

#### **400.7 Investment Income**

The exclusion from UBTI for investment income (interest, dividends, and annuity income) does not apply in certain cases.

##### *Debt-Financed Investments*

Debt-financed property is any property held to produce income (including gain from its disposition) for which there is an acquisition indebtedness. Debt-financed property investments held to produce income such as interest, dividends, royalties, rents, capital gains, etc. Thus, the purchase of common stocks or bonds with borrowed funds, such as stocks purchased on margin, gives rise to debt-financed property.

##### *Partnerships*

If the University is a member of a partnership regularly engaged in a trade or business that is unrelated to the University's exempt purpose, the organization must include in its UBTI its share of the partnership's gross income from the unrelated trade or business (whether or not distributed), and the deductions attributable to it. The partnership income and deductions to be included in the organization's UBTI are treated as any income and deductions from an unrelated trade or business conducted directly by the University.

*Example:* The University is a partner in a partnership that operates a factory. The partnership also holds stock in a corporation. The University must include its share of the gross income from operating the factory in UBTI but may exclude its share of any dividends the partnership received from the corporation.

##### *S-Corporations*

The University's share of an S-corporation's income, deductions, and losses are considered UBTI, regardless of the actual source or nature of the income, deductions, and losses. For example, the University's share of the S corporation's interest and dividend income will be taxable, even though interest and dividends are normally excluded from UBTI. A gain or loss on the sale or other disposition of the S-corporation stock is also included in UBTI.