	The Johns Hopkins Health System Policy & Procedure	Policy Number	FIN020
		Effective Date	01-01-08
	<i>Subject</i>	Page	1 of 4
	UNRELATED BUSINESS INCOME	Supersedes	10-01-06

POLICY

This policy applies to The Johns Hopkins Health System Corp. (JHHS) and the following affiliated entities: The Johns Hopkins Hospital (JHH), Johns Hopkins Bayview Medical Center (JHBMC), Howard County General Hospital (HCGH), Johns Hopkins Community Physicians (JHCP), Johns Hopkins Medical Services Corporation (JHMSC), Johns Hopkins Medicine International (JHMI), Ophthalmology Associates (OA), Johns Hopkins Employer Health Programs (EHP), Johns Hopkins Medical Management Corporation (JHMMC), Priority Partners (PP), Johns Hopkins Pharmaquip, Inc. (JHPQ), Johns Hopkins Home Health Services, Inc. (JHHHS), Johns Hopkins Pediatrics Home, Inc. (JHPAHI), Johns Hopkins HealthCare (JHHC), Johns Hopkins Home Care Group (JHHCG), Suburban Health Center (SHC), Broadway Acquisition and Development, and HCGH OB/GYN Associates Series, LLC (HCGH OBGYN).


Purpose

Tax-exempt organizations are subject to federal and state taxation on unrelated business income (UBI). Generally, UBI is income (i) generated from a trade or business, (ii) which is regularly carried on, and (iii) is not substantially related to the exempt purposes of the organization conducting the activity. The JHHS Tax Director will determine substantial relationship by examining the relationships between the business activities that generate the income in question and the fulfillment of the organization's exempt purposes. The production or distribution of the goods or performance of the services from which the gross income is derived must contribute importantly to the accomplishment of the organization's exempt purposes. If the activities do not "contribute importantly," the income generated may be taxable. Any income that is not generated in connection with the provision of services to JHHS patients may be considered UBI. Examples of UBI could include sales of ancillary services such as lab, radiology, pharmacy or other diagnostic services to non-JHHS patients. Likewise, the sales of supplies, computer services, or other auxiliary services not directly related to the benefit of JHHS patients may be considered UBI.

Tax-exempt organizations are required to annually report income from unrelated trade or business, and expenses directly connected with such income, on Form 990-T to be prepared by the JHHS Tax Director. For purposes of preparing and filing income tax returns (Form 990-T), the JHHS Tax Director will determine expenses associated with UBI activities that may be deducted in arriving at taxable income:

1. Directly connected with the carrying on of the unrelated trade or business. "Directly connected with" means the deductions must have proximate and primary relationship to the carrying on of the unrelated trade or business. Where facilities and personnel are used in related and unrelated activities, the JHHS Tax Director will make a reasonable allocation between the two uses.
2. Expenses normally deductible by for profit enterprise.

To comply with federal and state filing requirements, UBI must be identified, documented, and appropriately reported. In addition, expenses directly connected with the unrelated trade or business must be identified and allocated between the related and unrelated portion of the income as appropriate. Tax allocation of expenses based on relative gross income must be reasonable where facilities and personnel are used to generate both related and unrelated business income. The JHHS Tax Director must maintain detailed documentation clearly showing how the expenses have been calculated and how they are directly connected to the UBI portion of the income is essential. Therefore, separate analysis of each type of transaction generating UBI must be conducted by the JHHS Tax Director to determine the appropriate level of documentation necessary to sustain a position that there is a reasonable basis to deduct expenses from revenue in calculating net taxable UBI.

	The Johns Hopkins Health System Policy & Procedure	Policy Number	FIN020
		Effective Date	01-01-08
	<i>Subject</i>	Page	2 of 4
	UNRELATED BUSINESS INCOME	Supersedes	10-01-06

REFERENCE

IRC §511-514
 Treasury Regulation §1.511.1-1.514(f)-1

RESPONSIBILITIES

Department Director/ Administrator	Communicate to the Director of Tax Compliance all transactions generating non-patient revenue or expense recoveries for any new types of transactions generating non-patient revenue or expense recoveries. Ensure that the department is following the expense documentation procedures determined to be appropriate by the Controller/Director of Accounting.
Director of Tax Compliance, JHHS	Review possible UBI transactions communicated by the Department Directors/Administrators . Determine the character of income described by the Department Director/Administrator (i.e. UBI or non-UBI). Assess the appropriate level of documentation for expenses directly connected to the unrelated trade or business activity. Prepare Form 990-T and submit it to the Internal Revenue Service (IRS) within the appropriate timeframe.
Controller/Director of Accounting	Provide directives for the Department Directors/Administrators regarding the procedures to be followed.

SPONSOR

Vice President/Chief Financial Officer (CFO) and Treasurer, JHHS


REVIEW CYCLE

Three (3) years

APPROVAL

 President, JHHS

 Date


 <p>JOHNS HOPKINS MEDICINE JOHNS HOPKINS HEALTH SYSTEM</p>	<p>The Johns Hopkins Health System Policy & Procedure</p>	<p>Policy Number</p>	<p>FIN020</p>
	<p><i>Subject</i></p>	<p>Effective Date</p>	<p>01-01-08</p>
	<p>UNRELATED BUSINESS INCOME</p>	<p>Page</p>	<p>3 of 4</p>
		<p>Supersedes</p>	<p>10-01-06</p>

PROCEDURES - DOCUMENTATION OF TRANSACTIONS - ALL AFFILIATES

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|---|---|
| <p>1. Department Director/Administrator</p> | <p>a. Review the activities of the department to identify the transactions generating non-patient revenue and expense recoveries.</p> <p>b. Communicate any new types of transactions generating non-patient revenue or expense recoveries.</p> |
| <p>2. Director of Tax Compliance, JHHS</p> | <p>a. Identify and review potential UBI transactions with Department Director/Administrator to determine which activities constitute UBI.</p> <p>b. Document and clarify activities, if necessary, by interviewing the Department Director/Administrator.</p> <p>c. If it appears that a specific activity conflicts with non-tax federal or state laws or with other existing policies, such activity should be referred to the appropriate department (i.e., Legal, Finance, etc.) for further review.</p> <p>d. Prepare documentation to support the "relatedness" position for the activities which are not clearly related to the exempt purpose of the organization. Such documentation should include the IRC, and Treasury regulations; Internal Revenue Service rulings; and/or tax cases.</p> <p>e. Report unrelated business income activities to the Controller/Director of Accounting.</p> |
| <p>3. Controller/Director of Accounting</p> | <p>a. Assign UBI transaction to unique accounts with appropriate UBI suffix.</p> |

PROCEDURES – DETERMINATION OF UBI EXPENSE DOCUMENTATION – ALL AFFILIATES

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|---|---|
| <p>1. Director of Tax Compliance, JHHS</p> | <p>a. Determine the appropriate level of documentation for the expenses directly connected to the unrelated trade or business generating the UBI.</p> <p>b. Document the expense allocation method and rationale of the expense documentation decision process for each activity identified as UBI.</p> |
| <p>2. Controller/Director of Accounting</p> | <p>a. Prepare directives for the Department Directors/ Administrators regarding the documentation procedures to be followed.</p> |

 <p>JOHNS HOPKINS M E D I C I N E JOHNS HOPKINS H E A L T H S Y S T E M</p>	The Johns Hopkins Health System Policy & Procedure		Policy Number	FIN020
	<i>Subject</i>		Effective Date	01-01-08
	UNRELATED BUSINESS INCOME		Page	4 of 4
			Supersedes	10-01-06

PROCEDURES – DOCUMENTATION OF UBI EXPENSES – ALL AFFILIATES

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| 1. Department Director/
Administrator | a. Review directives and financial reports/support if the Controller/Director of Accounting has determined that the department will assist in the UBI expense documentation process.

b. Obtain the financial reports/support and forms necessary to track UBI expenses (i.e. personnel time sheets, supply shopping carts, equipment usages, etc.)

c. Meet with appropriate Department personnel to inform them of the requirements for UBI expense documentation included in the directive. |
| 2. Controller/Director of
Accounting | a. Ensure all UBI revenue and expense activities are properly segregated in the general ledger. |

PROCEDURES – PREPARATION OF TAX RETURNS – ALL AFFILIATES

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| 1. Director of Tax Compliance,
JHHS | a. Prepare Form 990-T and M 500.

b. Obtain the signature of a Corporate Officer on IRS Form 990-T and Maryland Form MD 500.

c. Send Form 990-T to the IRS and MD 500 to State of Maryland with appropriate remittance (if necessary) via certified return receipt. |
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