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Are Museum Gift Shop Sales Considered Unrelated Business Income (UBI)?

NOT-FOR-PROFIT, TAX
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In a recently released private letter ruling (PLR), the Internal Revenue Service (IRS) found that a museum's gift shop sales of certain items were not considered unrelated business income. PLRs are taxpayer-specific rulings provided in response to a taxpayer request and can only be relied on by the taxpayer for which the PLR was issued. However, these rulings provide valuable information on how the IRS views certain issues.

Unrelated Business Income

In this particular case, the gift shop is maintained by a tax-exempt organization that operated a research center and a museum to educate the public about outer space. The museum's gift shop sells various items, including jigsaw puzzles, posters, cartoon books, t-shirts, books, documentary videos, posters, coffee mugs and book markers, all of which depict a reproduction of a newspaper article pertaining to a particular event. In addition to receiving items purchased, customers also receive descriptive literature pertaining to the items and their relationship to the purpose of the organization.

The IRS conducted an item-by-item review of each article sold in the gift shop in order to determine whether or not there was a substantial relationship between the museum and the items sold. The IRS determined and provided in PLR 201429029 that the sale of merchandise in the museum shop contributes to the museum's exempt purpose and helps educate the public about the solar system and therefore is not considered unrelated business income.

The IRS has issued many rulings pertaining to museum gift shop sales and whether or not they are considered unrelated business income, some of which contrasted with the above PLR due to different circumstances. However, the main takeaway is that the sale of museum items must be related to the organization's tax-exempt purpose and be substantially related in order to avoid it being considered unrelated business income.

Contact us with questions regarding Unrelated Business Income (UBI) relating to not-for-profit organizations and visit our [Not-for-Profit Services Industry Group](#) page to learn more about our practice group.

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