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Department of the Treasury
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Person To Contact:
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Date:
June 01, 2026

Legend

University =
State =
Research Reactor =
X =

Dear :

This letter responds to a letter from your authorized representatives dated October 20, 2025, and supplemental documentation submitted on behalf of University, requesting a private letter ruling under sections 511, 512, and 513 of the Internal Revenue Code.[1]

Facts

University is a public university, and a body corporate and politic, established under the State constitution. University exercises traditional governmental powers including the police power and the power of eminent domain. University's income is exempt from tax under section 115. University has not been recognized by the Internal Revenue Service as an organization described in section 501(c)(3). As a state university, University is subject to unrelated business income tax under section 511(a)(2)(B).

University's principal purposes are promotion of education, scientific research, and health care. A State statute designates University as State's only public research university and provides that University shall be the only State college or university to

[1] Unless otherwise noted, all references in this letter ruling to "section" refer to The Internal Revenue Code of 1986, as amended.

confer certain degrees including research doctorates, medical, and pharmacy degrees. University operates a system of accredited higher educational institutions, a nuclear research reactor, hospital system, a cancer center, and several research parks.

University's nuclear research reactor ("Research Reactor") is a constituent unit of University, not a separate legal entity. Research Reactor is engaged in research and development, education, and training activities and supports an extensive community of faculty, scientists, and students across University.

Research Reactor's activities provide significant research opportunities for University faculty and the opportunity for faculty to publish scientific articles to disseminate the results of their work. Research Reactor faculty hold joint appointments with academic departments, spanning Chemistry, Veterinary Medicine, Radiology, Anthropology, Physics, and Engineering. Each year Research Reactor hosts postdoctoral fellows and doctoral students who are trained at Research Reactor in residence. Research Reactor seeks to continue to grow its research profile through the increased scholarly output of supported faculty and scientists.

Research Reactor's activities include pharmaceutical research focusing on development of radioisotopes for use in detecting and treating life-threatening diseases. Research Reactor produces research grade isotopes and active pharmaceutical ingredients ("APIs") and provides irradiation services. To develop an API, PhD level medicinal chemists, pharmacologists, radiologists, pharma kinetics experts, biologists, mechanical engineers and other advanced degree scientific personnel are required.

Research Reactor enters into development and supply agreements and irradiation services agreements with third party customers, including for-profit commercial companies, government entities, and academic institutions for the production of radioisotopes and APIs. Research Reactor's agreements are entered into pursuant to University's established financial policy, which allows for the sale of services and products where 1) the service is peculiar to the nature of the department or University and is necessary to the conduct of its educational, research, or service programs; 2) the provision of service by University will contribute primarily to the convenience, comfort, health, academic, social or recreational life of its students and staff or others participating in educational, research or service programs at University; 3) the inclusion of the service will improve the efficiency and economy of operations; or 4) the service is not otherwise available in the quantity or quality required or not conveniently available geographically.

Research Reactor has an agreement with X, a health care company involved in researching, developing, manufacturing, and marketing innovative pharmaceuticals and biopharmaceuticals. The relationship with X is contractual and not a partnership or joint venture. Under the terms of the agreement, Research Reactor will develop, manufacture, and supply certain APIs (API product) for X. X will use the API product for

research, development, manufacturing, supply, distribution, and commercialization of a product to treat a life-threatening disease.

The agreement with X provides that the collaboration between X and Research Reactor will further Research Reactor's public mission by (1) providing additional opportunities for faculty and students to engage in scientific research; (2) advancing science more broadly through sharing research with the scientific community; and (3) promoting public health through the development of pharmaceuticals that can be used to treat life-threatening diseases.

The agreement contemplates that all rights of the technology owned or controlled by Research Reactor related to the API product will be transferred to X and/or its affiliates. Research Reactor retains the right to manufacture, distribute, sell, and utilize the API product for non-commercial purposes, including academic research, clinical research and clinical trials.

Before entering into the agreement with X, University reviewed the agreement and concluded that it meets the requirements of its financial policy because 1) it is peculiar to the nature of the Research Reactor department and is necessary to the conduct of its educational and research programs, 2) it contributes to health, educational and research programs of University, its participants and the public generally, 3) it improves efficiency and economy of operations, and 4) the reactor services are not otherwise available geographically. The University further concluded that the agreement is an indirect result of accomplishing University's core mission of education, and other charitable missions, and not for the sole purpose of making a profit.

RULING REQUESTED

University's development and supply activities conducted pursuant to its agreement with X do not constitute an unrelated trade or business under section 513 and the income from such agreement is not unrelated business taxable income under section 512 and will not be subject to the tax imposed by section 511.

LAW

Section 511 imposes a tax on the unrelated business taxable income (as defined in section 512) of certain organizations otherwise exempt from federal income tax.

Section 511(a)(2)(B) imposes a tax on the unrelated business taxable income of any state college or university which is an agency or instrumentality of any government or any political subdivision thereof, or which is owned or operated by a government or any political subdivision thereof.

Section 512(a)(1) defines the term "unrelated business taxable income," with certain modifications, as the "gross income derived by any organization from any unrelated

trade or business ... regularly carried on by it, less allowable deductions directly connected with the carrying on of such trade or business.

Section 513(a) provides that the term “unrelated trade or business” means any trade or business the conduct of which is not substantially related (aside from the need of the organization for income or funds or the use it makes of the profits derived) to the exercise or performance by the organization of the purposes or functions constituting the basis for its exemption under section 501.

Section 513(a) further provides that in the case of a state university or college, “substantially related” includes the exercise or performance of any purpose or function described in section 501(c)(3), which includes charitable, educational, scientific, and other purposes.

Treas. Reg. §1.513-1(d)(2) provides that a trade or business is related to exempt purposes, in the relevant sense, only where the conduct of the business activities has causal relationship to the achievement of exempt purposes (other than through the production of income); and it is “substantially related,” for the purpose of section 513, only if the causal relationship is a substantial one. Thus, for the conduct of trade or business to be substantially related to the purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

Treas. Reg. § 1.501(c)(3)-1(d)(3) defines education to include the instruction or training of an individual for the purpose of improving or developing his capabilities and the instruction of the public on subjects useful to the individual and beneficial to the community.

Treas. Reg. § 1.501(c)(3)-1(d)(5)(i) provides, in part, that the term “scientific”, as used in section 501(c)(3), includes the carrying on of scientific research in the public interest. The determination as to whether research is scientific does not depend on whether such research is classified as fundamental or basic as contrasted with applied or practical.

Treas. Reg. § 1.501(c)(3)-1(d)(5)(ii) provides that scientific research does not include activities of a type ordinarily carried on as an incident to commercial or industrial operations, as, for example, the ordinary testing or inspection of materials or products or the designing or construction of equipment, buildings, etc.

Treas. Reg. § 1.501(c)(3)-1(d)(5)(iii) provides, in part, that scientific research is regarded as carried on in the public interest if the research is directed towards benefitting the public. Examples of this criterion include “scientific research carried on for the purpose of aiding in the scientific education of college or university students”.

Rev. Rul. 68-373, 1968-2 C.B. 206 holds that an organization which performs clinical

testing of drugs for commercial pharmaceutical companies is not engaged in scientific research as described in Treas. Reg. § 1.501(c)(3)-1(d)(5)(i), but is engaged in testing ordinarily carried on as an incident to the company's commercial operations.

Rev. Rul. 69-632, 1969-2 C.B. 120 holds that a nonprofit association composed of members of a particular industry that was created to develop new and improved uses for existing products of the industry is not exempt under section 501(c)(3). The association's members select research projects to increase their sales by creating new uses and markets for their product. Therefore, the primary purpose of the association's research is to serve the private interests of its creators, rather than the public interest.

Rev. Rul. 76-296, 1976-2 C.B. 141, provides in part, that an activity which otherwise qualifies as scientific research will not constitute an unrelated trade or business by reason of its being undertaken pursuant to contracts with private industry and where the commercial sponsor retains the ownership rights to the research and any rights in patents resulting from the research.

In *Midwest Research Institute v. United States*, 554 F. Supp. 1379 (W.D.Mo. 1983), *aff'd per curiam* 744 F.2d 635 (8th Cir.1984), the Court held that a tax-exempt research organization organized and operated for "scientific purposes" and which otherwise qualifies for section 501(c)(3) status, does not jeopardize its tax exempt status by performing projects for private sponsors under contracts wherein the results of the research are not published, but become the property of the sponsor.

The court held that, with the exception of two projects, the organization's performance of research for private sponsors qualified as a "tax-exempt" activity. The Court stated that projects are scientific research "if professional skill is involved in the design and supervision of a project intended to solve a problem through a search for a demonstrable truth"... and ordinary testing if the work is generally repetitive and done by scientifically unsophisticated employees to determine if the item tested meets certain specifications, "as distinguished from testing done to validate a scientific hypothesis." In evaluating one particular project, the court noted that it could not be doubted that the development of a solid lubricating material was an example of scientific research and "had the organization discovered the proper solid lubrication formula in a research project for a private sponsor who subsequently marketed the material, the fee for the initial development of the material would be exempt income to the organization." *Id.* at 1387

In *IIT Research Institute v. United States*, 9 CL. Ct. 13, 21 (1985), the U.S. Claims Court reviewed the activities of an organization exempt under section 501(c)(3). The organization contracted with a variety of industry members to perform research for them. The court defined the term "scientific" to include "the process by which knowledge is systematized or classified through the use of observation, experimentation, or reasoning." The court determined that 11 contracts between an organization and various federal government agencies or federal government

contractors were scientific in nature because they either 1) involved the use of observation or experimentation to formulate or verify facts or natural laws; 2) could only have been performed by an individual with advanced scientific or technical expertise; 3) added to knowledge within a particular scientific field; 4) involved the application of mathematical reasoning; and/or 5) involved attempts to systemize or classify a body of scientific knowledge by collecting information and presenting it in a useful form.

The court found that the organization was not involved in the commercialization of the products or process developed as a result of its research. IIT Research Institute only developed a project to the point where the research principles were established. At this point, the sponsors would make the principles available to different customers, usually in the form of newly developed products or equipment. IIT did not conduct consumer or market research, social science research, or ordinary testing of the type which is carried on incident to commercial operations. The court therefore concluded that the organization's activities did not run afoul of the "commercial operations" section of Treas. Reg. § 1.501(c)(3)-1(d)(5)(ii).

Analysis

Section 511(a)(2)(B) imposes a tax on the unrelated business taxable income of any state college or university which is an agency or instrumentality of any government or any political subdivision thereof, or which is owned or operated by a government or any political subdivision thereof.

Under section 513(a), the activities of a state university described in section 511(a)(2)(B) shall be considered "substantially related" if such activities consist of the exercise or performance of any purpose or function described in section 501(c)(3).

University is operated for various purposes including educational and scientific purposes, both of which are described in section 501(c)(3). Therefore, Research Reactor's agreement with X will be considered "substantially related" if the API development activities performed pursuant to the agreement contribute importantly to the accomplishment of University's educational or scientific purposes. *See* Treas. Reg. §1.513-1(d)(2).

Whether the API development activities contribute importantly to University's exempt purposes depends, in part, on whether the activities are "scientific." In defining the term "scientific" for purposes of section 501(c)(3), the IRS regulations and courts distinguish between research activities carried on in the public interest and other activities ordinarily carried on incident to commercial operations. *See* Treas. Reg. §§ 1.501(c)(3)-1(d)(5)(i) and (ii)*; ITT Research v. United States*; *Midwest Research Institute v. United States*.

Like the research activities performed by ITT Research Institute and Midwest Research Institute, Research Reactor's API development activities can only be performed by individuals with advanced scientific and/or technical expertise. Further, under its

agreement with X Research Reactor engages in research and development to a certain point, in this case the development of pharmaceutical ingredients, and X then utilizes the ingredients in the manufacturing, supply, distribution, and commercialization of a final product for market. Research Reactor's activities are distinguishable from activities of a type ordinarily carried on as an incident to commercial operations such as the ordinary testing performed by the drug testing company in Rev. Ru. 68-373. Its activities are also unlike those described in Rev. Rul. 69-632 where limited benefits were provided to a select group within an industry. While developing APIs for use X, Research Reactor also serves broader research and educational purposes by involving its faculty and students. Research Reactor's API development activities constitute "scientific" activities for purposes of section 501(c)(3) and do not constitute "commercial operations" as described in Treas. Reg. § 1.501(c)(3)-1(d)(5)(ii).

The scientific research performed by Research Reactor pursuant to its agreement with X is consistent with the exempt purposes of University. University has been designated as a public research university by State statute. Research Reactor is engaged in pharmaceutical research focusing on the development of radioisotopes for use in detecting and treating life-threatening human diseases. Research Reactor's API development and supply agreement with X states that the collaboration with X will provide additional opportunities for faculty and students to engage in scientific research and advance science through the sharing of research with the scientific community. Because API development and production activities increase knowledge in the fields of science and medicine, these activities, when performed for X, will contribute importantly to the research and educational opportunities of students and faculty at University. Therefore, the activities are substantially related to University's exempt purposes. *See* Treas. Reg. §1.513-1(d)(2). Further, this scientific research is regarded as carried on in the public interest consistent with Treas. Reg. § 1.501(c)(3)-1(d)(5)(iii).

As an activity which otherwise qualifies as scientific research, the API development activities performed for X, will not constitute an unrelated trade or business by reason of its being undertaken pursuant to a contract with a private company. *See* Rev. Rul. 76-296 and *Midwest Research Institute v. United States.*

Since Research Reactor is a constituent unit of University, a state university, the section 501(c)(3) scientific research performed in connection with its agreement with X is substantially related to University's exempt purposes and does not constitute an unrelated trade or business under section 513(a). Therefore, the income derived from the agreement with X is not unrelated business taxable income under section 512 and will not be subject to the tax imposed by section 511.

RULING

Based on the information and representations submitted on behalf of University, we conclude that University's development and supply activities conducted pursuant to its agreement with X do not constitute an unrelated trade or business under section 513

and the income from such agreement is not unrelated business taxable income under section 512 and will not be subject to the tax imposed by section 511.

The ruling contained in this letter is based upon information and representations submitted by or on behalf of University and accompanied by a penalty of perjury statement executed by an individual with authority to bind University, and upon the understanding that there will be no material changes in the facts. While this office has not verified any of the material submitted in support of the request for a ruling, it is subject to verification on examination. The Associate Office will revoke or modify a letter ruling and apply the revocation retroactively if there has been a misstatement or omission of controlling facts; the facts at the time of the transaction are materially different from the controlling facts on which the ruling was based; or, in the case of a transaction involving a continuing action or series of actions, the controlling facts change during the course of the transaction. See Rev. Proc. 2025-1, section 11.05, 2025-1 IRB 1.

This letter does not address the applicability of any section of the Code or Regulations to the facts submitted other than with respect to the sections specifically described, and, except as expressly provided in this letter, no opinion is expressed or implied concerning the tax consequences of any aspects of any transaction or item of income discussed or referenced in this letter.

Because it could help resolve questions concerning federal income tax status, this letter should be kept in University's permanent records.

A copy of this letter must be attached to any tax return to which it is relevant. Alternatively, if University files a return electronically, this requirement may be satisfied by attaching a statement to the return that provides the date and control number of this letter.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to University's authorized representative.

This letter is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

Sincerely,

Theodore Lieber
Senior Technician Reviewer
(Employee Benefits, Exempt Organizations, and Employment Taxes)

cc: