

# UBTI/UBIT & RETIREMENT ACCOUNTS: FREQUENTLY ASKED QUESTIONS



This document covers Partnerships (“PTPs”) holdings within Janney custodian IRAs. PTPs can include, but are not limited to, Master Limited Partnerships (“MLPs”), private Limited Partnerships (“LPs”), and Non-Traditional Investments (“NTIs”). Holding these types of investments in your IRA may result in special tax consequences, which are addressed in the FAQs below.

## GENERAL QUESTIONS

### What is UBTI/UBIT?

“UBTI” stands for unrelated business taxable income. UBTI is income generated by a tax-exempt entity, such as an IRA, when it invests in a trade or business unrelated to its tax exempt purpose and/or uses debt to generate income.

### Why is UBTI reportable in tax-deferred retirement plans/IRAs?

An IRA or other type of qualified retirement account has a tax-exempt purpose. However, due to the MLP and LP structure, when these accounts invest in MLPs or LPs, the accounts may be treated as direct partners in the underlying business, and therefore some of the income does not fit the tax exclusion that traditional investments meet under IRS Publication 598.

### Is all the income generated from partnership investments considered UBTI?

No. There are many exceptions to UBTI, including most types of passive income (i.e., interest, dividends, royalties, etc.). Generally, income that is classified as being generated from a trade or business and/or from debt will be treated as UBTI. Additionally, sale of MLP units may generate UBTI.

### How do I know if my investment generates UBTI?

IRAs investing in MLPs/LPs will receive Schedule K-1s, which report any UBTI generated by the investment. In determining whether UBTI has been generated, the following should be reviewed:

- **Box 20V, Unrelated business taxable income:** This box indicates the amount of UBTI for the IRA.
- **The footnotes to the K-1:** Some limited partnerships will disclose percentages to apply to income reported elsewhere in the K-1 to determine the amount of UBTI for the IRA or the actual UBTI amount.
- **Section 751 Property Disclosure:** This provides the federal income tax consequences of a sale of the PTP units.

## TAX RETURN PROCESS QUESTIONS

### What is Janney’s process for Form 990-T filing?

Acting in its capacity as custodian, Janney is responsible for filing IRS Form 990-T (Exempt Organization Business Income Tax Return) on behalf of Janney’s custodial retirement accounts. Janney has engaged a national accounting firm (“our partner firm”) to complete applicable 990-T Forms and assist with the filing process. Once Janney determines which custodial retirement accounts have a filing obligation, Forms 990-T will be completed and filed with the IRS. Account holders with a filing obligation will be contacted to discuss what action, if any, is necessary.

### Why am I being asked for my IRA’s EIN?

If you or your tax advisor previously filed Form 990-T for your IRA account, you should already have an employer identification number (“EIN”). The IRS requires any applicable tax liability to be paid by the IRA account itself, as a separate taxpayer under its own EIN, rather than under your personal tax identification number, such as your Social Security number (“SSN”). Each IRA account that files Form 990-T must file for and retain a unique EIN.

If a Form 990-T has not been filed for the IRA account in previous tax years, Janney will acquire an EIN on behalf of the IRA.

### If an IRA owes UBIT, how is that paid?

IRS Regulations require that UBIT payments be made by the IRA account itself as a separate taxpayer under an EIN. If the tax liability is paid by the client directly (not through the IRA), the IRA could potentially lose its tax-sheltered status. To help preserve the IRA’s status, Janney will arrange the payment directly from the IRA account, provided funds are available.

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### What if the IRA owes tax in a given tax year but does not have the sufficient available cash?

If there is insufficient cash in the account to pay the tax liability, the Form 990-T will be submitted without payment. It is then the client's responsibility to make arrangements with Janney to settle payment. Please note, if you decide to fund the IRA with outside funds in order to make the tax payment, this is considered a "contribution" to your IRA. Please consult with your tax advisor with questions regarding tax year applicability and annual contribution limits.

### Should the 990-T be included in the taxpayer's regular tax filing in April?

No, clients should NOT include Form 990-T with their 1040 filing. Form 990-T is a separate filing completed for the IRA account. Clients should inform their CPA or tax advisor that Janney is completing this filing for their applicable Janney custodian IRA account(s) so that the CPA or tax advisor does not double report the income.

### Is paying required taxes on UBTI via 990-T considered a distribution?

No, payment of the tax liability from the IRA account is not a reportable distribution on Form 1099-R.

### Can an account holder elect not to file Form 990-T or pay the tax owed?

No, filing Form 990-T on a Janney custodian retirement account is the responsibility of Janney and is not an election by the account holder.

## TAX CALCULATION QUESTIONS

### Which tax rates apply to IRA holders?

IRAs are subject to tax at trust tax rates. Please refer to the Instructions for IRS Form 990-T for the current tax rate schedule accessible via [www.irs.gov](http://www.irs.gov).

### How was my UBTI calculated?

Each Form 990-T has supporting schedules that show how the UBTI was calculated for each investment.

### Why do only two out of my three Schedule K-1s appear on my return?

An IRA may have partnership investments that did not generate UBTI. Investments that do not generate UBTI are generally not included in the UBTI calculation or the Form 990-T filing.

### Why did I not sign the return before it was filed?

Janney is responsible for the filing the return and is therefore required to sign the return on behalf of its IRA holders.

### Why were interest and/or penalties calculated on my return?

If the tax is not paid by the original due date generally (April 15), interest and penalties may be calculated. Janney will attempt to abate any penalties imposed where applicable.

### Why was the tax paid late?

The information required to determine UBTI and resulting UBIT was not available by the April 15 due date. LPs generally have until September 15 to provide the UBTI information, so there may be instances where the necessary information was not available as of April 15.

### How are interest and penalties calculated?

- **Interest:** Interest is charged at the underpayment rate determined by the IRS.
- **Late filing penalty:** The late filing penalty is generally 5% of unpaid tax for each month or part of a month the return is late, up to 25% maximum. The minimum penalty for return that is more than 60 days late is the lesser of the tax due or \$210.
- **Late payment penalty:** The late payment penalty is generally 0.5% of unpaid tax each month or part of a month the tax is unpaid, up to 25% maximum.

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## WORKING WITH JANNEY

Depending on your financial needs and personal preferences, as well as the fees and costs associated with those services, you may opt to engage in a brokerage relationship, an advisory relationship, or a combination of both. Each time you open an account, we will make recommendations on which type of relationship is in your best interest based on the information you provide when you complete or update your client profile.

If you engage in a brokerage relationship, you will buy and sell securities on a transaction basis and pay a commission for these services. Our recommendations for the purchase and sale of securities will be based on what is in your best interest and reflect reasonably available alternatives at that time. If you engage in an advisory relationship, you will pay an asset-based fee, which encompasses, among other things, a defined investment strategy, ongoing monitoring, and performance reporting. Your Financial Advisor will serve in a fiduciary capacity for your advisory relationships.

For more information about Janney, please see Janney's Relationship Summary (Form CRS) on [www.janney.com/crs](http://www.janney.com/crs) which details all material facts about the scope and terms of our relationship with you and any potential conflicts of interest.

**By establishing a relationship with us, we can build a tailored financial plan and make recommendations about solutions that are aligned with your best interest and unique needs, goals, and preferences.**

**Contact us today to discuss how we can put a plan in place designed to help you reach your financial goals.**

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Each Taxpayer's situation is different and tax-related information provided herein is general in nature. Clients should consult with a professional tax advisor with questions specific to their personal tax situation. These FAQs are provided for informational purposes to explain a Janney process which is not applicable to IRAs for which Janney is not custodian. Please consult your IRA custodian or professional tax advisor for further information related to your tax situation.