in higher education. The literature demonstrates ample examinations of these two topics independently. However, no author has examined the interrelationship, if any, between these two topics—UBIT and outsourcing.

CHAPTER III

METHODOLOGY

The purpose of this study is to examine the influence of the unrelated business income tax provisions of the Internal Revenue Code on decisions to outsource proprietary activities in higher education. The following research questions are central to this dissertation.

1. Why do administrators—specifically college and university business officers—choose to outsource?
2. What influence does UBIT and UBIT compliance have on those decisions?
3. What is the level of understanding of UBIT among college and university business officers? What are the common area(s) of expertise of college and university business officers?

Based upon these research questions the following methodology was developed.

Methodology

A comparative design was used in order to assess the perceptions of institutional business officers concerning outsourcing decisions and unrelated business income tax. Data for analysis were gathered using an electronic Qualtrics survey based upon a “sample survey” design (Gay, 1992). The results of this survey were the basis for analysis. The responses of the chief business officer groups—groups as identified in the Carnegie Classification as discussed below—surveyed were compared and contrasted to identify any common characteristics among the groups as well as any differences. The

researcher did not manipulate the environment during the study but rather simply gathered information from each of the participant groups.

Population and Sample

The Carnegie Classification of Institutions of Higher Education 2010 Electronic Edition was used to identify and sample institutions for selection in this study. The sampled institutions were stratified into groups based upon each institution's Carnegie Classification. The 2010 Carnegie Classification, by definition, includes all accredited, degree-granting colleges and universities in the United States represented in the National Center for Education Statistics IPEDS system (Carnegie Foundation for the Advancement of Teaching, 2010). Accreditation status is based on information provided by the U.S. Department of Education Office of Postsecondary Education. The 2010 Carnegie Classifications related to college and university degree-granting activities between 2008 and 2010.

Collectively, the 2010 data classifies 4,634 higher education institutions, which constitutes the population of higher education institutions for this study. Based upon this population, it is hypothesized that larger and more complex higher education institutions will have greater exposure to the unrelated business income tax. As such, sampling for this study came from the 2010 Basic Classification from five sub-groups consisting of: Research Universities—Very High Research Activity; Research Universities—High Research Activity; Doctoral/Research Universities; Master's Colleges and Universities—Larger Programs; and Master's Colleges and Universities—Medium Programs (Carnegie Foundation for the Advancement of Teaching, 2010). This sample

consists of 1,305 total institutions or 28.16% of the total Carnegie Classification. Within the Carnegie Classification these institutions are classified by codes 15-19.

The Carnegie Classification data set were sorted in Microsoft Excel by the 2010 Basic Classification codes which are contained in column L of the spreadsheet. Following a sort based on 2010 Base Classifications, each group coded 15-19—representing the aforementioned sub-groups of the Classification—were copied and pasted into individual Excel worksheets. Following the isolation of the individual sample groups, the groups were then further stratified by sorting based upon enrollment data contained in column S of the spreadsheet. The enrollment data were sorted from largest to smallest. The isolation of the five study groups included: 594 institutions which were Research Universities—Very High Research Activity; 103 Research Universities—High Research Activity; 82 Doctoral/Research Universities; 340 Master’s Larger Colleges and Universities; and 186 Master’s Medium Colleges and Universities.

Using a random number generator in Microsoft Excel, 100 institutions from each group were selected at random. Only public and private not-for-profit institutions were used for the study. The Carnegie Classification does include for-profit institutions. Due to the differences in Federal income taxation between not-for-profit and for-profit institutions, the inclusion of for-profit could result in an adverse impact on this study. In the event a for-profit institution was identified for selection by a random number, the immediate following random number was used to identify a replacement institution. Since there are only 82 Doctoral/Research Universities (DRU), all 82 DRUs were included in the sample. Random sampling was used for the remaining four sub-groups.

Based upon the sampling, the chief business officers of the institutions selected were invited to participate in the study's UBIT/Outsourcing survey. The survey was developed using Qualtrics software. The survey instrument sought to examine issues concerning:

- Institutional profile including: type of institution, location, type(s) of degree(s) granted, and title of the individual completing the survey.
- Institutional activities including: titles of individuals responsible for outsourcing decisions, current and planned future activity outsourcing, reasons why outsourcing is deemed beneficial, and common activities currently insourced versus outsourced.
- Unrelated business income tax including: familiarity and knowledge of UBIT, individual and institutional awareness of UBIT, background and credentials of individual(s) responsible for UBIT compliance, operational changes made to increase compliance with UBIT regulations, outsourcing as a means to avoid UBIT compliance, and a series of questions concerning why institutions fail to comply with UBIT.

The survey was deployed electronically. Survey participants (chief business officers) were sent a preliminary introductory e-mail in which the study was described, the purpose and goals of the study were presented, as well as Human Subjects protocols for participation. Following the initial e-mail contact, the survey was electronically deployed one week later. The participants had two weeks to complete the survey. One week

following deployment, an additional e-mail was sent to remind the participants of the survey and the need for completion. The response rate was 18.87%.

Data Analysis

Upon receipt of completed surveys, the data were quantitatively analyzed. Descriptive statistics were performed to identify similarities and differences among the respondents as well as respondent groups (respondent groups being classified by the five sub-groups identified in the Carnegie Classification). In order to assess the primary research questions of this study frequencies and descriptive statistics were used in order to generalize about the survey responses. Further, analysis was done by using two one-way ANOVA tests to determine the statistical significance of experience and understanding on respondent's understanding of UBIT tax law.

CHAPTER IV

DATA ANALYSIS

In September of 2015, a Qualtrics version of the Outsourcing and Unrelated Business Income Tax survey was sent to 535 randomly selected participants. These participants were selected from the five groups identified by the 2010 Carnegie Classification: Research Universities—Very High Research Activity; Research Universities—High Research Activity; Doctoral/Research Universities; Master’s Colleges and Universities—Larger Programs; and Master’s Colleges and Universities—Medium Programs. The primary participants were college and university business officers. However select institutions forwarded the survey to other individuals within their respective organization who possessed more experience with Unrelated Business Income Tax. These institutions were selected for this study based upon their status as non-profit educational institutions. For-profit institutions are subject to regular corporate income tax and therefore would yield no useful information with regard to this study. Additionally, these larger, more complex institutions are more likely to have exposure to UBIT and it was theorized that more consistent results would be reported. Lastly, two-year institutions and community colleges were exempted from this study based upon their operating model being significantly different than the operating model of four-year comprehensive institutions. As such, the sample selection was based upon four-year comprehensive universities.

One hundred and one respondents completed the survey. Twenty-one additional respondents opened the survey, but did not complete the instrument. Based upon 101

submitted surveys, participation was 18.87% of the targeted population. Rea and Parker (2005) provided that a confidence interval of 95%, a population of 535, and a 10% margin of error, the optimum sample size would be 82 responses (p. 150). Accordingly, the response rate on this survey exceeds that minimum level. Based upon this preliminary analysis, the following survey results were reported.

Respondent and Institutional Profiles

Survey responses were based upon four categorical groups concerning institutional student enrollment. The four strata included less than 1,000 student, 1,001 to 5,000 students, 5,001 to 10,000 students, and institutions with greater than 10,001 students. Responses were received from each group except institutions with less than 1,000 students. Of the respondents, 21% were from the 1,001 to 5,000 student group, 19% were from the 5,001 to 10,000 student group, and the remaining 60% were from the greater than 10,001 student group.

The geographic location of the respondents was also fairly evenly spread throughout the United States. In order to define geographic locations, the United States Census Bureau's system of State groupings was used as the grouping mechanism. The Census Bureau divides the 50 U.S. states into nine categories. These categories include: New England, Middle Atlantic, East North Central, West North Central, South Atlantic, East South Central, West South Central, Mountain, and Pacific. Table 1 addresses the geographic distribution of the respondents.

Table 1

Geographic Distribution of Respondents

Region	Percentage
New England	8%
Middle Atlantic	6%
East North Central	16%
West North Central	10%
South Atlantic	20%
East South Central	10%
West South Central	11%
Mountain	9%
Pacific	10%

The survey respondents indicated that the highest degree awarded by their institution was at least a Master's degree. Further, 84% of the total survey respondents indicated that their institutions awarded either professional doctoral degrees or research doctoral degrees. The responses are included in Table 2.

The survey was completed by a very diverse group of institutional representatives. Although the intended respondent group was Chief Business Officers, the actual title of each survey respondent is illustrated in Table 3.

Table 2

Highest Degree Awarded

Degree	Percentage
Master's	17%
Doctoral-Professional (EdD, DBA, DNP)	20%
Doctoral-Research (PhD)	63%

Table 3

Respondent Titles

Title	Percentage
Vice President of Finance/CFO	46%
Controller	20%
Other	19%
Tax Manager	14%
Treasurer	1%

Institutional Activities and Privatization Decisions

When asked about decisions to outsource operations, an overwhelming 76% of respondents identified that the decision to outsource rests with the Vice President of Finance. The distribution of the individual with primary responsibility for making outsourcing decisions is listed in Table 4. Of the respondents indicating other, the

primary titles identified for making outsourcing decisions was either Chancellor or Executive Vice President.

Table 4

Position Responsible for Outsourcing Decisions

Title	Percentage
President	14%
Vice President of Finance/CFO	76%
Vice President of Academic Affairs/Provost	1%
Controller/Treasurer	1%
Other	8%

The next question in the survey was designed to gather information about past, present, and future considerations of outsourcing on the respondent's campus. The first question asked was whether or not any current institutional activities were outsourced. The response included 88 indicating yes and only five indicating no. The next question concerned whether there were any active (in-process) initiatives to outsource operations. Fifteen respondents indicated yes and 78 indicated no. The third and final question concerned whether there were any active discussions concerning outsourcing campus operations. Fifty indicated that there were active discussions concerning outsourcing and 42 indicated that there were no active discussions. While the active pursuit of outsourcing is nearly an even split, the survey clearly identified that outsourcing is a very active topic and practice with higher education institutions.

Based upon this interest in outsourcing, the subsequent survey question was designed to gauge the perceived savings generated by outsourcing operations. Table 5 lists the respondents' estimated outsourcing savings. The perceived savings is nearly equal across the categories.

Table 5

Estimated Annual Savings by Outsourcing

Estimated Savings	Percentage
Less than \$50,000	25%
\$50,001 - \$250,000	36%
\$250,001 - \$500,000	15%
Greater than \$500,001	24%

The reasons for outsourcing HIED operations is largely economic in emphasis. Respondents were asked to only respond to the most significant single reason. The responses emphasized economies of scale, efficiency, cost savings, and most interestingly lack of capability within the organization. Table 6 presents the outcome of this survey question.

Table 6

Primary Reason for Outsourcing

Reason	Percentage
Cost Savings	31%
Efficiency	22%
Lack of capability within organization	19%
Economies of scale	12%
Customer Service	7%
Level of quality	4%
Safety or liability concerns	2%
Governing board pressure	1%
Peer institution pressure	0%

Services being provided by HIED institutions range from foodservice to golf courses to airports. The most frequently reported services—at a rate of 80% or more—included foodservice (100%); bookstores (98%); clothing, gifts, and souvenirs (95%); and photocopying services (90%). The next largest group of activities provided included sales of corporate athletic sponsorships (72%), and sales of athletic programs (71%). The final group included various services that were less than 40% in frequency including franchise agreements (25%), golf courses (19%), product testing services (27%), hotel/convention space (31%), and airports (7%).

On the contrary, services that are not commonly being provided at HIED institutions include airports (93%), golf courses (81%), product testing (73%), and hotels

and convention facilities (69%). The services that are least likely provided by the respondents include foodservice (0%), bookstore (2%), and photocopying services (10%). Institutional respondents indicated that their institution neither sells athletic programs or athletic corporate sponsorships at a rate of 29% and 28%, respectively.

Following the identification of what services are provided as well as those that are not provided, the following survey question asked whether these services were insourced versus outsourced. The five most significant outsourced functions include food service (85%); bookstores (72%); clothing, gifts, and souvenirs (77%); sales of corporate athletic sponsorships (41%); and photocopying services (30%). Conversely, the most common HIED activities that are insourced include photocopying services (70%), sales of athletic programs (75%), sales of corporate athletic sponsorships (59%), bookstores (39%), and franchise agreements (70%).

The next question in the survey sequence asked about intellectual property. Respondents widely reported participation in various intellectual property activities including: patent agreements (63%), royalty agreements (74%), software development (24%), franchise agreements (20%), and rental or sale of mailing lists (19%).

Based upon these survey results it is clearly evident that colleges and universities are engaged in very diverse operations. The campus operations with which this survey emphasizes are all subject to the provisions of unrelated business income tax. Each of these activities are beyond the charitable, educational, scientific, and/or religious exemption from income tax provided by U.S. tax code.

Unrelated Business Income Tax

The third segment of the survey emphasized the unrelated business income tax and organizational awareness/compliance. Ninety-six percent of the respondents acknowledged awareness of the law prior to the survey. Only four of the respondents, which equals 4%, stated that they were unaware of the unrelated business income tax. Seventy-five percent ($n = 67$) of the survey participants indicated that they were aware of the Internal Revenue Service's College and University Compliance Project concerning unrelated business income tax and executive compensation. The 25% ($n = 22$) were unaware of the IRS project.

The following series of questions were designed to gain a more detailed understanding of the respondent's level of experience and knowledge of the UBI. Table 7 provides a summary of the length of experience with UBIT respondents reported. The survey members overwhelmingly have extensive tenure in dealing with UBIT. It was concluded that the insights concerning UBIT and institutional operations would be rich.

Table 7

UBIT Experience

Length of Time	Percentage	<i>n</i>
Less than 1 year	4%	4
1 to 4 years	15%	13
5 to 10 years	30%	27
More than 10 years	51%	45

The following questions asked for the individual to assess his or her level of understanding with regard to the application of UBIT to colleges and universities. The sliding scales ranged from 0—minimum understanding—to 5—maximum understanding. The mean score was 3.73 with a standard deviation of 1.06. Overall this response would indicate that most individuals completing the survey have an average to better than average understanding of UBIT relative to their institution.

The subsequent question was again a sliding scale question with the same 0 to 5 response values. This question inquired of how the respondents perceived their institution's awareness of UBIT. The mean score was slightly lower at 3.49. However, the standard deviation for this question increased to 1.23. This indicated a much wider band of institutional awareness of UBIT. This wider band also indicates much higher awareness at some institutions and much lower awareness at others.

Table 8 contains the collective response to the question regarding which position/job title is responsible for compiling unrelated business income tax information as well as filing the associated tax returns. The result of this question is compelling because it was anticipated that far more institutions would rely on the assistance of an external expert. Nearly 70% of respondents indicated an internal individual was responsible for UBIT reporting and compliance.

Table 8

UBIT Compliance

Position	Percentage	<i>n</i>
Vice President of Finance	10%	9
Controller	57%	51
External tax consultant	6%	5
Other	26%	23
Unknown	1%	1

The next series of questions were developed to gain an understanding of the academic and professional background of the persons responsible for UBIT compliance. Table 9 reports the highest academic achievement of the individual responsible for UBIT compliance and reporting.

Table 9

Academic Preparation

Position	Percentage	<i>n</i>
Bachelor's Degree	30%	28
Master's Degree	61%	56
Law Degree	8%	7
Doctoral Degree	1%	1

For individuals indicating a bachelor's degree, 92% ($n = 24$) reported having a degree in business administration with a major of accounting and/or finance. Four percent ($n = 1$) of the respondents reported having an education undergraduate degree. And the remaining 4% ($n = 1$) reported having a bachelor's degree in the other category.

Individuals who indicated their highest level of academic accomplishment was the Master's degree reported the area of concentration as MBA (71%), Tax (21%), Education (3%), and Other (5%). Those indicating their highest degree was a law degree were asked if they were admitted to the state bar. Seventy-four percent of the respondents reported having not been admitted to the state bar.

The following question asked about professional credentials. The overwhelming majority of respondents indicated that they possessed the Certified Public Accountant credential. However, very few sub-specialty accounting credentials were reported. Table 10 provides an overview of the reported credentials.

Table 10

Credentials

Credential	Yes	No
Certified Public Accountant	56	13
Certified Management Accountant	2	42
Certified Internal Auditor	3	42
Chartered Global Management Accountant	2	41
Certified Fraud Examiner	1	42
Certified Government Financial Manager	5	41

Survey question 24 asked the seminal question of this research project—has the unrelated business income tax been considered a factor in the decision to outsource operations? Fifty-five of the respondents (65% of the total) indicated no. Thirty of the respondents (35% of the total) indicated yes. As a result of this response, it can be concluded that the unrelated business income tax is not a significant factor in the decision to outsource proprietary operations in higher education institutions.

In a similar vein, the subsequent question asked whether or not the IRS's College and University Compliance Project has influenced the respondent's perception of the unrelated business income tax. Surprisingly, although 75% of the respondents indicated awareness of the College and University Compliance project in survey question 13, 76% ($n = 62$) of respondents reported that the IRS project did not change their perception of UBIT. Only 24% ($n = 20$) reported that the IRS project changed their perception of UBIT. Similarly, 66% ($n = 56$) of respondents reported that no changes are being made to institutional policies and procedures concerning UBIT. The remaining 34% ($n = 29$) reported that changes in institutional compliance are being actively undertaken.

Survey question 27 asked the extent that UBIT has been a factor in outsourcing decisions. The measure was based on a zero to four point sliding scale with a zero indicating that UBIT was of no significance in outsourcing decisions and a score of four indicated a significant influence. The mean score reported was 1.36. The standard deviation of the responses was 1.06. As a result of this, it is clear that on average the UBIT is of minimal significance in outsourcing decisions.

The following survey question asked about the perceived administrative cost of compliance with UBIT regulations. The measure was based on a five point sliding scale. A score of zero indicates that the administrative cost is perceived to be minimal. A scale value of five indicates that the administrative cost associated with UBIT compliance is considerable. The mean score was 1.92 with a standard deviation of 1.13. The perceived administrative compliance costs are more significant than UBIT as a factor in outsourcing decision. The cost of compliance is moderately significant to college and university business officers.

When asked about compliance, respondents indicated overwhelmingly that compliance was performed internally. Eighty-six percent ($n = 73$) reported internal compliance with UBIT regulations. Only 14% ($n = 12$) relied on external support for UBIT compliance.

The final survey question asked, based on the respondent's opinion, why higher education institutions fail to comply with UBIT regulations. Table 11 provides the four highest perceived major factors for non-compliance. Table 12 reports the four most significant minor factors for noncompliance. Table 13 reports the four most significant non-factors with UBIT compliance.

Table 11

Major Noncompliance Factors

Factor	Percentage	<i>n</i>
Complexity of the law	31%	61
Limited personnel	21%	41
Lack of awareness	19%	37
Complexity of tax forms	17%	34

Table 12

Minor Noncompliance Factors

Factor	Percentage	<i>n</i>
Complexity of tax forms	16%	37
Outsource to avoid compliance	16%	37
Peer noncompliance	16%	36
Limited personnel	15%	33

Table 13

Compliance Non-Factors

Factor	Percentage	<i>n</i>
Inequity of the tax system	27%	59
University policy to not file	24%	53
Privatize to avoid compliance	18%	40
Peer noncompliance	16%	34

ANOVA Results

Following the analysis of the general results of the survey, I decided to perform some secondary analytics to assess Analysis of Variance between respondent groups. The first one-way ANOVA examined the respondent's level of understanding of UBIT given their years of experience. The following ANOVA results were reported (see Table 14).

This ANOVA yields the following result: $F(4, 85)=1.688, p = 0.160$. As a result of this finding, the p-value test of statistical significance exceeds $p < 0.05$. Therefore, this ANOVA leads to the conclusion that there is no statistical significance between years of experience and understanding of UBIT.

The second ANOVA examined the differences between organizational position and level of UBIT understanding. The following results were reported (see Table 15).

Table 14

One-Way ANOVA—UBIT Understanding by Experience

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	5.934	3	1.978	1.788	.156
Within Groups	94.043	85	1.106		
Total	99.978	88			

Note. ANOVA = analysis of variance
 $p < 0.05$

Table 15

One-Way ANOVA—UBIT Understanding by Position

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	7.477	4	1.869	1.688	.160
Within Groups	94.123	85	1.107		
Total	101.600	89			

Note. ANOVA = analysis of variance
 $p < 0.05$

This ANOVA test yields the following result: $F(3,85)=0.156, p = 0.156$. Again with this ANOVA the second p-value exceeds the 0.05 limit. Therefore, it can likewise be concluded that the organizational title or position and UBIT level of understanding have no statistical significance. It is important to note, however, that only one treasurer reported as such in the survey.

Cross Tabulation Results

Based upon the responses to survey questions 24 and 25 concerning the perception of UBIT and its related influence on outsourcing decisions, a cross tabulation was performed. While the response rates for both questions indicated in two-thirds of the respondents that perception of UBIT and its impact on outsourcing decisions was inconsequential, approximately one-third of the respondents indicated that both the College and University Compliance Project changes their perception of UBIT and that UBIT was a factor in outsourcing decisions. As a result of this finding, the following cross-tabulations (see Table 16) were performed to gain a better perspective of “who” these respondents represent.

This cross-tabulation illustrates that whether or not the respondent is professionally credentialed (i.e., CPA, CMA, CIA, etc.) the Unrelated Business Income Tax has received minimal consideration in the decision to outsource. Sixty-seven percent of the respondents possessing a professional credential reported that the UBIT was not a factor in outsourcing decisions. UBIT as a factor was more evenly split within the uncredentialed group. The uncredentialed group reported 53.8% that UBIT was a factor in outsourcing decisions whereas 46.2% reported UBIT was not a factor.

Table 17 identifies that 73% of the professionally credentialed respondents reported that the IRS CUCP did not change their perception of the UBIT. While there is heightened awareness of the IRS monitoring UBIT compliance, few have reported changes in perception. Of the respondents who reported as being uncredentialed, 76.9% of those individuals reported that the CUCP did not change their perceptions of UBIT.

Table 16

Cross-Tab—Professional Credential and UBIT as a Factor in Outsourcing Decisions

			Has the Unrelated Business Income Tax been considered a factor in decisions to outsource		Total
			Yes	No	
Indicate which professional credential(s) you possess, if any	Yes	Count	18	36	54
		% within Please indicate which credential(s) you possess, if any	33.3%	66.7%	100.0%
		% within Has the Unrelated Business Income Tax been considered a factor in decisions to outsource	72.0%	85.7%	80.6%
	No	% of Total	26.9%	53.7%	80.6%
		Std. Residual	-.5	.4	
		Count	7	6	13
Total	Yes	% within Please indicate which credential(s) you possess, if any	53.8%	46.2%	100.0%
		% within Has the Unrelated Business Income Tax been considered a factor in decisions to outsource	28.0%	14.3%	19.4%
		% of Total	10.4%	9.0%	19.4%
	No	Std. Residual	1.0	-.8	
		Count	25	42	67
		% within Please indicate which credential(s) you possess, if any	37.3%	62.7%	100.0%
Total	% within Has the Unrelated Business Income Tax been considered a factor in decisions to outsource	100.0%	100.0%	100.0%	
	% of Total	37.3%	62.7%	100.0%	

Table 17

Cross-Tab—Professional Credential and Perception of UBIT

			Has the IRS CUCP changed your perceptions of UBIT		Total
			Yes	No	
Please indicate which credential(s) you possess, if any	Yes	Count	14	38	52
		% within Please indicate which credential(s) you possess, if any	26.9%	73.1%	100.0%
		% within Has the IRS CUCP changed your perceptions of UBIT	82.4%	79.2%	80.0%
		% of Total	21.5%	58.5%	80.0%
	No	Count	3	10	13
			Has the IRS CUCP changed your perceptions of UBIT		Total
			Yes	No	
Please indicate which credential(s) you possess, if any	No	% within Please indicate which credential(s) you possess, if any	23.1%	76.9%	100.0%
		% within Has the IRS CUCP changed your perceptions of the UBIT	17.6%	20.8%	20.0%
		% of Total	4.6%	15.4%	20.0%
Total		Count	17	48	65
		% within Please indicate which credential(s) you possess, if any	26.2%	73.8%	100.0%
		% within Has the IRS CUCP changed your perceptions of UBIT	100.0%	100.0%	100.0%
		% of Total	26.2%	73.8%	100.0%

Table 18 illustrates that only about one-quarter of respondents reported changes in perception of UBIT based on institution size. The most significant group reporting a change in perception are institutions with enrollments between 5,001 and 10,000

students. This group reported a 30.8% change in perception as compared with 17.6% and 25.5% for the other groups.

Table 18

Cross-Tab—Perception of UBIT Relative to Institutional Size

			Has the IRS CUCP changed your perceptions of UBIT		Total
			Yes	No	
Institution Size - indicate total enrollment:	1,001 to 5,000 students	Count	3	14	17
		% within Institution Size	17.6%	82.4%	100.0%
		Has the IRS CUCP changed your perceptions of UBIT	15.0%	23.0%	21.0%
		% of Total	3.7%	17.3%	21.0%
	5,001 to 10,000 students	Count	4	9	13
		% within Institution Size	30.8%	69.2%	100.0%
		Has the IRS CUCP changed your perceptions of UBIT	20.0%	14.8%	16.0%
		% of Total	4.9%	11.1%	16.0%
	10,001 or greater students	Count	13	38	51
		% within Institution Size	25.5%	74.5%	100.0%
		Has the IRS CUCP changed your perceptions of UBIT	65.0%	62.3%	63.0%
		% of Total	16.0%	46.9%	63.0%
Total	Count	20	61	81	
	% within Institution Size	24.7%	75.3%	100.0%	
	Has the IRS CUCP changed your perceptions of UBIT	100.0%	100.0%	100.0%	
	% of Total	24.7%	75.3%	100.0%	

Conclusion

The survey results indicate a high degree of outsourcing activity with proprietary operations at higher education institutions. Likewise, there is a significant degree of awareness associated with the unrelated business income tax. However, when considering the two issues in combination there is not a significant amount of nexus. This study set forth to determine if UBIT and its compliance could be reduced and/or avoided by outsourcing operations. Tables 12 and 13 indicate that the option to outsource as a means of avoiding compliance with UBIT is a minor to non-factor in such decisions. This study provides insight into both outsourcing and UBIT compliance, but clearly identifies that there is no convergence of the two concepts by institutional decision makers. This study concludes that there is no significant consideration of the unrelated business income tax when engaging in outsourcing decisions. Further, as a result of the ANOVA tests, this study also concludes that neither experience nor organizational position/title affect the understanding of UBIT. The cross-tab results further indicated that professional credentials and institution size have had limited effect in changing the perception of UBIT as well as the College and University Compliance Project.

CHAPTER V

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Although this study did not identify any statistical significance or provide any survey results that provided new insight into UBIT compliance at U.S. higher education institutions, the study does provide many starting points for future research.

Research Questions

Research Question 1: Why do administrators—specifically college and university business officers—choose to outsource? The most cited reason for outsourcing is cost savings (see Table 19). Although this study is situated over 10 years after Gupta et al. (2005) study, the primary reasons for outsourcing remain the same. Cost savings, inability to deliver internally, quality, efficiency, and board pressure have once again proved a similar paradigm regarding the outsourcing decision. In the aftermath of the economic realities that unfolded between 2005 and 2016, it is of interest to note the reasons for outsourcing have not changed.

Research Question 2: What influence does UBIT and UBIT compliance have on those decisions (to outsource)? Survey question 24 asked this exact question of the participants regarding UBIT and outsourcing decisions. The survey yielded 55 of the respondents (65% of the total) indicated “no.” Thirty of the respondents (35% of the total) indicated “yes.” This result indicates that the unrelated business income tax is a marginal factor in the decision to outsource at higher education institutions. Approximately one-third of outsourcing decisions take into consideration UBIT while nearly two-thirds do not.

Table 19

Primary Reason for Outsourcing

Reason	Percentage
Cost Savings	31%
Efficiency	22%
Lack of capability within organization	19%
Economies of scale	12%
Customer Service	7%
Level of quality	4%
Safety or liability concerns	2%
Governing board pressure	1%
Peer institution pressure	0%

Survey question 27 asked the extent that UBIT has been a factor in outsourcing decisions. The measure was based on a zero to four point sliding scale with a zero indicating that UBIT was of no significance in outsourcing decisions and a score of four indicated a significant influence. The mean score reported was 1.36. The standard deviation of the responded was 1.06. As a result of this, it is clear that on average UBIT is of limited significance in outsourcing decisions.

Research Question 3: What is the level of understanding of UBIT among college and university business officers? What are the common area(s) of expertise of college and university business officers? Survey respondents included a variety of backgrounds

and academic preparation. Tables 20 and 21 summarize the academic and professional credential backgrounds of the survey respondents.

Table 20

Academic Preparation

Position	Percentage	<i>n</i>
Bachelor's Degree	30%	28
Master's Degree	61%	56
Law Degree	8%	7
Doctoral Degree	1%	1

Table 21

Credentials

Credentials	Yes	No
Certified Public Accountant	56	13
Certified Management Accountant	2	42
Certified Internal Auditor	3	42
Chartered Global Management Accountant	2	41
Certified Fraud Examiner	1	42
Certified Government Financial Manager	5	41

In conjunction with Tables 20 and 21, survey question 15 asked about the respondent's level of understanding with regard to the application of UBIT to colleges and universities. The question was Likert Scale with ranges from 0—minimum understanding—to 5—maximum understanding. The mean score was 3.73 with a standard deviation of 1.06. Overall this response would indicate that most individuals completing the survey had an average to better than average understanding of UBIT relative to their institution.

Based upon the survey results, most of the survey respondents possessed at least a Master's degree and held at least the Certified Public Accountant designation. As such, relative knowledge of the unrelated business income tax and the associated compliance issues would be expected based upon their respective academic preparation and professional credentials. However, the cross-tab results reported in Chapter 4 indicated that the presence or absence of professional credentials resulted in no significant changes in UBIT perception.

Limitations

This study only obtained information from college and university business officers. Additional inquiry into other executives at higher education institutions may have provided additional perspectives. Further, this study received 101 responses across five Carnegie Classification groups. There are over 4,000 higher education institutions in the United States. In essence, this study received responses from 2.5% of the total population of institutions. A larger response rate may have generated different results.

With the continual evolutions of Federal tax law and the ever-changing economics of higher education, it may be appropriate to repeat this study in the future. At that time, it would be beneficial to concentrate on the following issues: (a) expand the scope to additional executive capacities at institutions (i.e., Board members, Trustees, Presidents, etc.), and (b) concentrate the inquiry on the institutions identified in the College and University Compliance Project.

Recommendations for Future Research

Although this study provided no new insight into unrelated business income tax and outsourcing, it did identify the vast array of activities with which colleges and universities participate. The respondents self-reported a relatively high level of understanding of UBIT and compliance. Despite this perception of significant understanding, the Internal Revenue Service found considerable issues with compliance in the College and University Compliance Project. Future research could examine in further detail this perception of understanding and the relationship to lack of compliance.

Additionally, licensing and partnership agreements continue to proliferate on campuses; many of these arrangements may very well be deemed unrelated business-type activities. Athletic licensing, research and development for private companies, and intellectual property development (i.e., software) are all areas that possess the opportunity for being classified as unrelated business-type activities. Further future research may examine the specific issues relating to these activities and UBIT compliance.

Recommendations for Practitioners

The Internal Revenue Code provides very clear and specific guidance with regard to unrelated business income taxation. It remains of paramount importance for higher education financial officers to fully understand the intricacies and complexities of the law. It is also important that institutional leadership periodically review organizational activities. As projects and programs are routinely developed and/or redeveloped, new activities being undertaken may thrust the institution into an unrelated business activity situation. Also, college and university business officers, particularly those holding professional licensure, are bound by professional ethics to dutifully comply with the Internal Revenue Code. Institutions should not be taking positions that are questionable or “creative” with regard to UBIT compliance. As the IRS has identified with its College and University Compliance Project, this type of risky behavior is being actively applied in practice.

APPENDICES

APPENDIX A

QUALTRICS ONLINE SURVEY INSTRUMENT

Appendix A

Qualtrics Online Survey Instrument

Unrelated Business Income Tax

Outsourcing and the Unrelated Business Income Tax: A Survey of College and University Business Officers

Welcome to “Outsourcing and the Unrelated Business Income Tax,” an electronic mail-based survey experiment that examines the relationship between the unrelated business income tax and decisions to outsource business-type activities at higher education institutions. Before taking part in this study, please read the consent form below and click on the “I Agree” button at the bottom of the page if you understand the statements and freely consent to participate in the study.

Consent Form

This study involves an e-mail-based survey experiment designed to understand if the unrelated business income tax has any influence on decisions to outsource business-type activities at higher education institutions. The study is being conducted by Professor Mark A. Kretovics and Doctoral Candidate Michael C. Villano of Kent State University, and it has been approved by the Kent State University Institutional Review Board. No deception is involved, and the study involves no more than minimal risk to participants (i.e., the level of risk encountered in daily life).

Participation in the study typically takes 20 minutes for the completion of an online survey. Survey participants will remain anonymous. Participants will be asked questions about their institutional profile, their understanding of unrelated business income tax, their involvement with outsourcing decisions, and the extent to which outsourcing decisions are influenced by the unrelated business income tax. All responses are treated as confidential, and in no case will responses from individual participants be identified. Rather, all data will be pooled and published in aggregate form only. Participants should be aware, however, that the experiment is not being run from a “secure” https server of the kind typically used to handle credit card transactions, so there is a small possibility that responses could be viewed by unauthorized third parties (e.g., computer hackers).

Many individuals find participation in this study pleasant, and no adverse reactions have been reported thus far. Respondents will receive monetary compensation. Participation is voluntary; refusal to take part in the study involves no penalty or loss of benefits to which participants are otherwise entitled, and participants may withdraw from

the study at any time without penalty or loss of benefits to which they are otherwise entitled. If participants have further questions about this study or their rights, or if they wish to lodge a complaint or concern, they may contact the principal investigator, Professor Mark A. Kretovics, at (330) 672-0642; or the Kent State University Institutional Review Board, at (330) 672-2704.

If you are 18 years of age or older, understand the statements above, and freely consent to participate in the study, click on the “I Agree” button to begin the survey.

- I Agree (1)
- I Disagree (2)

If I Disagree Is Selected, Then Skip To End of Survey
If I Agree Is Selected, Then Skip To End of Block

Q1 Institution Size - Please indicate the total enrollment of your institution:

- Less than 1,000 students (1)
- 1,001 to 5,000 students (2)
- 5,001 to 10,000 students (3)
- 10,001 or greater students (4)

Q2 Location - Please indicate the geographic location of your campus based upon U.S. Census regions (select below):

- New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont) (1)
- Middle Atlantic (New Jersey, New York, Pennsylvania) (2)
- East North Central (Illinois, Indiana, Michigan, Ohio, Wisconsin) (3)
- West North Central (Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota) (4)
- South Atlantic (Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia) (5)
- East South Central (Alabama, Kentucky, Mississippi, Tennessee) (6)
- West South Central (Arkansas, Louisiana, Oklahoma, Texas) (7)
- Mountain (Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming) (8)
- Pacific (Alaska, California, Hawaii, Oregon, Washington) (9)

Q3 What is the highest degree offered at your institution? Select below.

- Bachelor (1)
- Master (2)
- Doctoral - Professional (i.e., EdD, DBA, DNP) (3)
- Doctoral - Research (PhD) (4)

Q4 Title of Individual Completing this survey: (Select below)

- Vice President of Finance/CFO (1)
- Vice President of Administration (2)
- Vice Chancellor of Finance (3)
- Controller (4)
- Treasurer (5)
- Tax Manager (6)
- Other (7)

Q5 Select the title of the position of the individual primarily responsible for decisions to privatize/outsourc operations (Select only the position which is most involved). :

- President (1)
- VP of Finance/Business/Chief Financial Officer (2)
- VP of Academic Affairs/Provost (3)
- Controller/Treasurer (4)
- VP of Student Life (5)
- VP of Development (6)
- Other-Please specify title: (7) _____

Q6 Outsourcing and privatization on your campus:

Are any current institutional activities outsourced or privatized? (1)	<input type="radio"/> Yes (1)	<input type="radio"/> No (2)
Are any organizational activities planned to be outsourced? (Decision has been made, but implementation underway or not yet completed) (2)	<input type="radio"/> Yes (1)	<input type="radio"/> No (2)
Are there any current discussions of outsourcing? (3)	<input type="radio"/> Yes (1)	<input type="radio"/> No (2)

Q7 General estimate (i.e., ballpark estimate) of annual savings from outsourcing:

- Less than \$50,000 (1)
- \$50,0001 to \$250,000 (2)
- \$250,001 to \$500,000 (3)
- Greater than \$500,000 (4)

Q8 Select the primary reason for outsourcing. (Select only one)

- Economies of Scale (1)
- Efficiency (2)
- Cost Savings (3)
- Lack of Capability (Within current organization) (4)
- Level of Quality (5)
- Customer Service (6)
- Safety and/or Liability Concerns (7)
- Peer Institution Pressure (8)
- Governing Board Pressure (9)

Q9 Of the following services, which are provided at your institution? For each service indicate whether it is in-sourced (delivered by campus employees) or outsourced.

	Service Provided - Y or N		In-sourced or Outsourced	
	Yes (1)	No (2)	In-sourced (1)	Outsourced (2)
Food Service (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bookstore (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Clothing, Gifts, Souvenirs (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Photocopy Services (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Product Testing (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sales of Athletic Programs (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sales of Corporate Athletic Sponsors (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Franchise Agreements (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Golf Course (9)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Hotel/Motel/Convention Space (10)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Airport (11)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q10 Does your institution engage in any of the following activities?

	Choose Yes or No	
	Yes (1)	No (2)
Franchise Agreements (1)	<input type="radio"/>	<input type="radio"/>
Patent Agreements (2)	<input type="radio"/>	<input type="radio"/>
Royalty Agreements (3)	<input type="radio"/>	<input type="radio"/>
Software Development and/or Sales (4)	<input type="radio"/>	<input type="radio"/>
Mailing List Rental or Sales (5)	<input type="radio"/>	<input type="radio"/>

Q11 With continued financial reductions and increasing operating costs, many higher education institutions have engaged in proprietary (or business-type) activities. Institutions are required to pay tax on income from these unrelated business activities that exceed \$1,000 in net income. These activities are unrelated to the educational purpose of the institution.

Q12 Prior to the survey, were you aware of the Unrelated Business Income Tax?

- Yes (1)
 No (2)

If No Is Selected, Then Skip To End of Survey

Q13 Prior to this survey, were you aware of the College and University Compliance Project Report issued by the Internal Revenue Service concerning Unrelated Business Income Tax and Executive Compensation?

- Yes (1)
 No (2)

Q14 How many years have you been in a capacity which involved the Unrelated Business Income Tax?

- Less than 1 year (1)
 1 to 4 years (2)
 5 to 10 years (3)
 More than 10 years (4)

Q15 What is your level of understanding of the Unrelated Business Income Tax as it applied to colleges and universities?

_____ Level of Understanding (please slide) (1)

Q16 How do you perceive your institution's awareness of the Unrelated Business Income Tax?

_____ Awareness of UBIT (1)

Q17 Who is responsible for compiling the Unrelated Business Income Tax information and associated tax return?

- Vice President of Finance (1)
- Controller (2)
- Outside/External Tax Consultant (3)
- Unknown (4)
- Other-please specify (5)

Q18 Based upon your response to question #17, what is the highest level of academic preparation of the individual identified?

- Bachelor's Degree (1)
- Master's Degree (2)
- Doctoral Degree (3)
- Law Degree (4)

If Law Degree Is Selected, Then Skip To If you have a law degree, are you adm...If Bachelor's Degree Is Selected, Then Skip To If a bachelor's degree, indicate fiel...If Master's Degree Is Selected, Then Skip To If Master's Degree, indicate field of...If Doctoral Degree Is Selected, Then Skip To If Doctoral degree, please indicate d...

Q19 Indicate field of major for Bachelor's degree:

- Business-Accounting and Finance (1)
- Business-Other (2)
- Education (3)
- Public Administration (4)
- Engineering (5)
- Social Sciences (6)
- Physical Sciences (7)
- Health Professions (8)
- Fine and Performing Arts (9)
- Psychology (10)
- Other (11)

Q20 Indicate field of concentration for Master's degree:

- Business Administration (1)
- Tax (2)
- Public Administration (3)
- Education (4)
- Social Sciences (5)
- Physical Sciences (6)
- Engineering (7)
- Psychology (8)
- Law (9)
- Health Professions (10)
- Fine and Performing Arts (11)
- Other (12)

Q21 Please indicate primary academic discipline of Doctoral degree:

- Educational Administration-Higher Education (1)
- Educational Administration-Other (2)
- Education (3)
- Business (4)
- Public Administration/Political Science (5)
- Psychology (6)
- Social Sciences (7)
- Physical Sciences (8)
- Health Professions (9)
- Engineering (10)
- Legal Professions and Studies (11)
- Fine and Performing Arts (12)
- Other (13)

Q22 If you have a law degree, are you admitted to the State Bar?

- Yes (1)
- No (2)

Q23 Please indicate which credential(s) you possess, if any:

	Yes (1)	No (2)
Certified Public Accountant (CPA) (1)	<input type="radio"/>	<input type="radio"/>
Certified Management Accountant (CMA) (2)	<input type="radio"/>	<input type="radio"/>
Certified Internal Auditor (CIA) (3)	<input type="radio"/>	<input type="radio"/>
Chartered Global Management Accountant (CGMA) (4)	<input type="radio"/>	<input type="radio"/>
Certified Fraud Examiner (CFE) (5)	<input type="radio"/>	<input type="radio"/>
Certified Government Financial Manager (CGFM) (6)	<input type="radio"/>	<input type="radio"/>

Q24 Has the Unrelated Business Income Tax been considered a factor in decisions to outsource/privatize operations?

- Yes (1)
 No (2)

Q25 Has the IRS College and University Compliance Project changed your perceptions of the Unrelated Business Income Tax?

- Yes (1)
 No (2)

Q26 Are revisions to your institution's policies and procedures concerning the Unrelated Business Income Tax being undertaken?

- Yes (1)
 No (2)

Q27 To what extent has the Unrelated Business Income Tax been a factor in outsourcing/privatization decisions?

_____ UBIT Level of Significance (1)

Q28 The administrative cost of Unrelated Business Income Tax compliance and reporting is perceived as:

_____ Perception of cost of UBIT Compliance (1)

Q29 Is Unrelated Business Income Tax compliance and reporting performed internally or externally?

- Internal (1)
- External (2)

Q30 Based upon your opinion, why do many higher education institutions fail to comply with Unrelated Business Income Tax provisions of the U.S. Internal Revenue Code?

	Major Factor (1)	Minor Factor (2)	No Factor (3)
Unaware of the law: (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Complexity of the law: (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Complexity of the tax forms: (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Peer noncompliance: (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Inequity of the tax system: (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Limited personnel/resources: (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
University policy not to file: (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Privatize operations to avoid compliance: (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

APPENDIX B

HUMAN SUBJECTS APPROVAL

Appendix B

Human Subjects Approval

From: Sloan, Patricia **On Behalf Of** RAGS Research Compliance
Sent: Wednesday, June 24, 2015 3:26 PM
To: KRETOVICS, MARK <mkretov1@kent.edu>; 'mvillano@kent.edu' <mvillano@kent.edu>
Subject: IRB Level I, category 2 approval for Protocol application #15-389 - please retain this email for your records

RE: Protocol #15-389 - entitled “Outsourcing and The Unrelated Business Income Tax- A Survey of College and University Business Officers”

We have assigned your application the following IRB number: **15-389**. Please reference this number when corresponding with our office regarding your application.

The Kent State University Institutional Review Board has reviewed and approved your Application for Approval to Use Human Research Participants as Level I/Exempt from Annual review research. Your research project involves minimal risk to human subjects and meets the criteria for the following category of exemption under federal regulations:

- Exemption 2: Educational Tests, Surveys, Interviews, Public Behavior Observation

This application was approved on June 24, 2015.

****Submission of annual review reports is not required for Level I/Exempt projects. We do NOT stamp Level I protocol consent documents.*

If any modifications are made in research design, methodology, or procedures that increase the risks to subjects or includes activities that do not fall within the approved exemption category, those modifications must be submitted to and approved by the IRB before implementation.

Please contact an IRB discipline specific reviewer or the Office of Research Compliance to discuss the changes and whether a new application must be submitted. <https://sites.google.com/a/kent.edu/division-of-research-and-sponsored-programs-intranet/home/office-of-research-compliance>

Kent State University has a Federal Wide Assurance on file with the Office for Human Research Protections (OHRP); [FWA Number 00001853](#).

If you have any questions or concerns, please contact us at Researchcompliance@kent.edu or by phone at [330-672-2704](tel:330-672-2704) or [330.672.8058](tel:330.672.8058).

Doug Delahanty | IRB Chair | [330.672.2395](tel:330.672.2395) | ddelahan1@kent.edu
Tricia Sloan | Administrator | [330.672.2181](tel:330.672.2181) | psloan1@kent.edu
Kevin McCreary | Assistant Director | [330.672.8058](tel:330.672.8058) | kmccrea1@kent.edu
Paulette Washko | Director | [330.672.2704](tel:330.672.2704) | pwashko@kent.edu

For links to obtain general information, access forms, and complete required training, visit our website at www.kent.edu/research.

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