Unrelated Business Income Tax Returns, 2000, With a Decade in Review, 1991-2000

by Margaret Riley

The number of nonprofit organizations filing Form 990-T, *Exempt Organization Business Income Tax Return*, declined between Tax Years 1999 and 2000, from 42,151 to 38,567, the second consecutive year that the number of filings fell. Organizations reporting "unrelated business income" (UBI) filed 9 percent fewer returns for 2000. Returns with gross UBI of $10,000 or less, the threshold for exemption from filing return schedules and reporting detailed information on deductions, decreased by 15 percent; those with gross UBI over $10,000 decreased by 4 percent. The section, "Fluctuations in Form 990-T Filings," which appears later in this article, discusses annual changes in the number of returns filed from 1991-2000 and how they were influenced by the type of filer and size of gross UBI.

Even though 9 percent fewer returns were filed for 2000, aggregate gross UBI rose by 9 percent, amounting to $8.4 billion. However, the percentage changes between 1999 and 2000 in the amount of gross UBI reported by organizations in the smaller and larger gross UBI size classes mentioned above were -13 percent and +9 percent, respectively. Organizations reporting gross UBI over $10,000 represented 61 percent of Form 990-T filers, and were responsible for 99 percent of total gross income.

After offsetting total gross UBI with $7.7 billion of deductions, the resulting unrelated business taxable income (less deficit) for 2000 was $0.7 billion. Organizations reporting unrelated business (positive) taxable income numbered 19,336, about half of all filers, and taxable income dropped by 4 percent from that reported for 1999. Both the unrelated business income tax and total tax (which takes into account certain credits and other taxes) also dropped by 4 percent. In addition to the declines in total taxable income and taxes, aggregate unrelated business deficits grew by 20 percent. Figure A contains the major financial statistics cited above, plus other selected data from Forms 990-T filed for Tax Years 1999 and 2000.

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Figure A

Selected Items from Exempt Organization Business Income Tax Returns, Tax Years 1999-2000

[Money amounts are in thousands of dollars]

Item	1999	2000	Percentage change, 1999 to 2000
	(1)	(2)	(3)
Number of returns, total	**42,151**	**38,567**	**-8.5**
With gross unrelated business income of $10,000 or less[1]	17,781	15,069	-15.3
With gross unrelated business income over $10,000[1]	24,369	23,498	-3.6
With unrelated business taxable income	20,718	19,336	-6.7
Without unrelated business taxable income	21,433	19,231	-10.3
Gross unrelated business income	**7,722,135**	**8,413,385**	**+9.0**
Total deductions[2]	**6,834,850**	**7,703,052**	**+12.7**
Unrelated business taxable income (less deficit)	**887,284**	**710,333**	**-19.9**
Unrelated business taxable income	1,484,921	1,427,441	-3.9
Deficit	597,637	717,109	+20.0
Unrelated business income tax	**423,065**	**405,826**	**-4.1**
Total tax	**421,746**	**402,904**	**-4.5**

[1] Organizations with gross unrelated business income between $1,000 (the filing threshold) and $10,000 were required to report only totals for expenses and deductions (except for the specific deduction and net operating loss carryover, which all organizations reported separately).

[2] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services (GPSS). GPSS is a component of gross unrelated business income (upon which the filing requirement is based). Total cost of sales and services was $2.2 billion for 1999 and $2.3 billion for 2000.

NOTES: Detail may not add to totals because of rounding. See the Explanation of Selected Terms section of this article for definitions of gross unrelated business income, total deductions, unrelated business taxable income (less deficit), unrelated business income tax, and total tax.

Background

Definition of Unrelated Business Income

Nonprofit organizations that are granted Federal tax exemption based on their mission-related purposes are allowed, within certain limits, to generate income from unrelated business activities; however, the income from these activities is subject to taxation. Unrelated business income is produced from an activity that is both conducted on a regular basis and not directly related to an organization's tax-exempt mission. The fact that the income may be used for furthering an organization's exempt purposes does not alter the definition [1]. Any profits from an organization's unrelated business activities are taxed at regular corporate or trust income tax rates [2]. There are certain exclusions to this income taxation; some examples are engaging in business activities in which substantially all of the work is performed by volunteer labor; selling merchandise that the organization received as a gift or contribution; and operating certain games of chance, as specified in the Internal Revenue Code (IRC).

Form 990-T Requirements

Organizations that are described in IRC sections 220(e), 401(a), 408(e), 408A, 501(c)(2)-(27), 529(a), and 530(a) must file a Form 990-T if they received $1,000 or more of gross income from business activities that were considered unrelated to the purposes for which they received tax-exempt status. (The various types of tax-exempt organizations subject to the unrelated business income tax provisions are described by Code section in the Appendix to this article.) IRC section 501(d) religious and apostolic organizations, farmers' cooperatives, and section 4941(a)(1) "nonexempt charitable trusts" report taxes on forms other than Form 990-T.

Most tax-exempt organizations are required to file an annual Form 990, *Return of Organization Exempt From Income Tax*, or Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax* (used by organizations with annual gross receipts of less than $100,000 and total end-of-year assets of less than $250,000) [3]. The Form 990-T is required only for a tax year in which an organization has unrelated business income. While specific taxpayer information reported on an exempt organization's Form 990/990-EZ "information return" can be disclosed to the public, specific taxpayer information reported on its Form 990-T "tax return" cannot. Under disclosure rules governing the release of taxpayer information, only aggregate totals from Form 990-T can be presented in this article.

The Internal Revenue Service required organizations having accounting periods beginning in 2000 (and, therefore, ending between December 2000 and November 2001, for full-year return filers) to file a 2000 Form 990-T to report unrelated business income of $1,000 (the filing threshold) or more. The associated required due dates for filing Tax Year 2000 Forms 990-T generally spanned May 2001 to April 2002, but extensions of time to file beyond this period routinely were granted to many organizations. For all Internal Revenue Code (IRC) section 220(e), 401(a), 408(e), 408A, and 530(a) trusts, the required accounting period was Calendar Year 2000, and the filing date was April 15, 2001. Corresponding to the required filing dates, the Tax Year 2000 study sample was drawn from Forms 990-T processed by IRS throughout Calendar Years 2001 and 2002. (See the Data Sources and Limitations section of this article for detailed information on the study sample.) Because of the various accounting periods of the organizations filing a 2000 return, the financial activities covered in this article span the period January 2000 through November 2001, although the majority of activities occurred during Calendar Year 2000.

Any returns filed by organizations with gross unrelated business income (UBI) below the $1,000 filing requirement threshold were excluded from the statistics presented in this article. Some of these returns were filed inadvertently; others were filed for a specific reason, such as to claim a refund of Form 1099 backup withholding of tax that was withheld erroneously on interest or dividend payments because the payer did not realize that the payee was a tax-exempt organization. Organizations with gross UBI between $1,000 and $10,000 were required to report only totals for expenses and deductions (except for the "specific deduction" and "net operating loss deduction," which all organizations reported separately). Organizations with gross UBI over $10,000 were required to report more detailed expenses and deductions.

Statistical Tables

At the end of this article, Tax Year 2000 statistics covering selected financial data (including gross UBI, total deductions, unrelated business taxable income (UBTI), and total income tax) are shown in Tables 1-5. Tables 6 and 7 provide data on detailed sources of UBI and deductions, respectively. Statistics shown in Table 1 are distributed by type of organization based on Internal Revenue Code sections. Tables 2, 4, 6, and 7 are distributed by size of gross UBI; Table 4 is also distributed by type of entity. Table 3 is distributed by size of UBTI, while Table 5 is distributed by unrelated business activity or industrial grouping.

Taxable Income and Taxes, 2000

Based on $1.4 billion of total unrelated business taxable income (UBTI) collectively reported for 2000, the associated unrelated business income tax (UBIT) was $405.8 million. After adjusting UBIT for certain credits and other taxes, the resulting total tax reported was $402.9 million [4]. Total tax takes into account the unrelated business income tax, plus $1.6 million of alternative minimum tax and $3.5 million of "proxy tax" on certain nondeductible lobbying and political expenditures, minus $8.0 million of tax credits [5, 6]. Tax credits included the foreign tax credit ($3.9 million), general business credit ($2.7 million), credit for prior-year minimum tax ($1.0 million), and "other" credits ($0.4 million) [7]. Total tax can also include recapture taxes, but no organizations reported recapture taxes for 2000.

The proxy tax is required to be reported on Form 990-T and is included in total tax, but it has no connection to the unrelated business income tax or an organization's involvement in unrelated business activities. (See the definition of proxy tax in the Explanation of Selected Terms section of this article.) The $3.5 million of proxy tax shown in the total tax computation above is only that reported by Form 990-T filers with gross unrelated business income above the $1,000 filing threshold, a criterion for selection for the Statistics of Income (SOI) sample. Proxy tax reported by organizations that had no UBI or those that had UBI below the filing threshold is not included.

According to unpublished data available from the IRS Business Returns Transaction File, a total of $12.1 million of proxy tax was reported on 618 returns for Tax Year 2000. About 66 percent of these returns were filed solely to report the proxy tax (i.e., no income from unrelated business activities was reported) and, therefore, were not included in the unrelated business income tax return study.

Nonprofit Charitable Organizations

As shown in Figure B, nonprofit "charitable" organizations described as tax-exempt under IRC section 501(c)(3) made up 30 percent of all Tax Year 2000 Form 990-T filers and reported $4.8 billion of gross

Figure B

Exempt Organization Business Income Tax Returns: Sources of Gross Unrelated Business Income (UBI), Tax Year 2000

[Money amounts are in thousands of dollars]

Item	All exempt organizations	Percentage of total gross UBI in column (1)	IRC section 501(c)(3) organizations	Percentage of total gross UBI in column (3)	Column (3) as a percentage of column (1)
	(1)	(2)	(3)	(4)	(5)
Number of returns	**38,567**	**N/A**	**11,497**	**N/A**	**29.8**
Total gross unrelated business income (UBI)	**8,413,385**	**100.0**	**4,780,148**	**100.0**	**56.8**
Gross profit (less loss) from sales and services	4,070,311	48.4	2,981,034	62.4	73.2
Capital gain net income	659,245	7.8	174,974	3.7	26.5
Net capital loss (trusts only)	468	(1)	209	(1)	44.7
Net gain (less loss), noncapital assets [2]	470	(1)	183	(1)	38.9
Income (less loss) from partnerships and S corporations	327,235	3.9	209,635	4.4	64.1
Rental income [3]	213,655	2.5	137,510	2.9	64.4
Unrelated debt-financed income	417,969	5.0	288,725	6.0	69.1
Investment income (less loss) [4]	659,448	7.8	N/A	N/A	N/A
Income from controlled organizations [5]	198,754	2.4	98,677	2.1	49.6
Exploited exempt activity income, except advertising	135,216	1.6	62,887	1.3	46.5
Advertising income	1,325,650	15.8	609,732	12.8	46.0
Other income (less loss)	405,900	4.8	217,001	4.5	53.5

N/A - Not applicable.

[1] Less than 0.05 percent.

[2] Property other than capital assets generally included property of a business nature, in contrast to personal property and investment property, which were capital assets.

[3] Income from real property and personal property leased with real property.

[4] Reported by Internal Revenue Code section 501(c)(7), (9), and (17) organizations only.

[5] Annuities, interest, rents, and royalties.

NOTE: Column detail may not add to totals because of rounding.

unrelated business income (UBI), or 57 percent of the total $8.4 billion reported by all exempt organizations [8]. Over the 1992-2000 tax-year period, section 501(c)(3) nonprofit charitable organizations consistently accounted for more than half of total gross UBI reported annually by all organizations on Form 990-T. For 1991, they accounted for 49 percent of total gross UBI [9]. This section will concentrate on some of the reporting characteristics of nonprofit charitable organizations, including the extent to which their dollar shares of various sources of UBI contributed to the respective aggregate total amounts of UBI reported by all Form 990-T filers. The next section of this article contains a discussion of several figures that present data for 1991-2000 on gross UBI and other major financial items. The data are categorized by section 501(c)(3) organizations and selected other types of organizations, based on the IRC section that described their exemption.

Actvities related to sales and services, and advertising, produced three-quarters of section 501(c)(3) charities' gross UBI for Tax Year 2000.

The section 501(c)(3) population of Form 990-T filers typically is dominated by hospitals and medical centers; schools, colleges, universities, and related educational organizations; arts and cultural organizations, including museums and performing arts organizations; and human services organizations [10]. Many other types of nonprofit charitable organizations file Forms 990-T as well, and include, predominantly, organizations with activities related to the environment; animals; mental health; housing and shelter; recreation and sports; scientific and technological research; and religion.

According to SOI statistics for the 2000 tax year, 230,159 section 501(c)(3) nonprofit charitable organizations filed the informational Form 990 or Form 990-EZ [11]. About 5 percent of these section 501(c)(3) Form 990/990-EZ filers also filed Form 990-T to report unrelated business income and taxes.

The largest single source of unrelated business income reported by nonprofit charitable organizations for 2000 was gross profit (less loss) from sales and services. (Definitions of this and other sources of UBI listed in Figure B can be found in the Explanation of Selected Terms section of this article.) Not only did charities' income from sales and services make up 62 percent of their total gross UBI, it also accounted for 73 percent of gross profit (less loss) from sales and services reported by all Form 990-T filers.

The next largest UBI source reported by the charities was advertising income, which amounted to 46 percent of the total advertising income reported by all exempt organizations. Activities related to sales and services, and advertising, produced three-quarters of section 501(c)(3) charities' gross UBI for Tax Year 2000. As emphasized by column (5) of Figure B, nonprofit charitable organizations also accounted for relatively large percentages of most of the remaining income sources shown in column (1).

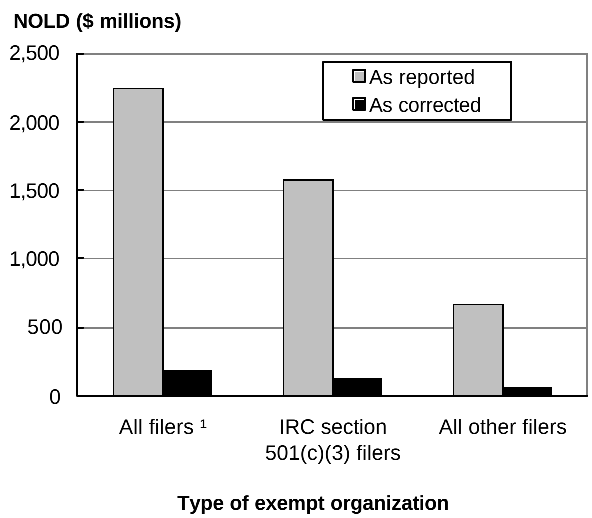
Capital gain net income was one of the least important sources of unrelated business income for the charitable organizations. It amounted to less than 27 percent of capital gain net income reported by all organizations and made up only 4 percent of charities' gross UBI. Typically, section 501(c)(3) nonprofits do not rely heavily on investments for producing income, both UBI and nontaxable mission-related income. Also, unless a nonprofit charity incurred debt to finance the purchase of an investment, the income produced from the investment generally was not taxable.

As originally reported in an *SOI Bulletin* article on 1999 Form 990-T data, it was discovered that filers were over-reporting the amount of the "net operating loss deduction" (NOLD) [12]. (See the definition of Net Operating Loss Deduction in the Explanation of Selected Terms section of this article.) The NOLD should have been reported only when taxable income was positive, and it should have been limited to the amount of the taxable income. Rather than limiting the NOLD to the amount that was appropriate to offset any positive taxable income, many filers were reporting the entire amount of their net operating loss carryover from prior years' activities. Reporting the entire amount of prior years' net operating losses resulted in aggregate Form 990-T deficits that were extremely inflated.

Figure C illustrates the differences, for Tax Year 2000, between the amount of NOLD initially reported on Form 990-T and the correct amount of

Figure C

Net Operating Loss Deduction (NOLD), As Reported on Form 990-T and As Corrected, Tax Year 2000



[1] Includes any Form 990-T filers that were tax-exempt under Internal Revenue Code (IRC) sections 220(e), 401(a), 408(e), 408A, 501(c)(2)-(27), 529(a), and 530(a). See the Appendix to this article for a listing of the types of tax-exempt organizations, by the IRC section describing them.

NOLD that should have been reported. The aggregate total of NOLD reported by all organizations amounted to $2,245.0 million, which was subsequently changed to the correct amount of $181.2 million. Seventy percent of the aggregate total of NOLD that was initially reported was attributable to section 501(c)(3) nonprofit chartable organizations. They reported an NOLD amount of $1,580.1 million, which was corrected to $125.4 million.

Corrections that were made to NOLD amounts did not affect positive unrelated business taxable income; they only reduced reported deficits. Therefore, the over-reporting of the NOLD did not reduce an organization's tax liability, but it did drastically inflate deficits. The deficit amounts shown in Figure A and elsewhere in this article are after corrections to the reported NOLD amounts.

Fluctuations in Form 990-T Filings

Figures D, E, and F present a time-series of Form 990-T returns filed for 1991-2000. These figures, in addition to Figures G through J, discussed in the next section of this article, contain plotted lines for IRC section 501(c)(3) nonprofit charitable organization filers and for other types of filers tax-exempt under selected IRC sections. Each of Figures D through J also contains a broken plotted line for all filers, except section 501(c)(3) organizations. This is done to give the reader a visual depiction of how section 501(c)(3) filers compare to the rest of the filing population. Nonprofit charitable organizations generally command more public interest than any other type of organization granted exemption from income tax by the IRS.

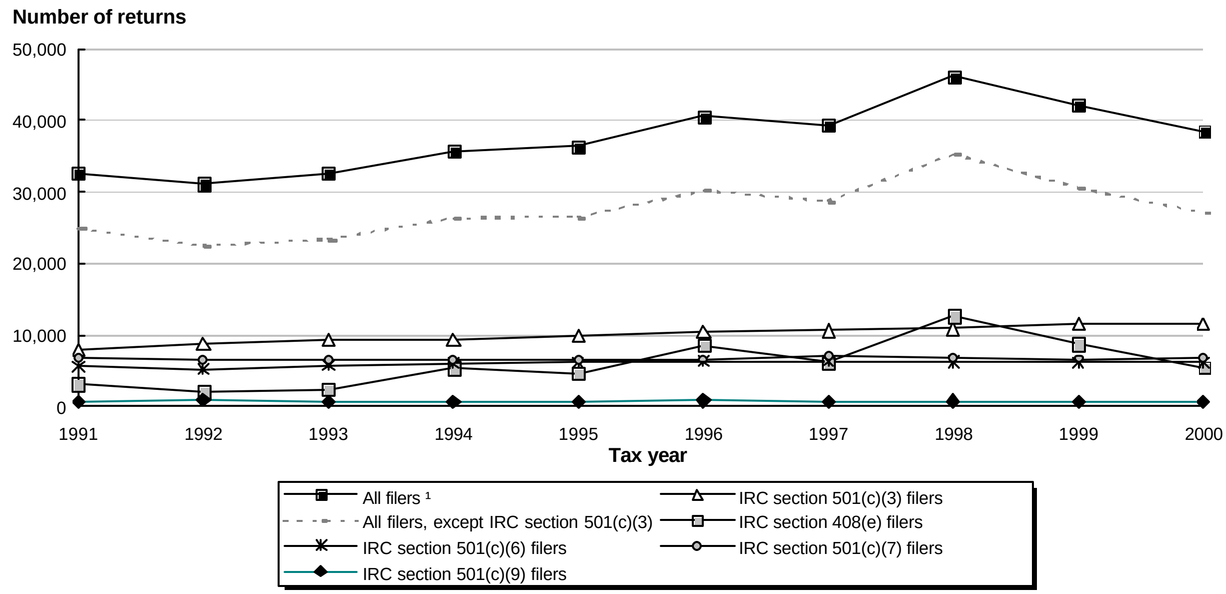
Overall, the year-to-year fluctuations in Form 990-T filings shown in Figure D are attributable, in large part, to section 408(e) "traditional" Individual Retirement Account (IRA) trusts. (Roth IRA trusts, which are described in IRC section 408A, are included with "all filers" in Figure D. Roth IRA trusts with gross UBI of $1,000 or more were required to File Form 990-T beginning with Tax Year 1998.) Excluding the section 408(e) IRA trusts, the number of returns filed annually by section 501(c)(3) nonprofit charitable organizations and other types of filers represented in Figure D was fairly stable over the 10-year period [13].

Organizations described in IRC sections 408(e), 501(c)(3), 501(c)(6) (business leagues, chambers of commerce, and real estate boards), and 501(c)(7) (recreational and social clubs) consistently were the top four groups of Form 990-T filers and accounted for 71 percent to 80 percent of annual filings during the 1991-2000 period. The section 501(c)(9) voluntary employees' beneficiary organizations, which made up only 3 percent or less of Form 990-T filers each year, are included in Figure D to highlight the fact that they filed only a small percentage of returns, but accounted for a much larger proportion of total unrelated business taxable income (UBTI) and unrelated business income tax (UBIT), as shown in Figures H and J, respectively.

Figure E portrays a similar time series for the Form 990-T filing population that had gross unrelated business income (UBI) of $10,000 or less. The filings of the population that had greater amounts of gross UBI are illustrated in Figure F. It is clearly evident that the fluctuations in aggregate filings shown in Figure D are driven by the section 408(e) IRA trusts that reported smaller amounts of gross

Figure D

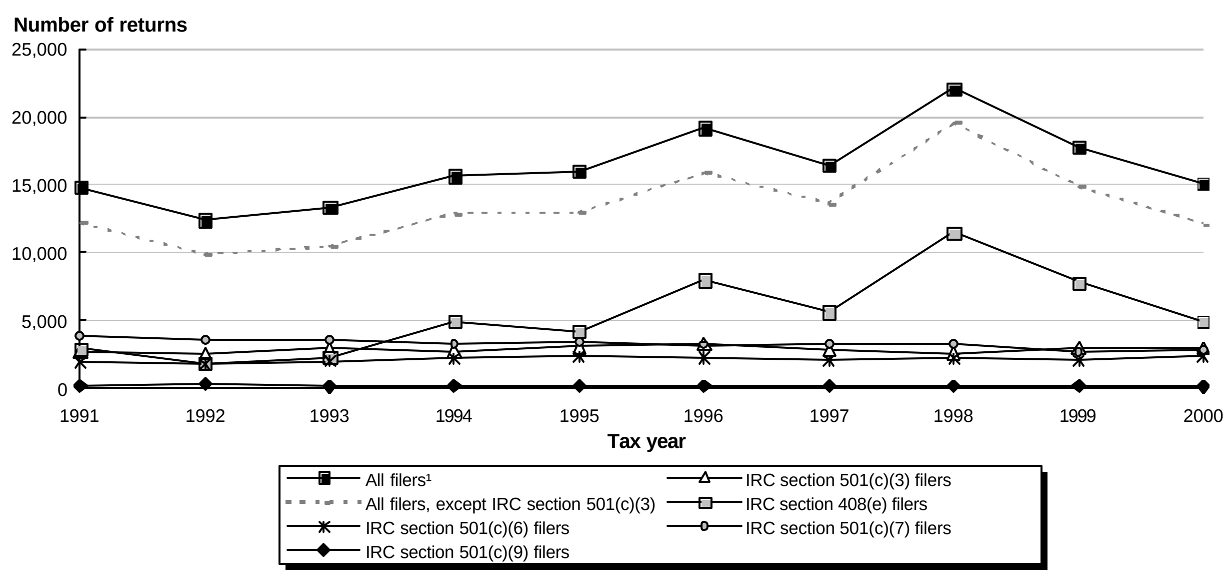
All Form 990-T Filers, by Selected Internal Revenue Code (IRC) Sections, Tax Years 1991-2000



[1] Includes any Form 990-T filers that were tax-exempt under Internal Revenue Code (IRC) sections 220(e), 401(a), 408(e), 408A, 501(c)(2)-(27), 529(a), and 530(a). See the Appendix to this article for a listing of the types of tax-exempt organizations, by the IRC section describing them.

Figure E

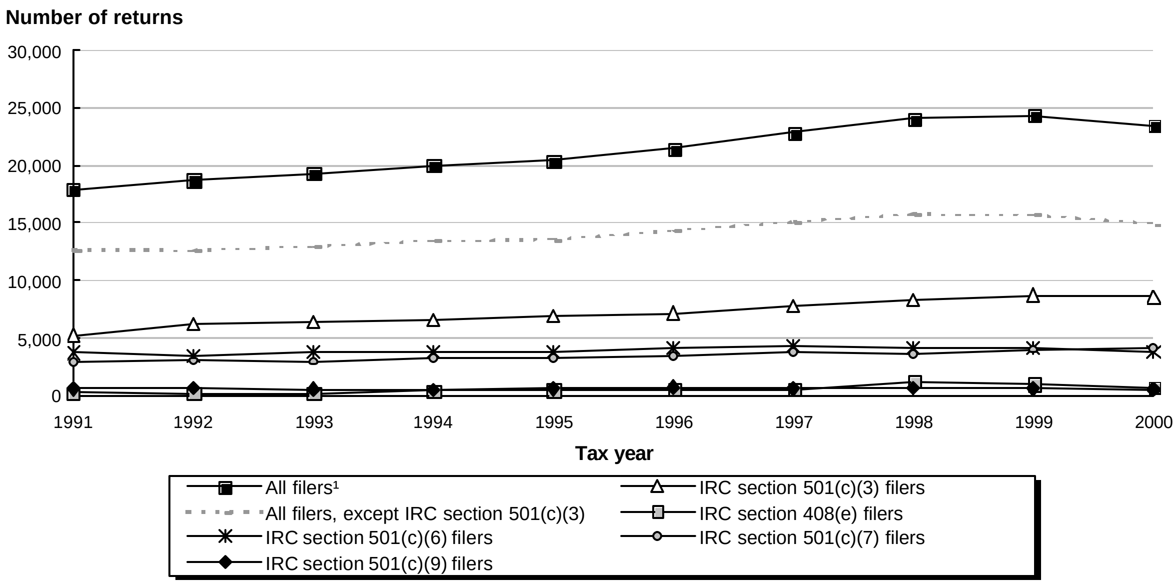
Form 990-T Filers With Gross Unrelated Business Income of $10,000 or Less, by Selected Internal Revenue Code (IRC) Sections, Tax Years 1991-2000



[1] Includes any Form 990-T filers who were tax-exempt under Internal Revenue Code (IRC) sections 220(e), 401(a), 408(e), 408A, 501(c)(2)-(27), 529(a), and 530(a). See the Appendix to this article for a listing of the types of tax-exempt organizations, by the IRC section describing them.

Figure F

Form 990-T Filers With Gross Unrelated Business Income Over $10,000, by Selected Internal Revenue Code (IRC) Sections,Tax Years 1991-2000



[1] Includes any Form 990-T filers who were tax-exempt under Internal Revenue Code (IRC) sections 220(e), 401(a), 408(e), 408A, 501(c)(2)-(27), 529(a), and 530(a). See the Appendix to this article for a listing of the types of tax-exempt organizations, by the IRC section describing them.

UBI. The filing pattern of organizations with gross UBI over $10,000 fluctuated somewhat during the 1991-2000 period, but the relatively small number of returns filed by IRA trusts charted in Figure F had little impact on the filing pattern shown in Figure D for all section 408(e) organizations.

Partnership income consistently makes up a substantial portion of the smaller section 408(e) IRA trusts' gross UBI. Sizeable gains or losses from partnerships can affect whether their total gross UBI is below or above the $1,000 threshold for filing Form 990-T [14]. Section 408(e) IRA trusts' Form 990-T filings shown in Figure E rose or fell in tandem with the amount of partnership income received by these types of organizations. For instance, for 1998, the number of returns filed by section 408(e) IRA trusts with gross UBI of $10,000 or less grew by 105 percent, and their aggregate partnership income increased by 266 percent. For 1999, the number of returns filed and the amount of aggregate partnership income received by these types of organizations fell 32 percent and 52 percent, respectively.

A Decade of Form 990-T Financial Statistics, 1991-2000

Figures G through J contain respective time-series data for 1991-2000 on gross unrelated business income (UBI), total deductions, unrelated business taxable income (UBTI), and unrelated business income tax (UBIT). The graphs were constructed using constant dollar amounts [15]. The data in Figures G through J are segmented by all filers; Internal Revenue Code (IRC) section 501(c)(3) nonprofit charitable organizations; all filers, except section 501(c)(3) organizations; section 501(c)(6) business leagues, chambers of commerce, and real estate boards; section 501(c)(7) recreational and social clubs; section 501(c)(9) voluntary employees' beneficiary associations (VEBA's); and section 401(a) qualified pension, profit-sharing, and stock-bonus plans (hereinafter referred to as "pension trusts").

Section 401(a) pension trusts are charted in place of section 408(e) IRA trusts in Figures G-J. Unlike the section 408(e) IRA trusts, the number of returns filed by pension trusts during the 1991-2000 period had very little influence on the pattern of aggregate Form 990-T filings shown in Figures D-F. Conversely, section 408(e) IRA trusts contributed relatively little to aggregate amounts of gross UBI, deductions, taxable income, and tax graphed in Figures G-J, while pension trusts had a notable impact on aggregate amounts of taxable income and tax shown in Figures I and J for selected years during the 1991-2000 period.

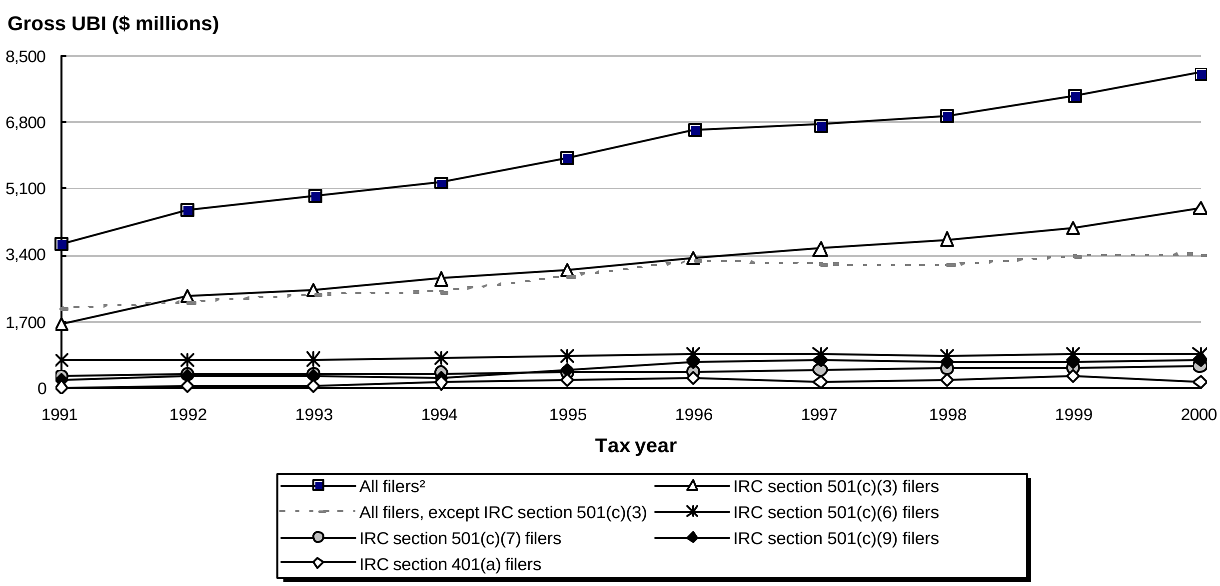
"Outliers," returns that contained unique characteristics that were considered anomalous to the general population of returns filed for a given year, or returns that contained very large dollar amounts and were not filed consistently over the 10-year period, have been excluded from Figures G through J. For example, a tax-exempt association, which reported the largest amounts of gross UBI and total deductions for each of Tax Years 1991-1997, had its tax-exempt status terminated beginning with Tax Year 1998 [16]. The returns filed by this organization for 1991-1997 are not included in Figures G-J. In all, there were eight tax-exempt entities that filed at least one return during the 1991-2000 period that was considered to be an outlier. Any returns filed by these eight entities were excluded from the statistics used to construct the time series shown in Figures G-J.

Gross Unrelated Business Income (UBI)

As illustrated in Figure G, the gross UBI of section 501(c)(3) nonprofit charitable organizations grew steadily during Tax Years 1991-2000, nearly tripling over the 10-year period, from $1,638 million to $4,618 million, after adjustment for inflation and the

Figure G

Gross Unrelated Business Income (UBI) Reported on Form 990-T, by Selected Internal Revenue Code (IRC) Sections, Tax Years 1991-2000, in Constant Dollars[1]



[1]Constant dollars were derived using the 1996 chain-type price indexes issued by the Bureau of Economic Analysis (BEA), Department of Commerce. The indexes are available from BEA's Web site, www.bea.gov. Tax Year 2000 is the base year in this figure. See note, below, regarding the exclusion of "outliers" from 2000 and other tax years included in Figure G.

[2]Includes any Form 990-T filers that were tax-exempt under Internal Revenue Code (IRC) sections 220(e), 401(a), 408(e), 408A, 501(c)(2)-(27), 529(a), and 530(a). See the Appendix to this article for a listing of the types of tax-exempt organizations, by the IRC section describing them.

NOTE: There were eight tax-exempt entities that filed at least one return that was considered to be an "outlier" for purposes of analyzing data from the 1991-2000 reporting period. The outliers are validly filed returns, but they contained unique characteristics that were considered anomalous to the general population of returns filed for a given year, or they contained very large dollar amounts and were not filed each year over the 10-year period. The returns of these eight organizations have been excluded from the 1991-2000 time series presented in Figures G-J, in order to avoid skewing of the multi-year financial data being analyzed. For consistency, these outliers were also excluded from the 1991-2000 time-series in Figures D-F, even though their presence would not have distorted the data presented. Other figures and tables in this article contain data from all validly filed returns.

removal of outliers. These organizations reported far more income from unrelated business activities annually than any other type of organization. After the nonprofit charitable organizations, the section 501(c)(6), 501(c)(7), and 501(c)(9) organizations have traditionally accounted for the next largest proportions of gross UBI.

The unrelated business income of section 501(c)(7) recreational and social clubs rose slightly and steadily each year during the 1991-2000 period. The same is true for the section 501(c)(6) business leagues, chambers of commerce, and real estate boards, except for a slight downturn for 1998. The relatively stable amounts of gross UBI reported by these organizations throughout the 1991-2000 period contrasts with the steep growth exhibited by the section 501(c)(3) charitable organizations.

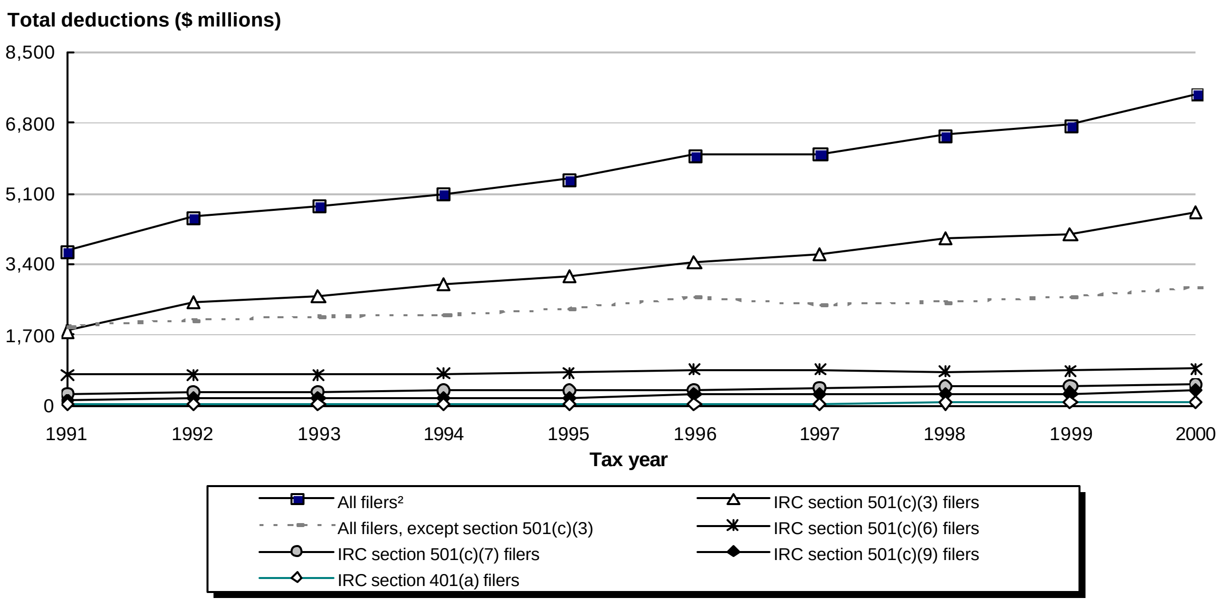
Compared to other types of organizations included in Figure G, section 401(a) and section 501(c)(9) filers' respective annual amounts of gross UBI were much more variable throughout the period, and these two groups of filers carried much less weight than the section 501(c)(3) charities in shaping the pattern of annual changes in aggregate gross UBI over the 10-year period. Even though the section 401(a) trusts historically did not account for a large portion of total gross UBI, they, along with the charities and VEBA's, figure prominently in the UBTI and UBIT time-series data contained in Figures I and J.

Total Deductions

The total deductions graph lines contained in Figure H for all filers, and for each of the sections 501(c)(3), 501(c)(6), and 501(c)(7) filers, form

Figure H

Total Deductions Reported on Form 990-T, by Selected Internal Revenue Code (IRC) Sections, Tax Years 1991-2000, in Constant Dollars[1]



[1]Constant dollars were derived using the 1996 chain-type price indexes issued by the Bureau of Economic Analysis (BEA), Department of Commerce. The indexes are available from BEA's Web site, www.bea.gov. Tax Year 2000 is the base year in this figure. See note, below, regarding the exclusion of "outliers" from 2000 and other tax years included in Figure H.

[2]Includes any Form 990-T filers that were tax-exempt under Internal Revenue Code (IRC) sections 220(e), 401(a), 408(e), 408A, 501(c)(2)-(27), 529(a), and 530(a). See the Appendix to this article for a listing of the types of tax-exempt organizations, by the IRC section describing them.

NOTE: There were eight tax-exempt entities that filed at least one return that was considered to be an "outlier" for purposes of analyzing data from the 1991-2000 reporting period. The outliers are validly filed returns, but they contained unique characteristics that were considered anomalous to the general population of returns filed for a given year, or they contained very large dollar amounts and were not filed each year over the 10-year period. The returns of these eight organizations have been excluded from the 1991-2000 time series presented in Figures G-J, in order to avoid skewing of the multi-year financial data being analyzed. For consistency, these outliers were also excluded from the 1991-2000 time-series in Figures D-F, even though their presence would not have distorted the data presented. Other figures and tables in this article contain data from all validly filed returns.

patterns very similar to those shown for the respective types of filers' gross UBI shown in Figure G. This is not the case with the section 501(c)(9) VEBA trusts and section 401(a) pension trusts, however. Compared to these organizations' annual gross UBI fluctuations presented in Figure G, the annual amounts of their total deductions plotted in Figure H remained relatively flat from 1991 to 2000.

Traditionally, tax-exempt trusts, by the nature of their operations, are more limited than most tax-exempt corporate entities in the types and amount of deductions they can claim to offset income, which is one factor in explaining the fairly stable expenses reported by the section 501(c)(9) and section 401(a) trusts. For example, trust investment portfolios are usually overseen by only one or two trust managers, so deductions for salaries and wages, a significant deduction item for many corporate nonprofits, are relatively small for exempt trusts. Their more limited deductions are part of the reason why the section 501(c)(9) VEBA trusts and section 401(a) pension trusts account for significantly greater proportions of aggregate UBTI and UBIT, depicted in Figures I and J, than they do of aggregate gross UBI and total deductions, depicted in Figures G and H. Other factors influencing Form 990-T filers' UBTI and UBIT are discussed in the next section on "Unrelated Business Taxable Income and Tax."

Using Tax Year 2000 as an example, section 501(c)(9) VEBA trusts' total deductions comprised only 5 percent of the aggregate total reported by all Form 990-T filers, and their gross UBI accounted for 11 percent of aggregate gross UBI. After offsetting their UBI with deductions, the VEBA's accounted for 38 percent of UBTI and 36 percent of UBIT. In addition, the VEBA's ratio of deductions to gross UBI was 44 percent. By comparison, the total-deductions-to-gross-UBI ratio for section 501(c)(3) charities was 101 percent for 2000.

A situation similar to that for the VEBA trusts exists for the section 401(a) pension trusts. For 2000, they accounted for less than 1 percent of total deductions and 2 percent of aggregate gross UBI, and their total-deductions-to-gross-UBI ratio for that year was 36 percent. After offsetting their UBI with deductions, the pension trusts accounted for 8 percent of UBTI and 9 percent of UBIT. For any given year during the 1991-2000 period, pension trusts ac counted for no more than 1 percent of total deductions and less than 5 percent of gross UBI, while their proportionate shares of UBTI and UBIT were much greater. A particularly notable example of this is Tax Year 1995. Pension trusts accounted for well under 1 percent of total deductions and only 3 percent of aggregate gross UBI reported for 1995, but their shares of UBTI and UBIT were 20 percent and 23 percent, respectively.

Unrelated Business Taxable Income and Tax

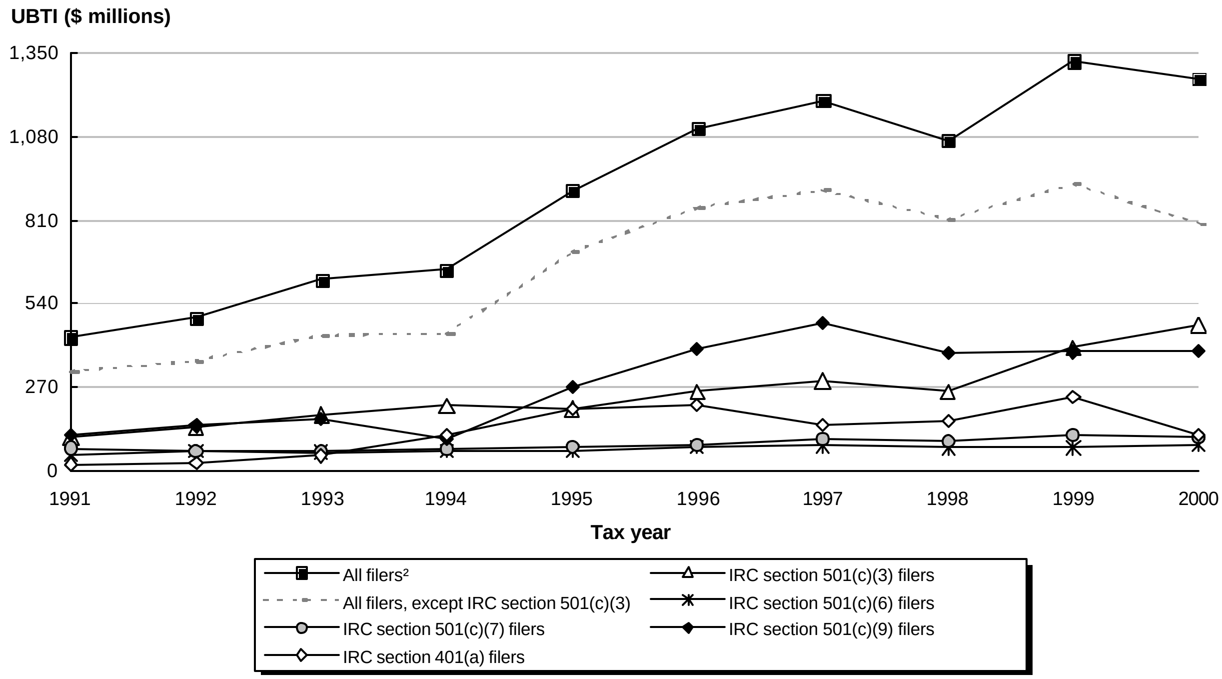
The graphic displays of unrelated business taxable income (UBTI) and unrelated business income tax (UBIT) contained in Figures I and J are nearly identical, not surprising given the causal relationship between these two financial data items. Large proportions of aggregate UBTI and UBIT were attributable to section 501(c)(3) and 501(c)(9) organizations from 1991 to 2000, and section 401(a) organizations accounted for sizeable proportions for selected years throughout the period. Overall, sections 501(c)(6) and 501(c)(7) organizations accounted for more moderate shares of UBTI and UBIT, and did not play as significant a role in year-to-year changes in these financial data items as did the aforementioned organizations. Organizations' deductions, applicable tax rates, and types of financial activities are all factors that influence their taxable incomes and tax liabilities reported on Form 990-T.

Influence of Organizations' Deductions

As noted earlier, disparities in the amounts of deductions the different types of organizations are allowed to use to offset unrelated business income affect the amount of income that is ultimately taxable to the organizations. Tax Year 1997 is a good example to highlight this. In current 1977 dollars, section 501(c)(3) charities with (positive) UBTI reported $1,008.5 million of aggregate gross UBI and $731.5 million of total deductions. The section 501(c)(9) VEBA trusts with UBTI reported $508.6 million of aggregate gross UBI (about half that reported by the nonprofit charities) and only $52.7 million of total deductions (less than one-tenth of that reported by the charities). As a result, the taxable income of the charities for 1997 was $276.9 million, while that for the VEBA's was $455.8 million. In addition to the disparity between the total-deductions-to-gross-UBI ratios of these two types of

Figure I

Unrelated Business Taxable Income (UBTI) Reported on Form 990-T, by Selected Internal Revenue Code (IRC) Sections, Tax Years 1991-2000, in Constant Dollars [1]



[1]Constant dollars were derived using the 1996 chain-type price indexes issued by the Bureau of Economic Analysis (BEA), Department of Commerce. The indexes are available from BEA's Web site, www.bea.gov. Tax Year 2000 is the base year in this figure. See note, below, regarding the exclusion of "outliers" from 2000 and other tax years included in Figure I.

[2]Includes any Form 990-T filers that were tax-exempt under Internal Revenue Code (IRC) sections 220(e), 401(a), 408(e), 408A, 501(c)(2)-(27), 529(a), and 530(a). See the Appendix to this article for a listing of the types of tax-exempt organizations, by the IRC section describing them.

NOTE: There were eight tax-exempt entities that filed at least one return that was considered to be an "outlier" for purposes of analyzing data from the 1991-2000 reporting period. The outliers are validly filed returns, but they contained unique characteristics that were considered anomalous to the general population of returns filed for a given year, or they contained very large dollar amounts and were not filed each year over the 10-year period. The returns of these eight organizations have been excluded from the 1991-2000 time series presented in Figures G-J, in order to avoid skewing of the multi-year financial data being analyzed. For consistency, these outliers were also excluded from the 1991-2000 time-series in Figures D-F, even though their presence would not have distorted the data presented. Other figures and tables in this article contain data from all validly filed returns.

organizations (73 percent versus 10 percent), the tax rates applicable to each type also come into play.

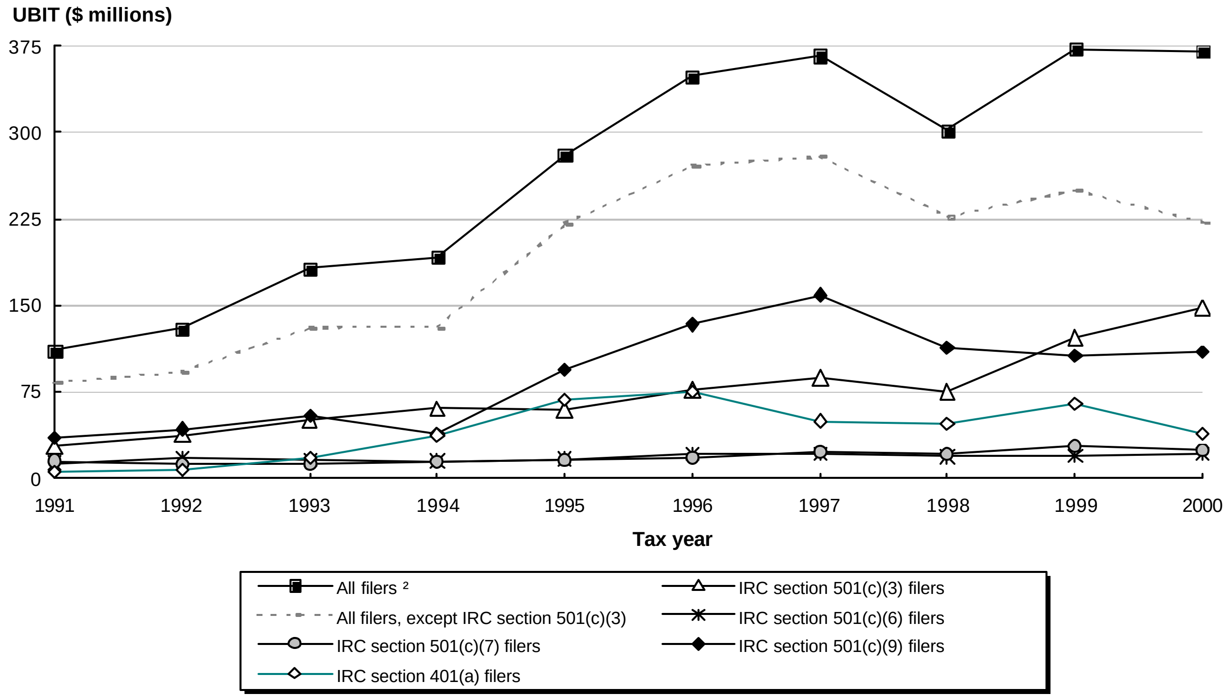
Influence of Organizations' Tax Rates

Most section 501(c)(3) organizations are incorporated, and are thus subject to U.S. corporate tax rules and marginal tax rates. Virtually all section 501(c)(9) organizations are trusts, which are subject to different tax rules, depending on the type of trust, and are generally taxed at individual (single status) marginal tax rates. Once again using Tax Year 1997 as an example, the minimum tax rate for trusts was 15 percent, which was applied to UBTI of less than $1,650. For corporations, the minimum 15-percent tax rate applied to a much larger UBTI threshold--less than $50,000. The maximum tax rates for trusts and corporations were, respectively, 39.6 percent, applied to trust taxable income over $6,100, and 35 percent, applied to corporate taxable income over $18,333,333.

To emphasize the effect of these contrasting tax rates, a tax-exempt trust with $40,000 of UBTI would be liable for $15,840 of unrelated business income tax, compared to a tax-exempt corporation with the same amount of UBTI, which would be liable for only $6,000 of unrelated business income

Figure J

Unrelated Business Income Tax (UBIT) Reported on Form 990-T, by Selected Internal Revenue Code (IRC) Sections, Tax Years 1991-2000, in Constant Dollars[1]



[1]Constant dollars were derived using the 1996 chain-type price indexes issued by the Bureau of Economic Analysis (BEA), Department of Commerce. The indexes are available from BEA's Web site, www.bea.gov. Tax Year 2000 is the base year in this figure. See note, below, regarding the exclusion of "outliers" from 2000 and other tax years included in Figure J.

[2]Includes any Form 990-T filers that were tax-exempt under Internal Revenue Code (IRC) sections 220(e), 401(a), 408(e), 408A, 501(c)(2)-(27), 529(a), and 530(a). See the Appendix to this article for a listing of the types of tax-exempt organizations, by the IRC section describing them.

NOTE: There were eight tax-exempt entities that filed at least one return that was considered to be an "outlier" for purposes of analyzing data from the 1991-2000 reporting period. The outliers are validly filed returns, but they contained unique characteristics that were considered anomalous to the general population of returns filed for a given year, or they contained very large dollar amounts and were not filed each year over the 10-year period. The returns of these eight organizations have been excluded from the 1991-2000 time series presented in Figures G-J, in order to avoid skewing of the multi-year financial data being analyzed. For consistency, these outliers were also excluded from the 1991-2000 time-series in Figures D-F, even though their presence would not have distorted the data presented. Other figures and tables in this article contain data from all validly filed returns.

tax. A similar situation exists for the section 401(a) pension trusts, which, like the VEBA's, are subject to higher marginal tax rates than corporate entities.

Influence of Organizations' Types of Financial Activities

The types of financial activities in which organizations are engaged, and which produce their various types of unrelated business income, also have great impact on annual amounts of unrelated business taxable income. Volatility of financial markets appears to be linked to some of the annual increases and decreases in taxable income and, therefore, the tax reported by section 501(c)(9) and section 401(a) trust entities for 1991-2000, as represented in Figures I and J [17]. Since each of these types of entities' main source of income is investments, the annual amounts of total gross UBI that they report are linked more closely to market fluctuations than gross UBI amounts reported by many other types of organizations, most notably the section 501(c)(3) nonprofit charitable organizations.

For example, the two main sources of gross unrelated business income traditionally reported on the Form 990-T income statement by section 501(c)(9) VEBA's are investment income (less loss) and capital gain net income. For the 401(a) pension trusts, the two largest income sources are combined partnership and S corporation income, and capital gain net income. The production of these types of income can be directly influenced by financial markets. In contrast, the section 501(c)(3) nonprofit charitable organizations reported gross profit (less loss) from sales and services, and advertising income as their two largest sources of gross UBI. A general economic downturn could unfavorably affect the demand for section 501(c)(3) unrelated business services, but these organizations are fairly well protected from any adverse effects caused by poor financial market performance in a given year.

The decrease in the section 501(c)(9) associations' UBTI shown in Figure I for 1994 may have occurred, in part, due to overall poor stock market performance experienced during that year. In 1994 current dollars, the VEBA's reported a 74-percent decline in capital gain net income, which, coupled with a small, 3-percent increase in investment income, was a contributing factor in the 36-percent decrease in UBTI.

For Tax Year 1995, a year in which stock performance appreciably rebounded, VEBA's reported more than a six-fold increase in capital gains on Form 990-T. Taxable income reported by VEBA's continued to increase through 1995-1997, all years in which annual rates of returns on stock funds grew consistently. The taxable income and income tax of VEBA's dropped substantially from 1997 to 1998. Generally, returns on stock investments were relatively good for 1998, but third-quarter prices dropped sharply and then rose rapidly through the remainder of 1998, which may have influenced investment management decisions. Investment income of VEBA's increased less than 1 percent and capital gain net income decreased 15 percent for 1998.

The aggregate unrelated business taxable income of section 401(a) pension trusts increased continuously from 1991 to 1996 and then dropped for 1997, as indicated in Figure I. Their UBTI increased over the next 2 years, but fell sharply by the end of 2000. Fluctuations in net income from partnerships, capital gains, and, to some extent, S corporations largely affected pension trusts' annual aggregate amounts of UBTI. Based on current dollars, the partnership net income and capital gain net income of Form 990-T pension trust filers decreased 48 percent and 6 percent, respectively, for 1997. Because of a tax-law change affecting certain exempt organizations' ownership of S corporation stock, beginning with Tax Year 1998, pension trusts were required to report a combined amount of partnership and S corporation net income on Form 990-T [18]. For 1998, pension trusts' combined net income from partnerships and S corporations rose 58 percent over the 1997 partnership (only) net income amount, while capital gain net income declined once again, by 12 percent. For 1999, partnership and S corporation net income increased slightly, and capital gain net income grew by 140 percent. However, income from each of these sources fell considerably for 2000, with respective decreases of 20 percent and 63 percent. Market conditions became relatively unstable during 2000, with stock prices declining significantly by year's end.

UBTI and UBIT of IRC Section 501(c)(3) Organizations

In terms of UBTI and UBIT charted in Figures I and J, the most notable years for the section 501(c)(3) nonprofit charitable organizations were Tax Years 1999 and 2000, during which their unrelated business taxable income and tax amounts increased by large percentages. In current dollars, UBTI increased by 58 percent between 1998 and 1999, and another 21 percent between 1999 and 2000. UBIT percentage increases for 1999 and 2000 were 65 percent and 24 percent, respectively.

The gross UBI of section 501(c)(3) charities with taxable income for 1999 rose 24 percent, but their total deductions rose at a much lower rate, only 12 percent, which resulted in a large increase in the amount of income that was taxable. Charities with UBTI reported 11 percent more in aggregate gross profit (less loss) from sales and services, which made up 42 percent of the gross UBI they reported for 1999. Capital gain net income (11 percent of taxable charities' 1999 gross UBI) more than tripled between 1998 and 1999, while combined partnership and S corporation income (14 percent of charities' 1999 gross UBI) increased by 32 per cent.

For 2000, the gross UBI and total deductions of charities with taxable income increased at about the same rate, 18 percent and 17 percent, respectively, and the amount of their total deductions was 35 percent less than the amount of their total gross UBI. Large percentage increases in the amounts of gross profit (less loss) from sales and services, capital gain net income, combined partnership and S corporation income, debt-financed income, income from controlled organizations, and advertising income reported by taxable charities for 2000 were key contributors to the growth in gross UBI for that year. All of these income sources increased by 30 percent or more between 1999 and 2000.

Summary

Nonprofit organizations filed an estimated 38,567 Forms 990-T, *Exempt Organization Business Income Tax Returns*, for Tax Year 2000. Overall, organizations reporting "unrelated business income" (UBI) filed 9 percent fewer returns for 2000, the second consecutive tax year that the number of filings fell. Returns with gross UBI of $10,000 or less, the threshold for being exempted from filing return schedules and reporting detailed information on deductions, decreased by 15 percent; those with higher amounts of gross UBI decreased by 4 percent. After offsetting $8.4 billion of total gross UBI with $7.7 billion of deductions, the resulting unrelated business taxable income (less deficit) for 2000 was $0.7 billion. Aggregate unrelated business (positive) taxable income (UBTI) and unrelated business income tax (UBIT) were $1.4 billion and $0.4 billion, respectively.

Overall, there were significant year-to-year fluctuations in the number of Form 990-T filings from 1991-2000. These fluctuations were attributable, in large part, to Internal Revenue Code section 408(e) Individual Retirement Account (IRA) trusts. The number of returns filed annually by section 501(c)(3) nonprofit charitable organizations and all remaining types of Form 990-T filers, other than section 408(e) IRA trusts, was fairly stable over the 10-year period.

The gross UBI of section 501(c)(3) nonprofit charitable organizations grew steadily throughout Tax Years 1991-2000, nearly tripling, from $1.6 billion to $4.6 billion, after adjustment for inflation and the removal of data for "outliers." (Outliers included returns with characteristics considered to be anomalous to the general population of returns filed for a given year, or returns with very large dollar amounts that were not filed for each year during the 10-year period.) Section 501(c)(3) organizations annually reported far more income from unrelated business activities than any other type of organization. The largest single source of unrelated business income reported by nonprofit charitable organizations for 2000 was gross profit (less loss) from sales and services. Not only did charities' income from sales and services make up 62 percent of their total gross UBI, it also accounted for 73 percent of gross profit (less loss) from sales and services reported by all Form 990-T filers.

After the nonprofit charitable organizations, the section 501(c)(6) chambers of commerce, business leagues, and real estate boards; the section 501(c)(7) recreational and social clubs; and the section 501(c)(9) voluntary employees' beneficiary associations (VEBA's) traditionally have accounted for the next largest proportions of gross UBI. The section 401(a) qualified pension, profit-sharing, and stock-bonus plan trusts and section 501(c)(9) VEBA trusts historically account for relatively large portions of unrelated business taxable income and unrelated business income tax and, thus, figure prominently in each of the UBTI and UBIT time series presented for Tax Years 1991-2000.

Data Sources and Limitations

The Tax Year 1991-2000 statistics in this article are based on annual samples of Forms 990-T, *Exempt Organization Business Income Tax Returns*. Separate articles for 1991-1999 were published in previous quarterly issues of the *SOI Bulletin*, which date from Spring 1995 through Spring 2003, respectively. Selected data from 1991-1999, along with the 2000 data, have been presented in this current article to provide a review of the latest 10-year period for which studies have been completed. Because a discussion of data sources and limitations was included in each of the previous articles for 1991-1999, this section will focus only on the most recently completed study of Tax Year 2000 Forms 990-T.

The 2000 Form 990-T study incorporated a two-stage sample design consisting of a stratified random sample and a special "integrated" sample. The integrated sample was designed to gather information on "related" (tax-exempt) and "unrelated" (taxable) income and expenses for section 501(c)(3) organizations that filed both Form 990, *Return of Organization Exempt from Income Tax (or Form 990-EZ,* the short-form version of this information return), and Form 990-T. This integrated sampling program ensured that the Statistics of Income sample of

Forms 990-T included any unrelated business income tax returns (with gross UBI of $1,000 or more) filed by organizations whose Form 990 or Form 990-EZ information returns were selected for the separate sample of section 501(c)(3) nonprofit charitable organizations. Organizations exempt under other Code sections were not subjected to the integrated sampling program.

The Form 990-T returns were initially divided into strata, based on gross UBI, and selected using Bernouli sampling. Section 501(c)(3) returns not selected randomly were then matched to returns in the Forms 990/990-EZ sample. These matched returns, along with any randomly selected Forms 990-T that also had counterparts in the Forms 990/990-EZ sample, formed the "integrated" IRC section 501(c)(3) portion of the Form 990-T sample [19].

As shown in Figure K, the designed sampling rates ranged from a minimum of 3 percent (Form 990-T gross UBI less than $20,000, with either no Form 990/990-EZ match or a match to a Code section 501(c)(3) From 990/990-EZ with total assets under $1,000,000) to a maximum of 100 percent (either Form 990-T gross UBI of $300,000 or more, or Form 990-T with any amount of gross UBI and a match to a section 501(c)(3) Form 990 with total assets of $30,000,000 or more). Other Forms 990-T were selected at rates ranging from 6 percent to 45 percent. In addition to designed sample rates, Figure K contains population counts, sample counts, and achieved sample rates, by size of gross unrelated business income reported on Form 990-T and size of total assets reported on Form 990 or Form 990-EZ.

The population from which the 2000 Form 990-T sample was drawn consisted of Form 990-T records posted to the IRS Business Master File system during 2001 and 2002. Returns filed after Calendar Year 2002 were not included in the sample. The returns in the sample were stratified based on the size of gross unrelated business income (UBI). A sample of 7,815

Figure K

Population and Sample Counts, and Designed and Achieved Sample Rates, by Sample Group, Tax Year 2000

Sample group number	Size of gross unrelated business income (UBI) on Form 990-T and size of total assets on matching IRC section 501(c)(3) Form 990 or Form 990-EZ ¹	Population counts	Sample counts	Designed sample rate	Achieved sample rate
				Percentages	
		(1)	(2)	(3)	(4)
1	Gross UBI $1,000 under $20,000 and total assets under $1,000,000, or Gross UBI $1,000 under $20,000 and no matching Form 990 or Form 990-EZ	18,371	602	3.00	3.28
2	Gross UBI $1,000 under $20,000 and total assets $1,000,000 under $2,500,000, or Gross UBI $20,000 under $60,000 and total assets under $2,500,000, or Gross UBI $20,000 under $60,000 and no matching Form 990 or Form 990-EZ	7,306	437	6.00	5.98
3	Gross UBI $1,000 under $60,000 and total assets $2,500,000 under $10,000,000, or Gross UBI $60,000 under $150,000 and total assets under $10,000,000, or Gross UBI $60,000 under $150,000 and no matching Form 990 or Form 990-EZ	5,403	675	13.00	12.49
4	Gross UBI $1,000 under $150,000 and total assets $10,000,000 under $30,000,000, or Gross UBI $150,000 under $300,000 and total assets under $30,000,000, or Gross UBI $150,000 under $300,000 and no matching Form 990 or Form 990-EZ	2,953	1,295	45.00	43.85
5	Gross UBI $300,000 or more, or total assets $30,000,000 or more	4,806	4,806	100.00	100.00
	All sample groups ²	**38,839**	**7,815**	**N/A**	**N/A**

N/A - Not applicable.

¹ The Form 990-T sample included returns that were initially selected based on independent Form 990-T sampling criteria, and additional returns that were not initially selected but were subsequently matched to returns in the Forms 990 and 990-EZ sample of IRC section 501(c)(3) filers. Form 990-EZ may be completed by smaller organizations, those with gross receipts of less than $100,000 and end-of-year assets of less than $250,000.

² After excluding returns that were originally selected for the sample but later rejected, the sample size was 7,762, and the estimated population size was 38,567.

returns was selected from a population of 38,839. After excluding returns that were selected for the sample but later rejected, the resulting sample size was 7,762 returns, and the estimated population size was 38,567. Rejected returns included those that had gross UBI below the $1,000 filing threshold; were filed only to claim a refund or report the “proxy tax”; were filed for a part-year accounting period for 2000, and a full-year return was also filed for that year; or were filed for a part-year accounting period that began in a year other than 2000. For example, a final return filed for the short period of January 2001-June 2001 may have been initially selected for the 2000 sample based on the criterion of an accounting period that ended between December 2000 and November 2001, but it was later rejected because, in actuality, it was a Tax Year 2001 return.

The information presented in this article was obtained from returns as originally filed with the Internal Revenue Service. The data were subjected to comprehensive testing and correction procedures in order to improve statistical reliability and validity. In most cases, due to time constraints, changes made to the original return as a result of administrative processing, audit procedures, or a taxpayer amendment were not incorporated into the data base.

Because the data are based on a sample, they are subject to sampling error. In order to use these statistics properly, the magnitude of the sampling error, measured by the coefficient of variation (CV), should be taken into account. Figure L shows CV’s for selected financial data. CV’s are not shown for returns with gross UBI of $300,000 or more because they were sampled at a 100-percent rate and, therefore, are not subject to sampling variability. A discussion of the reliability of estimates based on samples and methods for evaluating both the magnitude of sampling and nonsampling error and the precision of sample estimates can be found in the general Appendix, located near the back of this issue of the *SOI Bulletin*.

Explanation of Selected Terms

In some of the following explanations, tax-exempt organizations are cited by the Internal Revenue Code section under which they are described. The various types of tax-exempt organizations subject to the unrelated business income tax provisions are described by Code section in the Appendix to this article. In addition to helping the reader understand the terms contained in the written content of this article, these explanations are also helpful when using Tables 1 through 7, at the end of the article.

Advertising Income.--Gross income realized by a tax-exempt organization from the sale of advertising in a periodical was gross income from an unrelated trade or business activity involving the “exploitation of an exempt activity,” namely, the circulation and readership of the periodical developed by producing and distributing the readership content of that periodical. Advertising income was reported separately from other types of “exploited exempt activity income.” (See the explanation of Exploited Exempt Activity Income.) Internal Revenue Code section 501(c)(7), (9), and (17) organizations reported gross advertising income, as well as other types of “exploited exempt activity income,” as part of gross receipts from sales and services. All other organizations reported this income separately.

Capital Gain Net Income.--Generally, organizations required to file Form 990-T (except organizations tax-exempt under Internal Revenue Code sections 501(c)(7), (9), and (17)) were not taxed on net gains from the sale, exchange, or other disposition of

Figure L

Coefficients of Variation for Selected Items, by Size of Gross Unrelated Business Income, Tax Year 2000

Size of gross unrelated business income	Number of returns	Gross unrelated business income	Total deductions	Unrelated business taxable income	Total tax
	Coefficient of variation (percentages)				
	(1)	(2)	(3)	(4)	(5)
Total	**0.20**	**0.44**	**0.54**	**0.54**	**0.45**
$1,000 under $10,001 [1]	2.12	3.39	6.49	6.72	7.32
$10,001 under $100,000 [1]	2.15	1.75	2.99	5.46	6.07
$100,000 under $300,000	2.09	1.61	2.24	4.32	4.81
$300,000 or more	N/A	N/A	N/A	N/A	N/A

N/A - Not applicable because the achieved sample rate was 100 percent.

[1] The gross unrelated business income (UBI) brackets of "$1,000 under $10,001" and "$10,001 under $100,000" reflect the different filing requirements for organizations with gross UBI of $10,000 or less (only a "partial" return was required) and all other Form 990-T filers (a more detailed "complete" return was required). Organizations with gross UBI below $1,000 were not required to file Form 990-T.

property. However, capital gain net income on sales of debt-financed property, certain gains on the cutting of timber (section 1231), and gains on sales of certain depreciable property (described in sections 1245, 1250, 1252, 1254, and 1255) were taken into account in computing capital gain net income. Also, any gain or loss passed through from a partnership or S corporation, or any gain or loss on the disposition of S corporation stock by a "qualified tax-exempt" (defined in the explanation of Income (Less Loss) from Partnerships and S corporations), was taxed as a capital gain or loss. (See the explanation of Investment Income (Less Loss) for information regarding investment income of section 501(c)(7), (9), and (17) organizations.)

Contributions.--To the extent permissible under the Internal Revenue Code, a deduction was allowed for contributions or gifts actually paid within the tax year to, or for the use of, another entity that was a charitable or Governmental organization described in Code section 170(c). A tax-exempt corporation was allowed a deduction for charitable contributions up to 10 percent of its unrelated business taxable income (UBTI) computed without regard to the deduction for contributions. A tax-exempt trust was generally allowed a deduction for charitable contributions under the rules applicable to individual taxpayers, except the limit on the deduction was determined in relation to UBTI computed without regard to the contributions deduction, rather than in relation to adjusted gross income. Contributions in excess of the respective corporate or trust limitations may be carried over to the next 5 taxable years, subject to certain rules. The contributions deduction was allowed whether or not directly connected with the carrying on of a trade or business.

Cost of Sales and Services.--Cost of sales and services was reported as a lump-sum total, but may have included depreciation, salaries and wages, and certain other types of deductible items. For this reason, the total amount shown for some of the separately reported components of total deductions, such as "salaries and wages," may be understated. Cost of sales and services was subtracted from gross receipts from sales and services in computing gross profit (less loss) from sales and services, which is a component of gross unrelated business income (UBI). Because Form 990-T filing requirements are based on gross UBI, and cost of sales and services is factored into the computation of gross income, the deduction for cost of sales and services is reported in the gross income section of Form 990-T, not the deductions section.

Deductions Directly Connected With Unrelated Business Income.--These were deductions allowed in computing net income, if they otherwise qualified as income tax deductions under the Internal Revenue Code and if they had a "proximate and primary" relationship to carrying on an unrelated trade or business. Allowable deductions included those allocable to rental of personal property; those allocable to unrelated debt-financed income; those allocable to investment income of Internal Revenue Code section 501(c)(7), (9), and (17) organizations; those allocable to interest, annuities, royalties, and rents received from "controlled organizations" (see definition of Income from Controlled Organizations); those allocable to "exploited exempt activity income" other than advertising; direct advertising costs; compensation of officers, directors, and trustees; salaries and wages; repairs and maintenance; bad debts; interest; taxes and licenses; depreciation (unless deducted elsewhere); depletion; contributions to deferred compensation plans; contributions to employee benefit plans; the "net operating loss deduction"; and "other deductions." Tax-exempt organizations with gross unrelated business income (UBI) above $10,000 were required to report each deduction component separately. Organizations with gross UBI between $1,000 (the filing threshold) and $10,000 reported a single total of the first five types of directly-connected expenses listed above (those described as "allocable to") and a single total for all other types of deductions (both deductions directly connected with UBI and those not directly connected, each defined elsewhere in this section), except for two items that were required to be reported separately: the "net operating loss deduction" (directly connected) and the "specific deduction" (not directly connected), both also defined below.

Deductions Not Directly Connected With Unrelated Business Income.--The component deductions were "set-asides," "excess exempt expenses," charitable contributions, and the "specific deduction." The specific deduction was reported, when applicable, by all organizations with positive taxable income; the other types of deductions not directly connected with UBI were reported separately, when applicable, only by tax-exempt organizations with gross UBI above $10,000. (See, also, the explanations of Set-Asides, Excess Exempt Expenses, Contributions, and the Specific Deduction.)

Excess Exempt Expenses.--The two types of "excess" expenses allowed as deductions from unrelated business income were (1) excess exempt expenses attributable to commercial exploitation of exempt activities, and (2) excess exempt expenses attributable to advertising income. In the case of "exploited" exempt activity income (see the explanation of Exploited Exempt Activity Income, Except Advertising, below), if the expenses of the organization's exempt activity exceeded the income from the exempt activity, then the excess expenses could be used to offset any positive net unrelated business income produced from exploiting the exempt activity, to the extent that it did not result in a loss. Excess expenses of a commercially exploited exempt activity could not be used to offset income from another type of unrelated business activity if the unrelated activity did not exploit that particular exempt activity. In the case of excess exempt expenses attributable to advertising income, if the expenses attributable to producing and distributing the readership content of a periodical exceeded the circulation income, then the excess of readership costs over circulation income could be used to offset any net gain from advertising (gross advertising income less direct advertising costs), to the extent that it did not result in a loss.

Exploited Exempt Activity Income, Except Advertising.--In some cases, exempt activities create goodwill or other intangibles that are capable of being exploited in a commercial manner. When an organization exploited such an intangible in commercial activities that did not contribute importantly to the accomplishment of an exempt purpose, the in come it produced was gross income from an unrelated trade or business. An example of this type of activity would be an exempt scientific organization with an excellent reputation in the field of biological research that exploits its reputation regularly by selling endorsements of laboratory equipment to manufacturers. Endorsing laboratory equipment would not have contributed importantly to the accomplishment of any purpose for which tax exemption was granted to the organization. Accordingly, the income from selling such endorsements is gross unrelated business income. Exploited exempt activity income from advertising was reported separately from other types of exploited exempt activity income (see the explanation of Advertising Income). Internal Revenue Code section 501(c)(7), (9), and (17) organizations reported income from exploited exempt activities as part of gross receipts from sales and services. All other organizations reported this income separately.

Gross Profit (Less Loss) from Sales and Services.--This was the gross profit (less loss) from any unrelated trade or business regularly carried on that involved the sale of goods or performance of services. It did not include income from unrelated business activities that were required to be reported separately on any of the tax form's supporting schedules. For example, an Internal Revenue Code section 501(c)(7) social club would include gross restaurant and bar receipts from nonmembers in the calculation of gross profit (less loss) from sales and services, but would report its investment income from sales of securities on the required supporting schedule. Gross profit (less loss) from sales and services is computed as gross receipts from sales or services, less returns and allowances, minus cost of sales and services.

Gross Unrelated Business Income (UBI).--This was the total gross unrelated business income prior to reduction by allowable deductions used in computing unrelated business taxable income. All organizations were required to report detailed sources of gross UBI. The components of gross UBI were gross profit (less loss) from sales and services; capital gain net income; net gain (less loss) from sales of noncapital assets; net capital loss deduction (trusts only); income (less loss) from partnerships and S corporations; rental income; unrelated debt-financed income; investment income (less loss) of Internal Revenue Code section 501(c)(7), (9), and (17) organizations; income (annuities, interest, rents, and royalties) from controlled organizations; "exploited exempt activity" income, except advertising; advertising income; and "other" income (less loss). (For an explanation of these sources of income, see the separate explanations of each component.)

A tax-exempt organization's income was treated as unrelated business income if it was from a trade or business that was regularly carried on by the organization and that was not substantially related to the performance of the organization's exempt purpose or function (other than that the organization needed the profits derived from the unrelated activity). The term "trade or business" generally comprised any activities carried on for the production of income from selling goods or performing services. These activities did not lose their identity as trades or businesses merely because they were carried on within a larger aggregate of similar activities or within a larger complex of other endeavors that may, or may not, have been related to the exempt purposes of the organization. For example, soliciting, selling, or publishing commercial advertising is identified as a trade or business even though the advertising is published in an exempt organization's periodical that contains editorial matter related to the organization's exempt purpose.

Income from Controlled Organizations.--When an exempt organization controls another organization, the entire amount of gross annuities, interest, rents, and royalties (termed "specified payments") received from the controlled organization are included in the gross UBI of the controlling organization, to the extent that the specified payments were claimed as a deduction from the controlled organization's own UBI (in the case of an exempt controlled organization) or the "equivalent" of UBI (in the case of a nonexempt controlled organization). The equivalent of UBI was computed as if the nonexempt controlled organization were exempt and had the same exempt purpose as the controlling organization. "Control" meant: (a) for a stock corporation, the ownership (by vote or value) of more than 50 percent of the stock; (b) for a partnership, ownership of more than 50 percent of the profits or capital interests; or (c) for any other organization, ownership of more than 50 percent of the beneficial interests. All deductions "directly connected" with a Form 990-T filer's gross controlled-organization income were allowed. The rules for debt-financed property did not apply to passive income (generally, investment income) from controlled organizations. (See the definition of Unrelated Debt-Financed Income.)

Income (Less Loss) from Partnerships and S Corporations.--If an organization was a partner in any partnership that carried on an unrelated trade or business, this income item included the organization's share of partnership gross unrelated business income less its share of partnership deductions that were directly connected with the unrelated income. If an organization was a "qualified tax-exempt" that held stock in an S corporation, this income item included the income or loss from the stock interest. The stock interest was treated as an unrelated trade or business, and all items of income, loss, or deduction were taken into account in computing unrelated business taxable income. A "qualified tax-exempt" was an organization described in Internal Revenue Code section 401(a) (qualified stock bonus, pension, or profit-sharing plan) or section 501(c)(3), and exempt from tax under section 501(a).

Investment Income (Less Loss).--This income was reported only by organizations exempt under Internal Revenue Code sections 501(c)(7), (9), and (17) and included such income as gross unrelated debt-financed income, gross income from the ownership or sale of securities, and set-asides deducted from investment income in previous years that were subsequently used for a purpose other than that for which a deduction was allowed. (See, also, the explanation of Set-Asides.) All gross rents (except those that were exempt-function income) of section 501(c)(7), (9), and (17) organizations were treated as unrelated business income and were reported as "rental income." Organizations exempt under sections other than 501(c)(7), (9), and (17) did not report "investment income (less loss)." Generally, these organizations' investment income (dividends, interest, rents, and annuities) and royalty income were not taxed as unrelated business income, unless it was income, other than dividends, from a controlled organization or debt-financed income, or the rents were of the type described in the explanation of rental income. (See explanations of Income from Controlled Organizations, Rental Income, and Unrelated Debt-Financed Income.)

Net Capital Loss (Trusts Only).--If a trust had a net loss from sales or exchanges of capital assets, it was allowed a deduction for the amount of the net loss or $3,000, whichever was lower. (Tax-exempt corporations were not allowed to deduct any excesses of capital losses over capital gains.) Tax-exempt trusts reported the net capital loss deduction on Form 990-T as a component of gross unrelated business income, and it was subtracted when computing total gross UBI.

Net Gain (Less Loss), Sales of Noncapital Assets.--This was the gain or loss from the sale or exchange of business property, as reported on Form 4797, *Sales of Business Property*. Property other than capital assets generally included property of a business nature, in contrast to personal and investment properties, which were capital assets.

Net Operating Loss Deduction (NOLD).--The net operating loss carryover or carryback (as described in Internal Revenue Code section 172) was allowed as a deduction (limited to the current-year excess of receipts over deductions, prior to applying the NOLD) in computing unrelated business taxable income. However, the net operating loss carryover or carryback (allowed only to or from a tax year for which the organization was subject to tax on unrelated business income) was determined without taking into account any amount of exempt-function income or deductions that had been excluded from the computation of unrelated business taxable income. A "net operating loss" represented the excess of deductions over receipts for a specified year for which an organization reported an overall deficit from its unrelated trade or business activities. The net operating loss deduction statistics in this article represent only net operating loss carryovers from prior years because carrybacks from future years would be reported in a later year on an amended return, not on the return as initially filed (which served as the basis for the statistics).

Other Deductions.--This included all types of unrelated business deductions that were not specifically required to be reported elsewhere on the tax return. Examples are fees for accounting, legal, consulting, or financial management services; insurance costs (if not for employee-related benefits); equipment costs; mailing costs; office expenses, such as janitorial services, supplies, or security services; rent; travel expenses; educational expenses; and utilities.

Other Income (Less Loss).--This included all types of unrelated business income that were not specifically required to be reported elsewhere on the tax return. Examples are insurance benefit fees; member support fees; commissions; returned contributions that were deducted in prior years; income from insurance activities that was not properly set aside in prior years; recoveries of bad debts; and refunds of State or local government tax payments, if the payments were previously reported as a deduction.

Proxy Tax.--This was a tax on certain nondeductible lobbying and political expenditures paid or incurred after December 31, 1993, by organizations that were tax-exempt under Internal Revenue Code sections 501(c)(4), 501(c)(5), and 501(c)(6). If the organization failed to notify its members regarding their shares of dues to which nondeductible lobbying and political expenditures were allocable, or if the notice did not include the entire amount of dues that was allocable, then the proxy tax was imposed on the organization. It was computed as 35 percent of the aggregate amount of nondeductible lobbying expenditures that was not included in the notices sent to the organization's members. The proxy tax was required to be reported on Form 990-T and was included in total tax; however, there was no connection between the proxy tax and the taxation of income from an organization's unrelated business activities.

Rental Income.--For organizations tax exempt under Internal Revenue Code sections other than 501(c)(7), (9), and (17), this was the amount of (1) gross rents from personal property (e.g., computer equipment or furniture) leased with real property, if the rental income from the personal property was more than 10 percent, but not more than 50 percent, of the total rents from all leased property; or (2) gross rents from both real property and personal property leased with real property if the personal property was more than 50 percent of the total rents from all leased property. Except for the second situation covered above, gross rents from real property were generally excluded in computing unrelated business taxable income. In addition, gross rents from personal property that did not exceed 10 percent of the total rents from all leased property were excluded (and not included in gross UBI). Any rents not covered by the explanation of "rental income" had to be considered in terms of their taxability as unrelated business income from controlled organizations or unrelated debt-financed income, in that order. For organizations tax-exempt under sections 501(c)(7), (9), and (17), rental income included all gross rents (except those that were exempt-function income), with no exclusions. (See explanations of Income from Controlled Organizations and Unrelated Debt-Financed Income.)

Set-Asides.--This deduction from investment income was allowed to social and recreational clubs (Internal Revenue Code section 501(c)(7)), voluntary employees' beneficiary associations (section 501(c)(9)), and supplemental unemployment benefit trusts (section 501(c)(17)). The deduction was equal to the amount of passive income (generally, investment income) that these organizations set aside (1) to be used for charitable purposes or (2) to provide payment of life, health, accident, or other insurance benefits (section 501(c)(9) and (17) organizations only). However, any amounts set aside that exceeded the "qualified asset account" limit, as figured under section 419A, were not allowed as a deduction from unrelated business investment income; they were treated as taxable investment income. A section 419A qualified asset account is any account consisting of assets set aside to provide for the payment of disability benefits, medical benefits, severance pay benefits, or life insurance benefits.

Specific Deduction.--The specific deduction was $1,000 or the amount of positive taxable income, whichever was less. The amount deducted was considered "not directly connected" with gross unrelated business income and was allowed to all organizations that had positive taxable income after all other types of deductions were taken. This deduction provided the equivalent benefit of the $1,000 gross unrelated business income filing threshold under which some organizations were exempted from filing a return and paying the unrelated business income tax.

Total Deductions.--Total deductions included both deductions reported on the main part of Form 990-T and expense items reported on any of six supporting schedules, which were also part of the tax form. It excluded cost of sales and services ($2.3 billion for 2000), which was subtracted from gross receipts from sales and services in computing gross profit (less loss) from sales and services, which is a component of gross unrelated business income (UBI). (See the explanation of Cost of Sales and Services.)

Total Tax.--Total tax was unrelated business income tax less the foreign tax credit, general business credit, credit for prior-year minimum tax, and other allowable credits, plus the "proxy tax" on certain lobbying and political expenditures, the tax from recomputing certain prior-year credits ("recapture taxes"), and the "alternative minimum tax."

Unrelated Business Income (UBI).--See definition of Gross Unrelated Business Income (UBI).

Unrelated Business Income Tax.--This was the tax imposed on unrelated business taxable income. It was determined based on the regular corporate or trust income tax rates that were in effect for the 2000 Tax Year, as shown in the following schedules.

Tax Rates for Corporations

Amount of unrelated business taxable income is:

Over—	But not over—	Tax is:	Of the amount over—
$ 0	$50,000	15%	$0
50,000	75,000	$7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333	--	35%	0

Tax Rates for Trusts

Amount of unrelated business taxable income is:

Over—	But not over—	Tax is:	Of the amount over—
$ 0	$1,750	15%	$0
1,750	4,150	$262.50 + 28%	1,750
4,150	6,300	934.50 + 31%	4,150
6,300	8,650	1,601.00 + 36%	6,300
8,650	--	2,447.00 + 39.6%	8,650

Unrelated Business Taxable Income (Less Deficit).--This was gross income derived from any unrelated trade or business regularly carried on by an exempt organization, less deductions directly connected with carrying on the trade or business and less other allowable deductions not directly connected. On a return-by-return basis, the result of this computation was either positive (unrelated business taxable income), negative (deficit), or zero. Taxable income was subject to the unrelated business income tax. (See, also, explanations of Deductions Directly Connected With Unrelated Business Income and Deductions Not Directly Connected With Unrelated Business Income.)

Unrelated Debt-Financed Income.--Gross income from investment property for which acquisition indebtedness was outstanding at any time during the tax year was subject to the unrelated business income (UBI) tax. The percentage of investment income to be included as gross UBI was proportional to the ratio of average acquisition indebtedness to the average adjusted basis of the property. Various types of passive income (generally, investment income) were considered to be unrelated debt-financed income, but only if the income arose from property acquired or improved with borrowed funds and if the production of income was unrelated to the organization's tax-exempt purpose. When any property held for the production of income by an organization was disposed of at a gain during the tax year, and there was acquisition indebtedness outstanding at any time during the 12-month period prior to the date of disposition, the property was considered debt-financed property, and the gain was treated as unrelated debt-financed income. Income from debt-financed property did not include rents from personal property (e.g., computers or furniture) leased with real property, certain passive income (generally, investment income) from controlled organizations, and other amounts that were otherwise included in computing unrelated business taxable income. Internal Revenue Code section 501(c)(7), (9), and (17) organizations reported all debt-financed income as "Investment Income (Less Loss)." All other organizations reported debt-financed income separately.

Notes and References

[1] A business activity is considered unrelated if it does not contribute importantly (other than the production of funds) to accomplishing an organization's charitable, educational, or other purpose that is the basis for the organization's tax exemption. In determining whether activities contribute importantly to the accomplishment of an exempt purpose, the size and extent of the activities involved must be considered in relation to the nature and extent of the exempt function that they intend to serve. To the extent an activity is conducted on a scale larger than is reasonably necessary to perform an exempt purpose, it does not contribute importantly to the accomplishment of the exempt purpose. The part of the activity that is more than needed to accomplish the exempt purpose is an unrelated trade or business. Whether an activity contributes importantly depends in each case on the facts involved. See IRS Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*, for additional information on unrelated business income and tax.

The following is a case example from Publication 598. An American folk art museum operates a shop in the museum that sells reproductions of works in the museum's own collection and also works from the collections of other art museums. In addition, the museum sells souvenir items of the city where the museum is located. The sale of the reproductions, regardless of which museum houses the original works, is considered to be "related" because it contributes importantly to the achievement of the museum's exempt educational purpose by making works of art familiar to a broader segment of the public, thereby enhancing the public's understanding and appreciation of art. However, the sale of souvenir items depicting the city in which the museum is located is considered to be "unrelated" because it has no causal relationship to art or to artistic endeavor, and, therefore, does not contribute importantly to the accomplishment of the museum's exempt educational purposes.

[2] The unrelated business income tax (UBIT) for nonprofit corporations was determined based on the regular corporate income tax rates in effect for the tax year of the Form 990-T filing. Nonprofit trusts were generally taxed at the regular individual (single status) income tax rates established for estates and trusts for the tax year of the Form 990-T filing. Trusts that were eligible for the maximum 28-percent tax rate on capital gain net income figured their tax based on Schedule D of Form 1041, *U.S. Income Tax Return for Estates and Trusts*. The corporate and trust tax-rate schedules for Tax Year 2000 are included in the definition of Unrelated Business Income Tax, found in the Explanation of Selected Terms section of this article.

[3] Churches, which are tax-exempt under Internal Revenue Code section 501(c)(3), are not required to apply for exemption unless they desire to obtain an Internal Revenue Service

ruling, and they do not have to file a Form 990 information return. However, these churches are required to file Form 990-T if they received $1,000 or more of gross income from business activities that were considered unrelated to the purposes for which they received tax-exempt status. Private foundations and certain charitable trusts file an information return on Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation*. For the most recent Form 990 annual data on organizations tax-exempt under Internal Revenue Code sections 501(c)(3) (excluding private foundations and most religious organizations) through 501(c)(9), see Arnsberger, Paul D., "Charities and Other Tax-Exempt Organizations, 2000," *Statistics of Income Bulletin*, Winter 2003-2004, Volume 23, Number 3. For the most recent annual data on private foundations, see Ludlum, Melissa, "Domestic Private Foundations and Charitable Trusts, 2000," *Statistics of Income Bulletin*, Fall 2003, Volume 23, Number 2. Internal Revenue Code section 4947(a)(1) "nonexempt charitable trusts" and section 4947(a)(2) "split-interest trusts" are required to report unrelated business income on Form 1041, *Estate and Trust Income Tax Return*, rather than Form 990-T. Information on nonexempt charitable trusts can be found in Ludlum, cited above. For information on split-interest trusts, which file Form 5227, *Split-Interest Trust Information Return*, see Belvedere, Melissa J., "Split-Interest Trusts, 2001," *Statistics of Income Bulletin*, Winter 2003-2004, Volume 23, Number 3.

[4] The amount of total tax liability originally reported on Forms 990-T, as stated in these statistics, may not necessarily be the amount ultimately paid to the Internal Revenue Service (IRS). Changes in tax liability assessments can be made after the original return is filed, either by the taxpayer on an amended return, by the IRS after examination, or by rulings of the U.S. tax courts after litigation.

[5] A membership organization that was tax-exempt under Internal Revenue Code sections 501(c)(4), 501(c)(5), or 501(c)(6) was liable for the proxy tax on certain nondeductible lobbying and political expenditures if the organization did not notify its members of the shares of their dues that were allocated to the nondeductible expenditures, or if the notice did not include the entire amount of dues that was allocated.

[6] Organizations with unrelated business income tax liability may have been liable for the alternative minimum tax (AMT) on certain adjustments and tax preference items. In addition to reporting AMT on Form 990-T, tax-exempt trusts with AMT were required to attach Form 1041, Schedule I (*Alternative Minimum Tax*), and tax-exempt corporations with AMT were required to attach Form 4626 (*Alternative Minimum Tax--Corporations*).

[7] Examples of "other" credits are the possessions tax credit, the nonconventional source fuel credit, and the qualified electric vehicle credit.

[8] The term "charitable" refers to tax-exempt organizations with purposes that are charitable, educational, scientific, literary, or religious in nature, or organizations that test for public safety or prevent cruelty to children or animals. The term also covers organizations that otherwise qualified for tax-exempt status under the Income Tax Regulations issued for Internal Revenue Code section 501(c)(3).

[9] These and other statistics cited in this article for Tax Years 1991-1999 for the most part were published in earlier editions of the Spring issue of the *Statistics of Income Bulletin*, 1995-2003, Volumes 14-22, respectively.

[10] Internal Revenue Code section 501(c)(3) filers were categorized using the National Taxonomy of Exempt Entities (NTEE) coding system, an industry-wide standard for nonprofit organizational classification. The NTEE was developed and is maintained by the National Center for Charitable Statistics, Center on Nonprofits and Philanthropy, Urban Institute.

[11] See Arnsberger, Paul D., "Charities and Other Tax-Exempt Organizations, 2000," *Statistics of Income Bulletin*, Winter 2003-2004, Volume 23, Number 3.

[12] See Riley, Margaret, "Unrelated Business Income Tax Returns, 1999," *Statistics of Income Bulletin*, Spring 2003, Volume 22, Number 4.

[13] In addition to organizations described as tax-exempt under sections 501(c)(2)-(27) of the Internal Revenue Code (IRC), certain other types of organizations, all of which are trusts, were required to file Form 990-T if they had gross "unrelated business" activity income of $1,000 or more. These include the section 408(e) traditional Individual Retirement Accounts (IRA's), as well as section 220(e) Archer Medical Savings Accounts; section 401(a) qualified pension, profit-sharing, and stock bonus plans; section 408A Roth IRA's, section 529(a) Coverdall Education Savings Accounts, and section 530(a) Qualified State Tuition Plans.

[14] For Tax Year 2000, 94 percent of the 4,883 section 408(e) IRA trusts whose returns are represented in Figure E reported partnership income (less loss). Of those, 44 percent had gross UBI of less than $2,000. Fairly small gains or losses in partnership income experienced by such organizations could result in their income straddling the $1,000 filing threshold from one tax year to the next.

[15] Constant dollars were derived using the 1996 chain-type price indexes issued by the Bureau of Economic Analysis (BEA), Department of Commerce. The indexes are available from BEA's Web site, www.bea.gov. Tax Year 2000 is the base year in Figures G through J.

[16] Tax return information reported by filers of Form 990-T is protected by disclosure rules contained in the Internal Revenue Code. However, to avoid misinterpretation of Form 990-T data fluctuations presented in an article that appeared in the Spring 2002 issue of the SOI Bulletin, the tax-exempt association signed a release form to allow its identity and tax return information to be disclosed to the public.

[17] The Wilshire 5000 Total Market Index was used for analyzing possible effects of financial markets on unrelated business taxable income and tax. This index can be accessed from www.wilshire.com/quote.html.

[18] For tax years beginning after December 31, 1997, an organization exempt from tax under Internal Revenue Code section 501(a) and described in section 401(a) (qualified pension, profit-sharing, or stock-bonus plan) or section 501(c)(3) (nonprofit charitable organization) could be a shareholder in a subchapter S corporation without causing the corporation to lose its subchapter S status. For 1998 and later tax years, partnership income (less loss) and S corporation income (less loss) were combined and reported as a single total on Form 990-T. For tax years prior to 1998, only partnership income (less loss) was reported. See the definition of "Income (Less Loss) from Partnerships and S Corporations" in the Explanation of Selected Terms section of this article.

[19] For additional information on the Forms 990 and 990-T integrated sample design, see Harte, James M. and Hilgert, Cecelia H., "Enriching One Sample While Improving Another: Linking Differently Stratified Samples of Documents Filed by Exempt Organizations," Statistics of Income: *Turning Administrative Systems Into Information Systems*, 1993.

Source: IRS, Statistics of Income Spring Bulletin, Publication 1136, July 2004.

Appendix
Types of Tax-Exempt Organizations Subject to the Unrelated Business Income Tax Provisions, by Internal Revenue Code Section

Code section	Description of organization	General nature of activities
220(e)	Archer Medical Savings Accounts (MSA's)	Fiduciary agent for accounts used in conjunction with high-deductible health plans to save funds for future medical expenses
401(a)	Qualified pension, profit-sharing, or stock bonus plans	Fiduciary agent for pension, profit-sharing, or stock bonus plans
408(e)	Traditional Individual Retirement Accounts (IRA's)	Fiduciary agent for retirement funds
408A	Roth Individual Retirement Accounts (IRA's)	Fiduciary agent for retirement funds; subject to same rules as traditional IRA's, except contributions are not tax deductible and qualified distributions are tax free
501(c)(2)	Title-holding corporations for exempt organizations	Holding title to property for exempt organizations
(3)	Religious, educational, charitable, scientific, or literary organizations; testing for public safety organizations. Also, organizations preventing cruelty to children or animals, or fostering national or international amateur sports competition	Activities of a nature implied by the description of the class of organization
(4)	Civic leagues, social welfare organizations, and local associations of employees	Promotion of community welfare and activities from which net earnings are devoted to charitable, educational, or recreational purposes
(5)	Labor, agricultural, and horticultural organizations	Educational or instructive groups whose purpose is to improve conditions of work, products, and efficiency
(6)	Business leagues, chambers of commerce, real estate boards, and like organizations	Improving conditions in one or more lines of business
(7)	Social and recreational clubs	Pleasure, recreation, and social activities
(8)	Fraternal beneficiary societies and associations	Lodges providing for payment of life, health, accident, or other insurance benefits to members
(9)	Voluntary employees' beneficiary associations (including Federal employees' voluntary beneficiary associations formerly covered by section 501(c)(10))	Providing for payment of life, health, accident, or other insurance benefits to members
(10)	Domestic fraternal beneficiary societies and associations	Lodges, societies, or associations devoting their net earnings to charitable, fraternal, and other specified purposes, without life, health, or accident insurance benefits to members
(11)	Teachers' retirement fund associations	Fiduciary associations providing for payment of retirement benefits

Appendix

Types of Tax-Exempt Organizations Subject to the Unrelated Business Income Tax Provisions, by Internal Revenue Code Section--Continued

Code section	Description of organization	General nature of activities
501(c)(12)	Benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, and like organizations	Activities of a mutually beneficial nature implied by the description of the class of organization
(13)	Cemetery companies	Arranging for burials and incidental related activities
(14)	State-chartered credit unions and mutual insurance or reserve funds	Providing loans to members or providing insurance of, or reserve funds for, shares or deposits in certain banks or loan associations
(15)	Mutual insurance companies or associations other than life, if written premiums for the year do not exceed $350,000	Providing insurance to members, substantially at cost
(16)	Corporations organized to finance crop operations	Financing crop operations in conjunction with activities of a marketing or purchasing association
(17)	Supplemental unemployment benefit trusts	Fiduciary agent for payment of supplemental unemployment compensation benefits
(18)	Employee-funded pension trusts (created before June 25, 1959)	Providing for payments of benefits under a pension plan funded by employees
(19)	Posts or organizations of past or present members of the armed forces	Providing services to veterans or their dependents; advocacy of veteran's issues; and promotion of patriotism and community service programs
(21)	Black Lung Benefit Trusts	Created by coal mine operators to satisfy their liability for disability or death due to black lung disease
(22)	Withdrawal liability payment funds	Providing funds to meet the liability of employers withdrawing from a multi-employer pension fund
(23)	Associations of past and present members of the armed forces founded before 1880	Providing insurance and other benefits to veterans or their dependents
(24)	Trusts described in section 4049 of the Employee Retirement Income Security Act of 1974	Providing funds for employee retirement income
(25)	Title-holding corporations or trusts with no more than 35 shareholders or beneficiaries and only one class of stock or beneficial interest	Acquiring real property and remitting all income earned from such property to one or more exempt organizations; pension, profit-sharing, or stock bonus plans; or governmental units

Appendix
Types of Tax-Exempt Organizations Subject to the Unrelated Business Income Tax Provisions, by Internal Revenue Code Section--Continued

Code section	Description of organization	General nature of activities
501(c)(26)	State-sponsored health plans	Providing coverage for medical care on a not-for-profit basis to residents with pre-existing medical conditions that resulted in denied or exorbitantly priced traditional medical care coverage
(27)	State-sponsored workers' compensation plans	Pooled employers' funds providing reimbursements to employees for losses arising under workers' compensation acts; also, State-created, -operated, and -controlled organizations providing workers' compensation insurance to employers
529(a)	Qualified State Tuition Plans	State- and agency-maintained plans that allow individuals to purchase credits or certificates, or make contributions to an account, to pay for future educational expenses
530(a)	Coverdall Education Savings Accounts	Fiduciary agent for accounts created for the purpose of paying qualified higher education expenses of a designated beneficiary

NOTE: Corporations that are organized under an Act of Congress, and are instrumentalities of the United States, described in section 501(c)(1) of the Internal Revenue Code, are not subject to unrelated business income taxation. Prepaid legal service funds, previously described in section 501(c)(20) of the Internal Revenue Code, were no longer tax exempt effective with tax years beginning after June 30, 1992.

Table 1.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Internal Revenue Code Section Describing Type of Tax-Exempt Organization, Tax Year 2000

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Internal Revenue Code section	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit)		Unrelated business taxable income	Total tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All sections	**38,567**	**8,413,385**	**38,408**	**7,703,052**	**31,549**	**710,333**	**1,427,441**	**19,340**	**402,904**
220(e)	--	--	--	--	--	--	--	--	--
401(a)	566	176,647	517	64,174	513	112,473	114,242	493	36,215
408(e)	5,516	44,905	5,513	15,831	5,285	29,074	30,066	5,085	7,610
408A	*32	*820	*32	*32	*32	*788	*788	*32	*167
501(c)(2)[5]	245	83,538	245	83,594	200	-57	10,135	118	3,259
501(c)(3)	11,497	4,780,148	11,431	4,828,648	9,235	-48,501	469,089	4,124	146,128
501(c)(4)	1,480	331,351	1,479	342,431	1,147	-11,080	12,394	447	3,256
501(c)(5)	2,484	239,430	2,482	234,413	2,031	5,017	24,150	895	6,464
501(c)(6)	6,086	901,135	6,086	882,345	4,238	18,790	80,787	1,963	25,483
501(c)(7)	6,825	561,235	6,794	493,097	6,015	68,138	106,452	4,604	23,050
501(c)(8)	674	104,702	674	103,490	510	1,211	6,957	269	1,492
501(c)(9)	611	941,207	605	410,645	347	530,562	547,915	285	144,502
501(c)(10)	223	15,494	223	17,164	166	-1,670	530	*24	*80
501(c)(11)	--	--	--	--	--	--	--	--	--
501(c)(12)	219	50,728	219	44,415	177	6,313	9,375	81	2,288
501(c)(13)	*51	*2,824	*51	*2,182	*51	*642	*851	*43	*217
501(c)(14)	115	23,987	115	29,049	113	-5,062	2,706	*86	*695
501(c)(15)	--	--	--	--	--	--	--	--	--
501(c)(16)	--	--	--	--	--	--	--	--	--
501(c)(17)	**	**	**	**	**	**	**	**	**
501(c)(18)	--	--	--	--	--	--	--	--	--
501(c)(19)	1,878	152,667	1,878	151,007	1,456	1,660	8,957	758	1,445
501(c)(21)[6]	--	--	--	--	--	--	--	--	--
501(c)(22)	**	**	**	**	**	**	**	**	**
501(c)(23)	--	--	--	--	--	--	--	--	--
501(c)(24)	**	**	**	**	**	**	**	**	**
501(c)(25)	**	**	**	**	**	**	**	**	**
501(c)(26)	--	--	--	--	--	--	--	--	--
501(c)(27)	--	--	--	--	--	--	--	--	--
529(a)	--	--	--	--	--	--	--	--	--
530(a)	--	--	--	--	--	--	--	--	--

*Estimate should be used with caution because of the small number of sample returns on which it is based.

**Data deleted to avoid disclosure of information for specific taxpayers. However, data are included in the appropriate totals.

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.3 billion.

[2] Includes both deductions reported on the main part of the tax return and expense items reported on supporting schedules.

[3] Excludes returns with unrelated business taxable income (less deficit) equal to zero.

[4] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus any taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000-filing threshold, total proxy tax was $3.5 million.

[5] Corporations that are organized under an Act of Congress, and are instrumentalities of the United States, described in section 501(c)(1) of the Internal Revenue Code, are not subject to unrelated business income taxation.

[6] Prepaid legal service funds, previously described in section 501(c)(20) of the Internal Revenue Code, were no longer tax-exempt, beginning with tax years after June 30, 1992. Therefore, these organizations are not listed in this table.

NOTES: Detail may not add to totals because of rounding. See the Appendix to this article for a listing of the types of tax-exempt organizations, by the Internal Revenue Code section describing them.

Table 2.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Gross UBI, Tax Year 2000

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit)		Unrelated business taxable income	Total tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**38,567**	**8,413,385**	**38,408**	**7,703,052**	**31,549**	**710,333**	**1,427,441**	**19,340**	**402,904**
$1,000 under $10,001 [5]	15,069	60,791	14,974	60,100	12,472	690	19,616	9,180	3,260
$10,001 under $100,000 [5]	15,152	583,352	15,103	571,846	12,376	11,506	111,744	6,689	19,640
$100,000 under $500,000	5,943	1,311,651	5,933	1,326,132	4,789	-14,481	166,526	2,475	46,230
$500,000 under $1,000,000	1,142	799,449	1,140	756,017	910	43,432	108,765	497	33,434
$1,000,000 under $5,000,000	1,003	2,103,551	999	1,957,751	797	145,800	313,982	394	101,152
$5,000,000 or more	258	3,554,591	258	3,031,205	204	523,386	706,808	104	199,188

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.3 billion.

[2] Includes both deductions reported on the main part of the tax return and expense items reported on supporting schedules.

[3] Excludes returns with unrelated business taxable income (less deficit) equal to zero.

[4] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus any taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000-filing threshold, total proxy tax was $3.5 million.

[5] The gross unrelated business income (UBI) brackets of "$1,000 under $10,001" and "$10,001 under $100,000" reflect the different filing requirements for organizations with gross UBI of $10,000 or less (only a "partial" return was required) and all other Form 990-T filers (a more detailed "complete" return was required). Organizations with gross UBI below $1,000 were not required to file Form 990-T.

NOTE: Detail may not add to totals because of rounding.

Table 3.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Unrelated Business Taxable Income or Deficit, Tax Year 2000

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of unrelated business taxable income or deficit	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit)		Total tax [3]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	**38,567**	**8,413,385**	**38,408**	**7,703,052**	**31,549**	**710,333**	**19,340**	**402,904**
Deficit	12,213	3,497,269	12,213	4,214,378	12,213	-717,109	95	514
Zero [4]	7,018	1,632,641	7,018	1,632,641	--	--	142	1,187
$1 under $1,000	3,841	42,278	3,841	40,554	3,841	1,725	3,824	255
$1,000 under $10,000	8,786	280,408	8,692	246,566	8,786	33,842	8,717	5,581
$10,000 under $100,000	5,532	812,296	5,483	645,170	5,532	167,126	5,388	29,766
$100,000 under $500,000	847	559,107	837	379,502	847	179,604	844	57,702
$500,000 under $1,000,000	139	201,712	137	105,847	139	95,866	139	31,606
$1,000,000 or more	191	1,387,673	187	438,394	191	949,279	190	276,293

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.3 billion.

[2] Includes both deductions reported on the main part of the tax return and expense items reported on supporting schedules.

[3] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus any taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000-filing threshold, total proxy tax was $3.5 million.

[4] The Zero category includes "breakeven" returns with equal amounts of gross unrelated business income and total deductions.

NOTE: Detail may not add to totals because of rounding.

Table 4.--Returns with Positive Unrelated Business Taxable Income: Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income, and Total Tax, by Type of Entity and Size of Gross UBI, Tax Year 2000

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Type of entity and size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income	Total tax [3]	
			Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ALL ENTITIES							
Total	**19,336**	**3,283,475**	**19,177**	**1,856,033**	**1,427,441**	**19,103**	**401,203**
$1,000 under $10,001 [4]	9,211	34,508	9,117	14,892	19,616	9,180	3,260
$10,001 under $100,000 [4]	6,715	237,040	6,667	125,296	111,744	6,568	19,279
$100,000 under $500,000	2,444	552,459	2,434	385,932	166,526	2,402	45,804
$500,000 under $1,000,000	493	342,562	491	233,797	108,765	485	33,356
$1,000,000 under $5,000,000	377	782,044	373	468,062	313,982	373	100,748
$5,000,000 or more	96	1,334,862	96	628,054	706,808	95	198,756
TAX-EXEMPT CORPORATIONS							
Total	**13,080**	**2,424,322**	**12,978**	**1,710,287**	**714,035**	**12,877**	**207,081**
$1,000 under $10,001 [4]	4,186	19,709	4,091	8,066	11,643	4,155	1,731
$10,001 under $100,000 [4]	5,868	211,949	5,867	118,962	92,987	5,752	14,374
$100,000 under $500,000	2,231	501,321	2,227	374,717	126,603	2,190	32,542
$500,000 under $1,000,000	428	296,625	428	226,840	69,786	420	20,952
$1,000,000 under $5,000,000	299	603,395	297	438,126	165,269	295	54,206
$5,000,000 or more	67	791,323	67	543,576	247,748	66	83,276
TAX-EXEMPT TRUSTS							
Total	**6,256**	**859,152**	**6,199**	**145,746**	**713,407**	**6,226**	**194,122**
$1,000 under $10,001 [4]	5,025	14,799	5,025	6,825	7,973	5,025	1,529
$10,001 under $100,000 [4]	847	25,091	800	6,334	18,757	816	4,905
$100,000 under $500,000	212	51,138	207	11,215	39,923	212	13,262
$500,000 under $1,000,000	65	45,937	63	6,957	38,980	65	12,403
$1,000,000 under $5,000,000	78	178,649	76	29,935	148,713	78	46,543
$5,000,000 or more	29	543,539	29	84,478	459,060	29	115,480

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For exempt organizations reporting positive unrelated business taxable income, cost of sales and services was $694.3 million, of which $681.9 million were attributable to tax-exempt organizations.

[2] Includes both deductions reported on the main part of the tax return and expense items reported on supporting schedules.

[3] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus any taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting positive unrelated business taxable income, total proxy tax was $2.8 million.

[4] The gross unrelated business income (UBI) brackets of "$1,000 under $10,001" and "$10,001 under $100,000" reflect the different filing requirements for organizations with gross UBI of $10,000 or less (only a "partial" return was required) and all other Form 990-T filers (a more detailed "complete" return was required). Organizations with gross UBI below $1,000 were not required to file Form 990-T.

NOTE: Detail may not add to totals because of rounding.

Table 5.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Primary Unrelated Business Activity or Industrial Grouping, Tax Year 2000

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Primary unrelated business activity or industrial grouping	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit)		Unrelated business taxable income	Total tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All activities and groupings	**38,567**	**8,413,385**	**38,408**	**7,703,052**	**31,549**	**710,333**	**1,427,441**	**19,340**	**402,904**
Agriculture, forestry, hunting, and fishing	252	39,204	252	31,012	182	8,192	11,190	136	3,164
Mining	172	37,105	172	20,495	166	16,610	21,572	132	6,906
Utilities	68	27,882	68	24,409	67	3,473	*6,648	*23	*2,463
Construction	71	7,288	71	4,954	69	2,334	*2,705	*62	*842
Manufacturing	272	55,928	271	62,482	220	-6,554	10,858	106	3,473
Wholesale trade	*83	*2,261	*83	*2,083	*75	*177	*486	*43	*74
Retail trade	1,233	401,030	1,232	440,799	1,007	-39,768	16,342	493	4,535
Transportation and warehousing	52	8,475	52	8,722	43	-247	*1,335	*10	*417
Information	1,831	405,375	1,800	435,561	1,220	-30,186	17,435	418	5,220
Finance and insurance, total	12,159	2,218,144	12,083	1,346,379	10,902	871,765	950,154	9,648	264,274
Unrelated debt-financed activities, other than rental of real estate	1,255	241,918	1,251	98,781	1,219	143,136	150,358	1,036	48,590
Investment activities of Code section 501(c)(7), (9), and (17) organizations	3,783	1,118,865	3,747	542,962	3,090	575,903	596,826	2,900	153,721
Passive income activities with controlled organizations	419	180,755	419	150,665	381	30,091	42,114	284	13,011
Other finance and insurance	6,702	676,606	6,667	553,972	6,212	122,634	160,856	5,427	48,952
Real estate and rental and leasing, total	5,283	827,943	5,251	806,280	4,395	21,663	114,595	2,216	33,794
Rental of personal property	590	86,939	590	84,406	433	2,533	8,575	198	2,358
Other real estate and rental and leasing	4,692	741,004	4,661	721,874	3,962	19,130	106,020	2,018	31,437
Professional, scientific, and technical services	6,812	1,603,908	6,795	1,592,894	4,771	11,014	112,592	2,056	34,682
Management of companies and enterprises	65	39,348	65	5,407	64	33,941	33,976	64	11,639
Administrative and support and waste management and remediation services	696	227,880	696	240,368	559	-12,488	8,890	236	2,348
Educational services	190	131,967	190	145,398	148	-13,432	5,249	61	1,679
Healthcare and social assistance	1,107	1,082,936	1,106	1,176,697	895	-93,761	38,403	354	11,867
Arts, entertainment, and recreation	4,379	609,856	4,379	635,198	3,506	-25,341	37,886	1,734	7,340
Accommodation and food services	2,818	492,145	2,818	526,734	2,431	-34,589	23,334	992	5,103
Other services	552	119,002	552	125,148	481	-6,146	5,808	318	1,315
Exploited exempt activities	251	62,702	251	62,016	164	686	4,599	132	1,473
Not allocable	221	13,005	221	10,014	184	2,991	3,385	106	297

* Estimate should be used with caution because of the small number of sample returns on which it is based.

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.3 billion.

[2] Includes both deductions reported on the main part of the tax return and expense items reported on supporting schedules.

[3] Excludes returns with unrelated business taxable income (less deficit) equal to zero.

[4] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus any taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000-filing threshold, total proxy tax was $3.5 million.

NOTE: Detail may not add to totals because of rounding.

Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2000

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of gross unrelated business income (UBI)	Gross unrelated business income (UBI): Number of returns	Gross unrelated business income (UBI): Amount	Sources of gross unrelated business income (UBI) [1]: Gross profit (less loss) from sales and services: Number of returns	Gross profit (less loss) from sales and services: Amount	Capital gain net income: Number of returns	Capital gain net income: Amount
	(1)	(2)	(3)	(4)	(5)	(6)
Total	**38,567**	**8,413,385**	**15,492**	**4,070,311**	**1,376**	**659,245**
$1,000 under $10,001 [2]	**15,069**	**60,791**	**2,722**	**10,670**	**399**	**1,366**
$10,001 or more, total [2,3]	**23,498**	**8,352,594**	**12,770**	**4,059,642**	**978**	**657,879**
$10,001 under $100,000	15,152	583,352	7,540	271,649	603	13,927
$100,000 under $500,000	5,943	1,311,651	3,740	690,740	182	33,349
$500,000 under $1,000,000	1,142	799,449	698	399,181	66	33,367
$1,000,000 under $5,000,000	1,003	2,103,551	631	1,044,454	95	143,207
$5,000,000 or more	258	3,554,591	161	1,653,618	31	434,029

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]--Continued: Net capital loss (trusts only): Number of returns	Net capital loss (trusts only): Amount	Net gain (less loss), sales of noncapital assets [4]: Number of returns	Net gain (less loss), sales of noncapital assets [4]: Amount	Income (less loss) from partnerships and S corporations: Number of returns	Income (less loss) from partnerships and S corporations: Amount
	(7)	(8)	(9)	(10)	(11)	(12)
Total	**115**	**468**	**211**	**470**	**6,786**	**327,235**
$1,000 under $10,001 [2]	**--**	**--**	**--**	**--**	**5,102**	**14,063**
$10,001 or more, total [2,3]	**115**	**468**	**211**	**470**	**1,685**	**313,172**
$10,001 under $100,000	*63	*39	*98	*-145	995	20,849
$100,000 under $500,000	25	270	71	1,473	335	31,655
$500,000 under $1,000,000	10	26	16	-67	118	22,658
$1,000,000 under $5,000,000	13	121	17	-364	161	78,495
$5,000,000 or more	4	12	10	-426	75	159,515

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]-- Continued: Rental income [5]: Number of returns	Rental income [5]: Amount	Unrelated debt-financed income: Number of returns	Unrelated debt-financed income: Amount	Investment income (less loss) [6]: Number of returns	Investment income (less loss) [6]: Amount
	(13)	(14)	(15)	(16)	(17)	(18)
Total	**4,029**	**213,655**	**3,316**	**417,969**	**5,992**	**659,448**
$1,000 under $10,001 [2]	**1,061**	**4,889**	**992**	**4,357**	**2,472**	**8,659**
$10,001 or more, total [2,3]	**2,968**	**208,766**	**2,324**	**413,612**	**3,520**	**650,789**
$10,001 under $100,000	2,063	43,549	1,449	40,872	2,054	36,849
$100,000 under $500,000	667	55,036	630	80,705	1,099	75,249
$500,000 under $1,000,000	119	28,896	97	42,256	214	47,874
$1,000,000 under $5,000,000	97	48,948	119	110,341	121	139,928
$5,000,000 or more	22	32,338	29	139,438	32	350,889

Footnotes at end of table.

Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2000 --Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]--Continued							
	Income from controlled organizations [7]		Exploited exempt activity income, except advertising		Advertising income		Other income (less loss)	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)
Total	**1,464**	**198,754**	**820**	**135,216**	**7,903**	**1,325,650**	**5,282**	**405,900**
$1,000 under $10,001 [2]	**317**	**1,114**	***110**	***716**	**3,026**	**12,566**	**1,145**	**2,392**
$10,001 or more, total [2,3]	**1,148**	**197,640**	**710**	**134,500**	**4,878**	**1,313,084**	**4,137**	**403,508**
$10,001 under $100,000	754	10,783	386	9,806	2,888	88,368	2,546	46,885
$100,000 under $500,000	228	20,901	185	18,353	1,394	213,408	1,158	91,052
$500,000 under $1,000,000	54	12,146	61	19,346	277	144,509	199	49,310
$1,000,000 under $5,000,000	76	43,928	60	48,085	256	326,474	191	120,176
$5,000,000 or more	35	109,882	18	38,910	62	540,325	42	96,085

*Estimate should be used with caution because of the small number of sample returns on which it is based.

[1] For definitions of the sources of gross unrelated business income, see the Explanation of Selected Terms section of this article.

[2] The gross unrelated business income (UBI) brackets of "$1,000 under $10,001" and "$10,001 under $100,000" reflect the different filing requirements for organizations with gross UBI of $10,000 or less (only a "partial" return was required) and all other Form 990-T filers (a more detailed "complete" return was required). Organizations with gross UBI below $1,000 were not required to file Form 990-T.

[3] All organizations were required to report each income item, as shown in columns 3 through 26. However, only organizations with gross UBI over $10,000 were required to report each deduction shown in columns 14 through 45, 48, 49, and 54 through 59 of Table 7. Income totals for these larger organizations with gross UBI over $10,000 are shown in order to facilitate comparison with Table 7.

[4] Property other than capital assets generally included property of a business nature, in contrast to personal and investment property, which were capital assets.

[5] Income from real property and personal property leased with real property.

[6] Reported by Internal Revenue Code section 501(c)(7), (9), and (17) organizations only.

[7] Annuities, interest, rents, and royalties.

NOTE: Detail may not add to totals because of rounding.

Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income (UBI), Tax Year 2000

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of gross unrelated business income (UBI)	All organizations: Total number of returns	All organizations: Total deductions [1,2]: Number of returns	All organizations: Total deductions [1,2]: Amount	Organizations with gross unrelated business income (UBI) of $1,000 under $10,001 [3]: Total deductions [2,4]: Number of returns	Total deductions [2,4]: Amount	Net operating loss deduction: Number of returns	Net operating loss deduction: Amount	Specific deduction: Number of returns	Specific deduction: Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**38,567**	**38,408**	**7,703,052**	**14,974**	**60,100**	**871**	**1,677**	**10,258**	**9,856**
$1,000 under $10,001 [3]	15,069	14,974	60,100	14,974	60,100	871	1,677	10,258	9,856
$10,001 under $100,000 [3]	15,152	15,103	571,846	--	--	--	--	--	--
$100,000 under $500,000	5,943	5,933	1,326,132	--	--	--	--	--	--
$500,000 under $1,000,000	1,142	1,140	756,017	--	--	--	--	--	--
$1,000,000 under $5,000,000	1,003	999	1,957,751	--	--	--	--	--	--
$5,000,000 or more	258	258	3,031,205	--	--	--	--	--	--

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]: Total deductions [2,5]: Number of returns	Total deductions [2,5]: Amount	Deductions directly connected with UBI: Total: Number of returns	Total: Amount	Allocable to rental income [6]: Number of returns	Allocable to rental income [6]: Amount	Allocable to unrelated debt-financed income [6]: Number of returns	Allocable to unrelated debt-financed income [6]: Amount	Allocable to investment income [6,7]: Number of returns
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Total	**23,434**	**7,642,951**	**21,626**	**6,930,523**	**1,254**	**131,284**	**2,043**	**397,385**	**1,087**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	15,103	571,846	13,620	540,979	853	22,541	1,246	41,389	459
$100,000 under $500,000	5,933	1,326,132	5,731	1,227,919	284	35,483	572	78,464	453
$500,000 under $1,000,000	1,140	756,017	1,079	689,478	52	12,430	89	35,733	98
$1,000,000 under $5,000,000	999	1,957,751	951	1,802,106	54	40,903	109	92,099	61
$5,000,000 or more	258	3,031,205	246	2,670,040	11	19,927	27	149,700	15

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]--Continued: Deductions directly connected with UBI--Continued: Allocable to investment income [6,7] --Continued: Amount	Allocable to income from controlled organizations [6]: Number of returns	Allocable to income from controlled organizations [6]: Amount	Allocable to exploited exempt activity income, except advertising [6]: Number of returns	Allocable to exploited exempt activity income, except advertising [6]: Amount	Direct advertising costs [6]: Number of returns	Direct advertising costs [6]: Amount	Compensation of officers, directors, and trustees: Number of returns	Compensation of officers, directors, and trustees: Amount
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Total	**28,150**	**478**	**127,698**	**670**	**119,334**	**4,539**	**961,796**	**2,012**	**45,448**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	3,517	252	6,185	369	6,519	2,685	66,429	1,090	10,861
$100,000 under $500,000	6,004	136	14,264	172	15,865	1,295	160,848	673	14,613
$500,000 under $1,000,000	2,173	26	4,227	58	19,378	264	102,298	101	2,862
$1,000,000 under $5,000,000	5,082	41	30,059	54	44,907	238	236,047	119	11,387
$5,000,000 or more	11,374	23	72,964	17	32,666	58	396,175	30	5,724

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]--Continued: Deductions directly connected with UBI--Continued: Salaries and wages: Number of returns	Salaries and wages: Amount	Repairs and maintenance: Number of returns	Repairs and maintenance: Amount	Bad debts: Number of returns	Bad debts: Amount	Interest: Number of returns	Interest: Amount
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)
Total	**10,548**	**1,357,548**	**7,565**	**100,024**	**712**	**45,391**	**3,078**	**90,386**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	5,760	118,052	4,198	13,745	171	411	1,574	11,859
$100,000 under $500,000	3,481	335,464	2,445	31,844	281	1,417	1,084	19,117
$500,000 under $1,000,000	623	169,946	438	13,502	95	2,320	200	7,415
$1,000,000 under $5,000,000	553	345,532	394	22,553	123	10,122	169	27,752
$5,000,000 or more	131	388,554	90	18,381	42	31,121	51	24,243

Footnotes at end of table.

Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income (UBI), Tax Year 2000 --Continued

[All figures are estimates based on samples--money amounts are in thousands of dollars]

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more ³--Continued: Deductions directly connected with UBI--Continued: Taxes and licenses paid deduction: Number of returns	Taxes and licenses paid deduction: Amount	Depreciation: Number of returns	Depreciation: Amount	Depletion: Number of returns	Depletion: Amount	Contributions to deferred compensation plans: Number of returns	Contributions to deferred compensation plans: Amount
	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)
Total	**11,292**	**189,291**	**7,836**	**197,207**	**74**	**4,292**	**981**	**12,231**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	6,748	26,284	4,342	21,460	*47	*499	459	596
$100,000 under $500,000	3,424	67,328	2,514	57,077	18	574	363	1,780
$500,000 under $1,000,000	565	26,561	449	24,338			76	901
$1,000,000 under $5,000,000	443	34,268	418	48,279	*9	*3,220	70	3,808
$5,000,000 or more	111	34,851	113	46,053			12	5,146

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more ³--Continued: Deductions directly connected with UBI--Continued: Contributions to employee benefit programs: Number of returns	Contributions to employee benefit programs: Amount	Net operating loss deduction: Number of returns	Net operating loss deduction: Amount	Other deductions: Number of returns	Other deductions: Amount	Deductions not directly connected with UBI: Total: Number of returns	Deductions not directly connected with UBI: Total: Amount
	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)
Total	**5,053**	**173,078**	**2,882**	**179,586**	**14,402**	**2,770,394**	**12,831**	**712,427**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	2,224	6,122	1,673	13,370	8,500	171,143	8,382	30,866
$100,000 under $500,000	1,889	26,732	785	28,362	4,194	332,683	3,155	98,213
$500,000 under $1,000,000	413	18,748	187	18,980	802	227,159	641	66,539
$1,000,000 under $5,000,000	418	53,278	175	63,198	712	731,991	518	155,645
$5,000,000 or more	108	68,198	61	55,676	193	1,307,418	135	361,165

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more ³--Continued: Deductions not directly connected with UBI--Continued: Specific deduction: Number of returns	Specific deduction: Amount	Contributions: Number of returns	Contributions: Amount	Set-asides [7]: Number of returns	Set-asides [7]: Amount	Excess exempt expenses: Number of returns	Excess exempt expenses: Amount
	(52)	(53)	(54)	(55)	(56)	(57)	(58)	(59)
Total	**10,649**	**10,323**	**1,809**	**54,186**	**371**	**357,897**	**2,214**	**290,022**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	7,189	6,917	1,125	4,424	*166	*3,164	1,153	16,361
$100,000 under $500,000	2,501	2,451	457	21,406	116	26,998	687	47,357
$500,000 under $1,000,000	492	489	87	11,071	39	21,110	165	33,868
$1,000,000 under $5,000,000	373	371	99	9,459	38	66,651	165	79,164
$5,000,000 or more	94	94	41	7,825	12	239,973	44	113,273

* Estimate should be used with caution because of the small number of sample returns on which it is based.

¹ Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.3 billion.

² Includes both deductions reported on the main part of the tax return and expense items reported on supporting schedules.

³ Organizations with gross UBI between $1,000 (the filing threshold) and $10,000 were required to report only totals for expenses and deductions (except for the specific deduction and net operating loss deduction, which all organizations reported separately). Organizations with gross UBI over $10,000 were required to report each expense and deduction item separately, as shown in columns 14 through 45, 48, 49, and 54 through 59.

⁴ Excludes $42.3 million of cost of sales and services reported by organizations with gross UBI of $10,000 or less. See footnote 1 for explanation.

⁵ Excludes $2.2 billion of cost of sales and services reported by organizations with gross UBI over $10,000. See footnote 1 for explanation.

⁶ This deduction was required to be reported as a lump-sum total only and may have included component deductions that were of the same type shown elsewhere in this table. For example, if deductions "allocable to rental income" included depreciation, then that amount of depreciation would not be included in the separately reported item, "depreciation." Therefore, the total amount shown for some of the separately reported deductions may be understated.

⁷ Reported by Internal Revenue Code section 501(c)(7), (9), and (17) organizations only.

NOTE: Detail may not add to totals because of rounding.