

**THE UNIVERSITY OF TEXAS AT ARLINGTON (UTA)
OFFICE OF GRANT AND CONTRACT SERVICES**

CORPORATE AND INDUSTRY SPONSORED PROJECTS POLICY STATEMENT

EFFECTIVE DATE OF POLICY: September 1, 1999

REVISION DATE: June 2014

=====

This statement establishes policies for the financial management of all corporate and industry sponsored projects for which data or other outcome products are expected. The University at Texas at Arlington (University) is a non-profit, tax exempt institution established under Internal Revenue Service (IRS) Code. A description of the Exemption Requirements from the IRS can be found at:

http://www.irs.ustreas.gov/prod/bus_info/eo/exempt-req.html

The University's tax-exempt purposes include, but are not limited to, the advancement of education, the promotion of public service and the conduct of scientific research. The University must account for business income unrelated to its exempt purposes. A liability exists for federal income taxes on unrelated business income after the deduction of reasonable, allowable and allocable expenses. It is important to note that even in instances where the contract is cost reimbursable and there is no net income, the activity is still reportable to the IRS. A summary of Unrelated Business Income Tax from the IRS can be found at: http://www.irs.ustreas.gov/prod/bus_info/eo/unrel.html

Corporate or industry contracts generally involve a *quid pro quo*, i.e. something given for something received. These agreements must be entered into in the name of The University of Texas at Arlington and not in the name of the Department or Principal Investigator. *Neither* the Department, Principal Investigator *nor* any other external entity is permitted to accept payment for activities related to corporate and industry sponsored research projects conducted within the University.

Is a Corporate Sponsored Project Subject to Unrelated Business Income Tax (UBIT) or is it Tax-Exempt?

The conduct of scientific research is an exempt activity and should not generate UBIT. The IRS has determined that some activities incidental to commercial or industrial operations are not research. The University, therefore, may be required to demonstrate that the project is substantially related to its mission by establishing that:

1. The project is designed and supervised by professionals to solve a problem via the scientific method, i.e., hypothesis, design, test, data analysis; it adds to knowledge within a scientific field; it is capable of being performed only with advanced scientific or technical expertise; and/or it involves the development of new ideas, skills, methods, or,

2. The project is conducted in the public interest, e.g., seeks a cure or treatment for disease, provides treatment opportunity not otherwise available to patients, tests for public safety, etc. The results will be made available to the public, or,
3. The project furthers an educational purpose. Students or trainees involved in the project will have specific tasks and duties. Investigators are free to publish findings in a timely manner.

In order to account for corporate and industry sponsored projects as an exempt activity, the University must document the relationship between project activities and the tax-exempt purposes of the University before the assignment of an account.

Research Project Profile

For each corporate or industry sponsored project, OGCS preaward staff will analyze the project to determine its tax-exempt activity and relationship to UTA's mission statement. If the Preaward staff are unable to determine the tax-exempt status for the project or if they believe the project may be subject to UBIT, they will ask the principal investigator to complete a Research Project Profile for corporate or industry sponsored projects. The profile, which will be used to document the relationship of the sponsored project to the mission of the University, must be completed *prior* to fully executing the contract or accepting the award. The OGCS Staff will review the profile and determine whether or not the project may be subject to UBIT. If they determine that the project may be subject to UBIT, OGCS will send a letter (see attached) to the principal investigator notifying him/her of the status with copies sent to the principal investigator's departmental chair and dean. The principal investigator will then decide whether or not to proceed with finalizing the award. OGCS will also send a copy of the contract and a copy of the Research Project Profile to Office of Accounting and Business Services (OABS). OABS will then forward the documentation to UT System for review and for a final decision.

Establish the Account

The following documents are required to establish an account:

- University of Texas at Arlington Proposal Routing Form (Blue Routing Sheet)
- Cost Share Authorization Form (if applicable)
- Research Project Profile if required by Preaward
- Application, Proposal or Statement of Work with Detailed Project Budget and Payment Schedule (ex: standard federal grant and contract format)
- Fully executed contract or award accepted by the University

The Project ID must also be designated as subject to UBIT by adding in UT Share the Close-Out UBIT requirement

Fees and Other Accounting Issues

- Corporate and industry sponsored projects will be assessed facilities and administrative (F&A) costs based on the federally approved on-campus F&A rate. (MTDC excludes patient care, subcontract amounts in excess of \$25,000, building repair, utilities, tuition, facility lease and equipment purchases.) Another F&A rate may be used if the company funding the project provides the rate in written form, and if the Vice President for Research at the University approves the rate. Further guidance can be found in UTA's indirect cost policies and costing guidelines.
- Investigators must exercise diligence to only charge expenses against the project that are reasonable, allowable, and allocable. All revenues and expenses will be accounted for in the University accounting system (UT Share).

Project Close-Out

The Principal Investigator and his/her department will be allowed a 90-day period following the completion of the project to make appropriate adjustments and corrections and to determine if a residual balance exists. OGCS will review the account for appropriateness of costs prior to closing the account.

When applicable, UBIT will be assessed on the residual balance. The tax rate is based on the prevailing federal income tax rate for taxable income. OGCS will notify OABS and provide OABS with the information needed to calculate the tax and file any and all federal income tax returns. OABS will forward this documentation to UT System.

After F&A costs and UBIT are assessed, the remaining balance will be transferred to a restricted cost center. The principal investigator in the department will administer the account. Balances will support research under the direction of the investigator, as long as the investigator is a regular faculty or staff member of the University. If an audit shows the project is not exempt from UBIT or expenditures charged to the project are unallowable, the department will be responsible for those errors as well as for additional tax, interest and associated penalties due to the taxing authority, such as the Internal Revenue Service.

In cases where the Principal Investigator transfers to another institution or organization prior to completing the study, the University with sponsor approval will appoint another Investigator to fulfill the responsibilities of the project(s). When so directed by sponsor, or at the discretion of the University, the University may transfer the final account balance to the new institution or organization subject to the restrictions placed on the funds by the grantor. *No money will be paid over to an individual investigator.*

In cases where the Principal Investigator leaves the University after the project has been closed out, funds remaining will be transferred to the Chair of the Investigator's department for discretionary use for research at the University.

This policy is effective on all projects with an effective or start date on or after September 1, 1999.

OGCS Use Only:
OGCS No. _____
Grant Project No. _____

**The University of Texas at Arlington
Corporate and Industry Sponsored
Research Project Profile**

A research profile is required for each corporate and industry project when the OGCS staff are unable to determine the project is tax-exempt. Please complete and submit this form with the contract and the Blue Routing Sheet. OGCS, OABS, and/or UT System will use the information provided to determine whether or not an Unrelated Business Income Tax (UBIT) liability is associated with the project. A determination of nontaxable status for this protocol will depend on the establishment of a substantial relationship to one or more of the University's exempt purposes. No single answer is necessarily determinative. Any subsequent project modifications that change the answers on this profile should be reported to OGCS. Answers may be inserted below or submitted on separate sheets attached to this form.

Principal Investigator: _____

Department: _____

Sponsor: _____

Project Title: _____

1. Describe the involvement of students, fellows, residents, or trainees in the performance of this project. Is academic credit given for participation?

2. Describe your contribution to the development of the research protocol.

3. Will the sponsor use data from this project to meet certain regulatory requirements (e.g. FDA, OSHA etc)? Explain.

4. Does this project activity involve the design or construction of equipment for the Sponsor for the purpose of commercial or industrial applications of sponsor? Of the investigator? Explain.

5. Are you free to publish your findings? Describe any conditional terms for publications.
6. Does this project involve original investigation for the advancement of knowledge? Describe.
7. Is this project funded solely by the sponsor, or are federal, other governmental, or University funds (including salary support) involved? Describe.
8. Are you using human subjects or animals as part of your research study? If so, have all the related protocol forms been prepared and submitted to the Human Research Review Committee or the Animal Care and Welfare Committee? Has the appropriate committee approved the research protocol?

Information provided on this form accurately reflects the project that I propose to conduct:

Principal Investigator

Date

OGCS Use Only:

Grant/Program Number _____

UBIT Status:

Exempt _____ or Taxable _____

Reviewed by: _____

Date: _____

**The University of Texas at Arlington
Corporate and Industry Sponsored Research
Project Profile Purpose and Process**

Purpose

The purpose of the profile is to collect information and document the relationship of the sponsored project to the mission of the University. In some cases, unrelated business income tax (UBIT) applies to organizations that are generally tax-exempt. Tax-exempt academic institutions exist for a variety of purposes including, but not limited to, the advancement of education, the promotion of public service and the conduct of scientific research. Income from activities that are business related and regularly carried on, and not a part of the organization's tax-exempt functions, are taxable. It is important to note that even in instances where the contract is cost reimbursable and there is no net income, the activity may still be reportable to the IRS.

This form demonstrates to the IRS in event of audit that the University segregates for accounting purposes between taxable and non-taxable activities. Research profiles provide the necessary evidence to IRS auditors that the University has a standardized, appropriate procedure for making its taxable and non-taxable decisions.

Process

The investigator will complete a Research Project Profile for each corporate or industry sponsored project when requested by OGCS Preaward staff. The Research Project Profile must be completed and reviewed by OGCS staff prior to fully executing a contract or accepting an award. If the project is determined to be subject to UBIT, then the principal investigator will have the option of continuing with the project or rejecting the award. See Research Project Profile Form attached.

The following documents are required:

- University of Texas at Arlington Routing Form (Blue Routing Sheet)
- Cost Share Authorization Form (if applicable)
- Research Project Profile
- Application, Proposal, or Statement of Work with a Detailed Project Budget and Payment Schedule (ex: standard federal grant and contract format)
- Fully executed contract or award accepted by the University

Rationale for Questions Selected

Educational Exempt Purpose (Question 1)

Education is defined as “the instruction or training of the individual for the purpose of improving or developing his/her capabilities,” and “the instruction of the public on subjects useful to the individual and beneficial to the community.” The purpose of gathering information in this area is to show that the contract services aided in the education of University students, fellows, trainees, etc.

Scientific Research Exempt Purpose (Questions 2-6)

To be excluded from unrelated business income, research must be in the public interest. In the view of the IRS, the term “research” excludes activities normally performed incidental to commercial or industrial operations such as the ordinary testing or inspection of materials for products or the designing or construction of equipment. This type of research, according to the IRS, is undertaken to serve private, not public, interest. As a specific example, ordinary or routine testing performed by commercial testing laboratories, that is repetitive work done by technically unsophisticated employees, would not be exempt research, while testing done to validate a scientific hypothesis would be. Also, designing or constructing of buildings or equipment would not be exempt while the development of prototypes and models would be.

IRS Code Exempt Purpose (Questions 7-8)

Research is in the public interest if (a) performed for the United States or a State or political subdivision thereof, or (b) carried on for the purpose of discovering a cure for a disease. The project must be designed to solve a problem via the scientific method; i.e. hypothesis, design, test, data analysis; it must add to knowledge within a scientific field; it must be capable of being performed only with advanced scientific or technical expertise; and/or it must involve the development of new ideas, skills, methods, etc.

FORM LETTER NOTIFYING PRINCIPAL INVESTIGATOR OF UBIT STATUS

Date:

Dr.
Department
The University of Texas at Arlington

Re: Corporate (or Industry) Project with (insert name of company)

Dear Dr.

The Research Project Profile for the subject project has been reviewed by OGCS and it has been determined that your project may be subject to Unrelated Business Income Tax (UBIT). This means that any unused funds remaining on the account when you have completed the project, will be taxed at the prevailing federal income tax rate in effect at the time your project expires. A copy of the Contract and the Research Project Profile will be sent to OABS who will then forward the documentation to UT System for a final determination.

The two options available to you are listed below. Please indicate which option you prefer, sign, and return this letter to OGCS at Box 19145. OGCS will then proceed according to your decision.

If you wish to provide more information to OGCS that may clarify the taxable status of your project, please send that information as soon as possible. If you have any questions, please contact the Preaward specialist listed below at x2105 or by email at ____.

Sincerely,

(Preaward Specialist Name)

~~~~~ \_\_\_\_ Option #1: I want to continue with the project in which case OGCS will fully execute the contract (or accept the award) and setup an account accordingly.

\_\_\_\_ Option #2: I do not want to proceed with the project and OGCS will notify the company accordingly.

\_\_\_\_\_  
Principal Investigator

\_\_\_\_\_  
Date