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Internal Revenue Service (IRS) about how to address the allocation of unrelated business income (UBI) expenses of tax-exempt organizations for dual use facilities and/or ...

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The [American Institute of CPAs](#) (AICPA) has submitted proposed guidelines to the Internal Revenue Service (IRS) about how to address the allocation of unrelated business income (UBI) expenses of tax-exempt organizations for dual use facilities and/or personnel.

The AICPA's February 23 [comment letter](#) lists seven guidelines for the allocation of indirect expenses:

- Deductible expenses must bear a proximate and primary relationship to the conduct of the activity.
- Deductible expenses include both direct costs and indirect costs.
- Indirect costs include *fixed* expenses (those which do not change when the unrelated activity is conducted or not conducted) and *variable* expenses (those which increase or decrease when the unrelated activity is conducted or not conducted).
- The methodology for allocating expenses relating to dual use facilities/personnel is reasonable and consistently followed from year to year, and should not cause the double-counting of any expense.
- The methodology for allocating expenses relating to dual use facilities/personnel is based on the character of the expense involved:
- Facility costs (rent, mortgage interest, insurance, taxes, security, and utilities) apportioned based on portion of facility used (square footage and time) for each activity;

- Personnel costs (salary, benefits, and taxes) apportioned based on time spent on

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- provision is intended for use by organizations that are unable, or for which it is administratively impractical, to maintain or create records with respect to activities in which dual use facilities/personnel are used and the associated expenses are clearly distinguished as related or unrelated.
- The AICPA recommends that the IRS provide a simplified method for small businesses to determine expenses which are deductible against unrelated business income. Small organizations lack the resources to adequately document the information needed to identify expenses pertaining to dual use facilities/personnel used in related and unrelated activities.

The AICPA's letter also provided examples to illustrate how the guidelines would be applied.

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