

## Unrelated Business Activity

This policy was approved by the Administrative Council April 1, 1987. It is reissued with approval of the Provost's Office and Controller's Office. Section headings are:

1. POLICY
2. DEFINITION
3. IMPLEMENTATION AND EXCEPTIONS

### 1. POLICY

Stanford's resources exist to support the University's missions of creation, preservation, and dissemination of knowledge. The University's assets must be preserved for these purposes, not for the personal gain of individuals nor for outside parties' uses which do not further Stanford's academic objectives. The University receives frequent requests for access to its resources by outside entities, typically in exchange for some form of compensation to Stanford. Many of these, if granted, would constitute unrelated business activities. The purpose of this statement is to remind the University community that it is Stanford policy not to engage in unrelated business activities.

Unrelated business activities have the potential for distorting the University's primary teaching and research missions. Furthermore, revenues from such activities generally are taxable under the Internal Revenue Code, and thus carry consequences to the University in terms of income tax liability. They also can have implications for property tax as well as product liability, and they can create unfair competition with the for-profit sector.

Permission to engage in unrelated business activities at Stanford may be granted only by the Provost, and then only in those cases in which there is strong likelihood that the activity will significantly benefit the University as a whole.

### 2. DEFINITION

- a. **Generation of Revenue** — For the purpose of this statement, "unrelated business activities" are activities that use Stanford resources to generate revenue from third parties, and that are unrelated in a programmatic sense to the teaching, research, and other educational functions of the University. An unrelated activity normally would not be thought to further the University's teaching or research activities, except for the revenue it produces. Because the Internal Revenue Code does not define with precision what activities are unrelated for tax purposes, a general rule of thumb to apply is to assume that any activity undertaken primarily for the revenue it produces is likely to be unrelated.
- b. **Support of Mission** — However, there are certain activities which might at first appear to be unrelated, but which, under scrutiny, are in fact related in a programmatic sense or provide direct support to Stanford's academic missions. For example, certain services or programs may be conducted on campus for the convenience of University faculty, staff, and students, such as food sales at Tresidder.

### 3. IMPLEMENTATION AND EXCEPTIONS

- a. **Need for Review** — Because of the necessarily imprecise definition of "unrelated," activities that would generate income and are proposed to be undertaken on behalf of an outside party that involve the use of University lands, buildings or instrumentation or the rendering of services by University personnel must be reviewed in the context of the unit's programmatic mission, Internal Revenue regulations and prior case rulings before they may be approved. Examples include fabrication by University machine shops, testing or analysis of materials, use of University computer facilities and similar activities.
- b. **Responsibility** — The responsibility for implementing this policy rests with line management; if a department chair, director, or dean has any question as to whether a proposed arrangement under his/her purview might constitute an unrelated business activity, it is his/her responsibility to have the activity reviewed by the cognizant vice president's Office, who in turn may need to seek counsel from the Controller's Office. Questions arising from departments or schools reporting to the Provost should be directed to the Office of the Dean of Research.

- c. Exceptions** — If the cognizant vice president endorses a request for an arrangement that is determined to be an unrelated business activity, the proposal should be forwarded to the Controller's Office for a review of the potential tax consequences, and means of accommodating them, before the request is sent to the Provost for approval.