Baylor University

400.4 Bookstore Operations

Revenue from university bookstore operations typically falls into one of two categories.

Situation 1 -- University leases bookstore facilities to a for-profit company and receives rental income. In such cases, a question is often raised as to whether the relationship is a bona fide lease, with payments received qualifying for a rental income exclusion, or if the for-profit company is simply acting as an agent in return for a management fee.

Situation 2 -- University retains a for-profit company to manage under a management contract, or University operates the bookstore itself or arranges for operation by a separate, nonprofit entity controlled by the University. Under this category, all bookstore sales are UBIT, unless the sale is either

- A sale to students, faculty and others of items directly related to the school's educational purposes (i.e. books, general supplies) and athletic wear used in the athletic and physical education programs or
- A sale of noneducational items for the convenience of students and faculty, and other employees (not alumni). This is determined by a convenience test with two requirements – the item should be of recurrent demand because of day-to-day campus living, like toiletries, and the item should not have a useful life of more than one year. The IRS goes by a general rule that any noneducational item with a useful life of more than one year does not fall within the exception, except for clothing, and novelty and other items embossed with the school's logo.

In addition, the sale terms might affect the convenience test. For example, if a refrigerator or television set is leased on a short-term basis, it is considered for convenience. In addition, while the sale of one computer to a student/faculty member may be considered exempt, the sale of multiple computers to a single student or the sale of a computer to someone not enrolled may be UBTI.