Unrelated Business Income of Nonprofit Organizations, 1997

by Margaret Riley

Taxable profits from "unrelated business income" reported by 39,302 nonprofit organizations on Forms 990-T, *Exempt Organization Business Income Tax Returns*, rose 18 percent between Tax Years 1996 and 1997, amounting to $1.4 billion for 1997. However, this percentage increase was much smaller than that reported for each of the 2 previous years, 31 percent for 1996 and 39 percent for 1995.

Nonprofits collectively reported unrelated business deficits for 1997 that were larger than positive taxable income, resulting in an overall loss for the year. After applying $8.5 billion of total deductions against $7.8 billion of gross unrelated business income (UBI), the overall net income (less deficit) for 1997 was $-0.7 billion. The $2.1 billion of aggregate deficits reported for 1997 was one-and-a-half times larger than aggregate taxable profits. The unrelated business income tax (UBIT) liability imposed on taxable profits was $418.4 million, an increase of 12 percent over 1996. Figure A presents information on these and other selected financial data items for Tax Years 1996 and 1997.

The number of returns filed between 1996 and 1997 declined by 3 percent. As shown in Figure A, the smaller organizations, those with gross UBI of $10,000 or less, were primarily responsible for this drop. Together, these organizations filed 14 percent fewer returns between 1996 and 1997, while the number of returns filed by larger organizations, those with gross UBI over $10,000, increased by 7 percent.

Background

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. In general, income produced from activities that are "regularly carried on" and "are not substantially related" to an organization's tax-exempt purpose are taxable. 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.

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) [1]. The Form 990-T is required only for a tax year in which an organization has unrelated business income. While specific tax-

Margaret Riley is a statistician with the Special Studies Special Projects Section. This article was prepared under the direction of Michael Alexander, Chief.

Figure A

Selected Financial Data from Exempt Organization Business Income Tax Returns, Tax Years 1996-1997

[Money amounts are in thousands of dollars]

Item	1996	1997	Percentage increase, 1996 to 1997
	(1)	(2)	(3)
Number of returns, total	**40,621**	**39,302**	**-3.2**
With gross unrelated business income of $10,000 or less¹	19,174	16,468	-14.1
With gross unrelated business income over $10,000¹	21,446	22,834	6.5
With net income (taxable profit)	19,511	20,827	6.7
Without net income (taxable profit) ²	21,109	18,475	-12.5
Gross unrelated business income	**7,294,504**	**7,808,558**	**7.0**
Total deductions ³	**8,095,558**	**8,494,930**	**4.9**
Net income (less deficit)	**-801,054**	**-686,374**	**14.3**
Net income (taxable profit)	1,169,618	1,374,757	17.5
Deficit	1,970,672	2,061,130	4.6
Unrelated business income tax	**372,298**	**418,431**	**12.4**
Total tax	**372,603**	**422,740**	**13.5**

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 Includes returns with deficits and "breakeven" returns with equal amounts of gross unrelated business income and total deductions.

³ 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 $2.0 billion

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, net income (less deficit), unrelated business income tax, and total tax.

payer 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.

Organizations that are recognized as tax-exempt under section 501(a) of the Internal Revenue Code, and described in Code sections 220(e), 401(a), 408(e), and 501(c), 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.) Code 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.

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 carryover," which all organizations reported separately). Organizations with gross UBI over $10,000 were required to report more detailed expenses and deductions.

Statistical Snapshots

Form 990-T Filers

The 3-percent decline in Form 990-T filings for 1997 was not attributable to all organizations. An attempt to profile the group of organizations that filed fewer returns revealed two main characteristics: most reported $10,000 or less of gross UBI; and the largest drop in filers, by type of organization, was for Individual Retirement Arrangement (IRA) trusts, exempt from tax under Internal Revenue Code section 408(e).

The number of Form 990-T returns filed by section 408(e) IRA trusts decreased 28 percent between 1996 and 1997, dropping from 8,466 to 6,085. (See Table 1 at the end of this article for major financial items, distributed by Code section describing the various types of nonprofit organizations filing Form 990-T). Organizations exempt under sections 401(a), 501(c)(6), 501(c)(9), and 501(c)(14) also filed fewer returns for 1997, but both the drop in number of returns filed and the percentage decreases were not nearly as large for these groups as for the IRA trusts. Respectively, these latter four Code-section groups of organizations were pension, profit-sharing, and stock bonus plans; business leagues, chambers of commerce, and real estate boards; voluntary employees' beneficiary associations (VEBA's); and State-chartered credit unions, and mutual organizations providing insurance or reserve funds for certain banks or loan associations, respectively.

There is no one reason for the drop in Forms 990-T filed, but there may be a connection to Individual Retirement Arrangement trusts' involvement in partnerships.

There is no one reason for the drop in returns filed, but there may be a connection to section 408(e) IRA trusts' involvement in partnerships. IRA trusts with gross UBI of $10,000 or less reported an overall decrease of 38 percent in income (less loss) received from partnerships between Tax Years 1996 and 1997. This coincided with a 30-percent drop in the number of returns filed by organizations in this group. Partnership income (less loss) reported for 1997 by IRA trusts with gross UBI of more than $10,000 dropped 91 percent, but these organizations filed only 4 percent fewer returns from 1996 to 1997. IRA trusts that reported $10,000 or less of gross UBI made up 92 percent of all IRA trusts filing Forms 990-T for 1997; for 1996, the proportion was 94 percent.

Given the large share of the IRA trust population in the smaller-size-organization group, the $1,000 gross UBI threshold for filing a Form 990-T, and the fact that partnership income (less loss) traditionally is the principal source of income (86 percent for 1997) for IRA trusts reporting gross UBI of $10,000 or less, it is reasonable to assume that changes in partnership investment activities experienced by organizations in the smaller gross UBI bracket can be tied to the decline in Forms 990-T filed between 1996 and 1997.

A factor that supports this premise is that about three-quarters of all IRA trusts reported gross UBI of $3,000 or less for 1996. Relatively small partnership net losses or decreases in partnership income could cause these organizations' gross income to fall below the $1,000 filing threshold, thus exempting them from filing a Form 990-T for 1997. Using Tax Year 1996 Internal Revenue Service (IRS) "Business Returns Transaction File" data and the 1997 Statistics of Income data, it is estimated that 71 percent of the IRA trusts with gross UBI of $10,000 or less filed a 1996 return, but did not file a 1997 return [2]. For comparison, only about 19 percent of section 501(c)(3) "charitable" organizations (the largest Code section group in terms of the number of Forms 990-T filed) with gross UBI of $10,000 or less filed a 1996 return, but not a 1997 return [3].

Sources of Income

As shown in Figure B, the composition of income varies by the income size of organizations filing Form 990-T. (See Table 6 at the end of this article for specific income items required to be reported on Form 990-T). "Large" organizations-- those with gross UBI of $500,000 or more-- reported 76 percent of their $6.0 billion of total income under three categories: gross profit (less loss) from sales and services; investment income (less loss) of section 501(c)(7), (9), and (17) organizations; and advertising income. About 5 percent of all Tax Year 1997 Forms 990-T were filed by the large organizations, but they accounted for slightly more than three-quarters of the $7.8 billion total of gross UBI reported for 1997.

Two primary income sources for "medium"-size organizations-- those with gross UBI of $10,001 under $500,000-- accounted for 69 percent of their total income. These sources were gross profit (less loss) from sales and services, and advertising income. The medium-size organizations reported aggregate gross UBI of $1.8 billion, or 23 percent of the total for 1997, and accounted for 53 percent of all Forms 990-T filed.

Four components were responsible for 78 percent of the $61.7 million of total income reported by "small" organizations-- those with gross UBI of $10,000 or less. These were gross profit (less loss) from sales and services; income (less loss) from partnerships; advertising income; and investment income (less loss) of section 501(c)(7), (9), and (17) organizations. These organizations filed 42 percent of all Forms 990-T, but represented less than 1 percent of total gross UBI reported by all organizations for 1997.

The aggregate investment income (less loss) of the large organizations rose 64 percent from 1996 to 1997, from $529.2 million to $865.8 million. However, this investment income was limited to that reported by Code section 501(c)(7), (9), and (17) organizations. Generally, other nonprofit organizations' dividend, interest, rental, and annuity income was not taxed, unless it was from a "controlled organization" or was debt-financed. (See the Explanation of Selected Terms section of this article for definitions of Investment Income (Less Loss), Income from Controlled Organizations, and Unrelated Debt-financed Income.) Large organizations' net profit from sales and services and from advertising income rose only 3 percent and 8 percent, respectively.

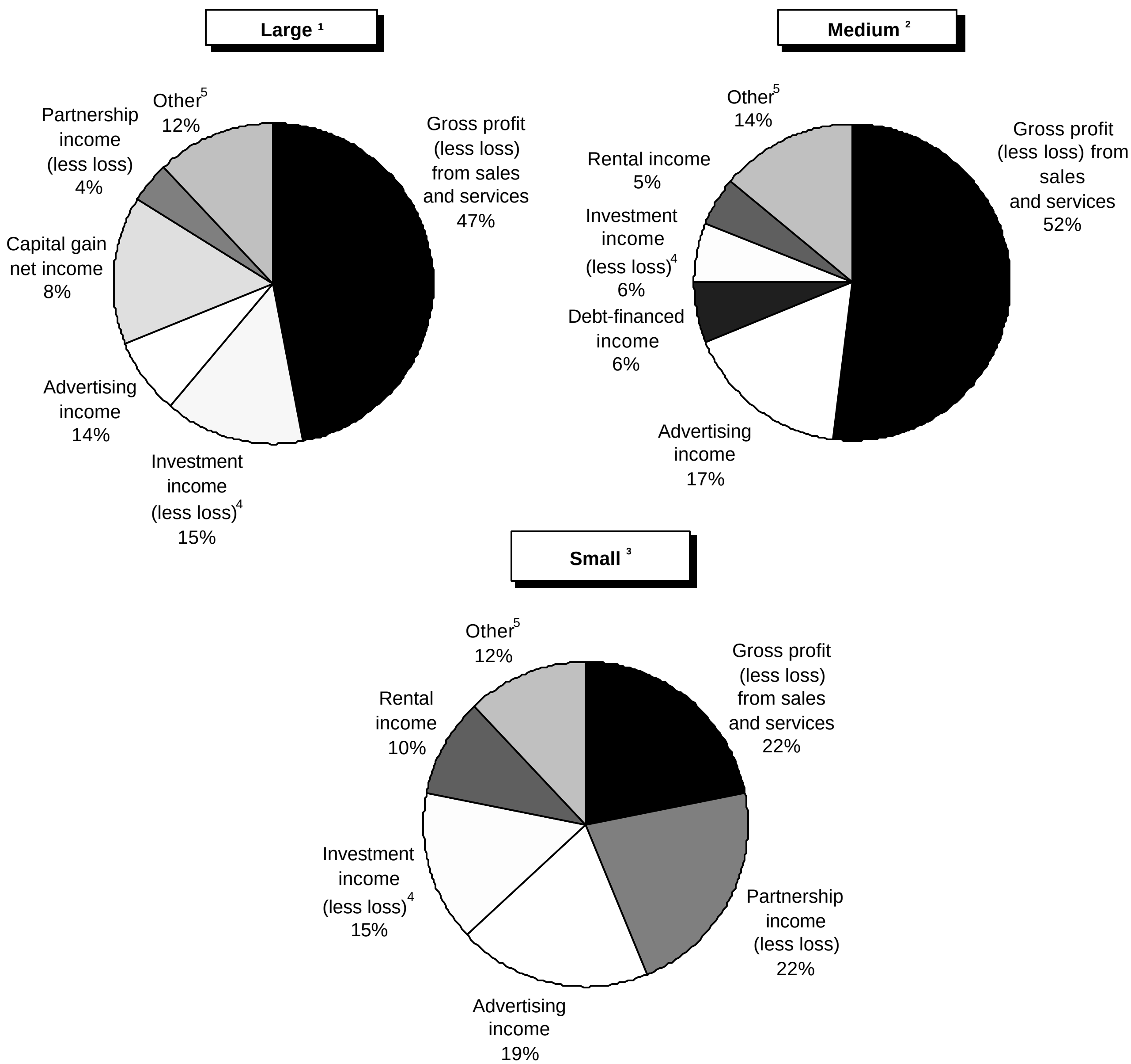
Determinants of Annual Deficits

For every year that Statistics of Income data are available from Form 990-T, beginning with Tax Year 1990, nonprofit organizations have reported aggregate net deficits from unrelated business activities. An examination of the various items deducted from income for 1997 by organizations with gross UBI over $10,000 (smaller organizations report only totals for expenses and deductions, except for the "net operating carryover" and the "specific deduction") shows that net deficits were tied more closely to certain types of expenses and deductions than others. In the aggregate, expenses that were directly allocable to six specific types of unrelated business

> For every year that Statistics of Income data are available from Form 990-T, nonprofit organizations have reported aggregate net deficits from unrelated buisness activities.

Figure B

Composition of Gross Unrelated Business Income (UBI), by Size of Organization, Tax Year 1997



[1] Large organizations are those with gross unrelated business income (UBI) of $500,000 or more.
[2] Medium organizations are those with gross UBI of $10,001 under $500,000.
[3] Small organizations are those with gross UBI of $1,000 under $10,001. These organizations are required to file only a "partial" return. Organizations with larger amounts of gross UBI are required to file a more detailed, complete return. Organizations with gross UBI below $1,000 were not required to file Form 990-T.
[4] Reported by Internal Revenue Code section 501(c)(7), (9), and (17) organizations only.
[5] See Table 6 at the end of this article for gross UBI components other than those specifically shown in this figure.

Operational expenses, the "net operating loss carry-over," and "deductions not directly connected" with unrelated business income are chiefly responsible for annual unrelated business deficits.

income on Form 990-T did not exceed the associated amount of income reported, which resulted in positive net income for each income type. (See Table 7, which shows types of deductions distributed by size of gross UBI, at the end of this article). The six positive net income sources were rental income, unrelated debt-financed income, investment income (less loss) of section 501(c)(7), (9), and (17) organizations, income from controlled organizations, "exploited exempt activity" income (excluding advertising), and advertising income. (These items are defined in the Explanation of Terms section of this article.) Based solely on these six specific types of income, the larger organizations reported positive net income (taxable profit) of $1.2 billion.

An additional source of income, gross profit (less loss) from sales and services, totaled $3.7 billion for the larger organizations, those with gross UBI over $10,000, for 1997. This gross profit (less loss) resulted from subtracting $2.0 billion of costs of sales and services from $5.7 billion of gross receipts from sales and services [4]. The aggregate amount of gross profit (less loss) from sales and services, along with the net income (less loss) from the six specifically reported income sources mentioned above, was positive for each of Tax Years 1991 through 1997, except for net losses reported for unrelated debt-financed activities prior to Tax Year 1995. This seems to indicate that the remaining deduction items reported on Form 990-T, which are mainly operational expenses, the net operating loss carryover, and miscellaneous "deductions not directly connected" to producing unrelated business income (all of which are also shown in Table 7), are chiefly responsible for the annual unrelated business deficits reported by nonprofit organizations.

The operating expenses of "salaries and wages" and "other deductions," plus the net operating loss carryover, plus "deductions not directly connected" accounted for 73 percent of total deductions reported by the larger organizations on Form 990-T for 1997. (Other Deductions, Net Operating Loss Carryover, and Deductions Not Directly Connected are defined in the Explanation of Terms section.) Using generally acceptable accounting practices, nonprofit organizations are allowed to allocate a certain percentage of operational costs to their unrelated business activities, based on a proportion of unrelated income to total income. This can be done even if no supplemental costs above their existing mission-related costs were incurred to conduct the unrelated activities. An analysis of unrelated business income and deductions continues in the section, "Nonprofit Charitable Organizations Classified by National Taxonomy of Exempt Entities."

Distribution of Total Tax

Virtually all of the total tax reported on Form 990-T each year is the unrelated business income tax (UBIT). In addition to $418.4 million of UBIT, the $422.7 million of total tax reported for 1997 took into account $7.2 million of "proxy tax" on certain lobbying and political expenditures, $1.0 million of "alternative minimum tax," and $3.9 million of various tax credits [5].

While the proxy tax was required to be reported on Form 990-T, there was no connection between the proxy tax and the taxation of income from an organization's unrelated business activities. (See the definition of Proxy Tax in the Explanation of Terms section.) For this reason, and because returns with gross UBI below the $1,000 filing threshold were not used for the statistics, Forms 990-T filed solely to report the proxy tax (no UBI reported) were excluded from the study. Based on an unpublished tabulation of data from the IRS Business Returns Transaction File, a total of $13.9 million of proxy tax was reported on 627 Forms 990-T for Tax Year 1997. It is estimated that about 64 percent of these 627 returns were filed solely to report the proxy tax.

Nonprofit organizations filing Form 990-T are organized as trusts or corporations. Trust UBI is taxed at individual (single status) income tax rates, and corporate UBI is taxed at corporate rates. (Tax Year 1997 rates are provided in the definition of Unrelated Business Income Tax, included in the Explanation of Terms section.) Tax-exempt corporations accounted for 64 percent of returns filed with positive net income (taxable profit), and tax-exempt trusts accounted for the remainder. The proportions are reversed when looking at total tax liability. Exempt trusts were responsible for 63 percent of total tax liability, and exempt corporations were responsible for 37 percent.

The primary reason for these differences is that trusts filing Form 990-T traditionally are mostly Code section 401(a) pension funds, section 408(e) IRA's, and section 501(c)(9) voluntary employee beneficiary associations (VEBA's). By the nature of their operations, these trusts generally are more limited than corporations in the types and amount of deductions they can use to offset their incomes [6]. This results in relatively higher amounts of taxable profit for trusts, compared to corporate entities. For 1997, the average deduction reported by nonprofit trusts was less than half the size of the average deduction reported by nonprofit corporations; the average total tax liability of nonprofit trusts was over three times larger than that of nonprofit corporations.

Together, section 501(c)(9) VEBA's and section 501(c)(3) charitable organizations were responsible for 72 percent of total tax liability reported. Another 23 percent of tax liability was attributable to section 401(a) pension trusts; section 501(c)(6) chambers of commerce, business leagues, and real-estate boards; and section 501(c)(7) social and recreational clubs.

Nonprofit Charitable Organizations Classified by National Taxonomy of Exempt Entities

Figure C presents information on the types of section 501(c)(3) nonprofit charitable organizations, based on the National Taxonomy of Exempt Entities (NTEE), a classification system developed by the National Center for Charitable Statistics, with the collaboration of major nonprofit entities. Organizations included in this table filed both a Form 990 "information" return and a Form 990-T "tax" return. The NTEE system classifies organizations by institutional purpose and major programs and activities [7]. It is comprised of 26 major groups, which are then aggregated into 10 categories. The organizations were coded on the basis of information provided on Form 990.

Forms 990 and 990-T Integrated Sample

The organizations classified by NTEE in Figure C were part of an "integrated" sample to gather information on "related" (tax-exempt) and "unrelated" (taxable) income and expenses for organizations that filed both Form 990 and Form 990-T. This integrated sampling program ensured that the Statistics of Income sample of Forms 990-T included unrelated business income tax returns filed by any organizations whose Form 990 information returns were selected for the sample of section 501(c)(3) nonprofit charitable organizations. Forms 990-T filed by section 501(c)(3) organizations that also filed a "short" Form 990-EZ are excluded from the analysis of the data presented in Figure C [8].

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 Form 990 sample. These matched returns, along with any independently selected Forms 990-T that also had counterparts in the Form 990 sample, formed the "integrated" portion of the Form 990-T sample [9].

Of the total 8,002 tax returns in the combined Form 990-T sample, there were 3,391 that were filed by organizations whose information returns were also included in the section 501(c)(3) Form 990 sample. About one-third of these Forms 990-T were not selected initially, but became part of the sample because they subsequently matched a selected Form 990. Applying Form 990 sample weights to the 3,391 integrated sample records produced an estimated population of 7,543 joint Forms 990/990-T filers [10]. Data from these organizations' Form 990-T tax returns were combined with data from their Form 990 information returns for the Figure C analysis.

To clarify, this population is estimated based on Form 990 and Form 990-T records in the two samples that were filed by the same section 501(c)(3) charitable organizations; it is not the estimated total population of all charitable organizations filing Forms 990-T. The estimated total number of Forms 990-T filed for Tax Year 1997 by section 501(c)(3) charities is shown in Table 1 at the end of this article. In addition to the exclusion of Form 990-EZ filers, other factors pertaining to Form 990 filing requirements affected the estimated population of organizations shown in Figure C and used for analysis in this section [11, 12]. The matched records provide the means for consistency in analyzing exempt-function and nonexempt-function income of organizations that are involved in unrelated business activities.

Figure C

Selected Items for Nonprofit Charitable Organizations Filing Forms 990 and 990-T, Classified by National Taxonomy of Exempt Entities (NTEE) Major Category, Tax Year 1997

[Money amounts are in thousands of dollars]

NTEE major category [1]	Number of returns	Selected items, as reported on Forms 990 and 990-T: Reported on Form 990: Total revenue	Total expenses	Total revenue minus expenses	Reported on Form 990-T: Unrelated business gross income (UBGI)	Unrelated business total deductions	Unrelated business gross income minus deductions	UBGI as a percentage of total revenue
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	**7,543**	**332,831,638**	**296,798,392**	**36,033,246**	**3,717,792**	**4,616,825**	**-899,033**	**1.1**
Arts, culture, and humanities	777	6,510,644	4,985,419	1,525,225	238,858	280,893	-42,035	3.7
Education [2]	1,225	73,976,089	53,921,951	20,054,138	403,439	473,312	-69,873	0.5
Environment, animals	340	1,939,697	1,612,209	327,488	62,183	148,309	-86,126	3.2
Health	2,424	214,685,738	202,820,326	11,865,412	1,603,097	2,258,016	-654,919	0.7
Human services	1,982	9,342,906	8,675,719	667,187	240,773	319,091	-78,318	2.6
International, foreign affairs	34	1,032,147	943,193	88,954	3,522	5,887	-2,365	0.3
Mutual, membership benefit	3	16,648,499	16,615,077	33,422	788,285	728,197	60,088	4.7
Public, societal benefit	454	7,548,176	6,281,008	1,267,168	315,894	325,507	-9,613	4.2
Religion-related	304	1,147,742	943,490	204,252	61,741	77,613	-15,872	5.4
Unknown, unclassified	--	--	--	--	--	--	--	--

NTEE major category [1]	Number of returns	Selected items, as derived from Forms 990 and 990-T [3]: Derived from Form 990: Total receipts	Total expenditures	Total receipts minus expenditures	Derived from Form 990-T: Unrelated business gross receipts (UBGR)	Unrelated business total expenditures	Unrelated business receipts minus expenditures	UBGR as a percentage of total receipts
	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Total	**7,543**	**304,079,007**	**289,303,033**	**14,775,974**	**4,481,238**	**4,437,136**	**44,102**	**1.5**
Arts, culture, and humanities	777	4,381,401	5,044,412	-663,011	268,050	263,704	4,346	6.1
Education [2]	1,225	58,411,615	48,719,710	9,691,905	492,102	442,048	50,054	0.8
Environment, animals	340	1,293,962	1,578,487	-284,525	87,859	95,550	-7,691	6.8
Health	2,424	210,064,214	201,587,739	8,476,475	1,882,140	1,972,317	-90,177	0.9
Human services	1,982	7,289,601	8,527,965	-1,238,364	507,262	523,245	-15,983	7.0
International, foreign affairs	34	123,958	832,854	-708,896	4,012	4,296	-284	3.2
Mutual, membership benefit	3	16,945,685	16,910,303	35,382	788,575	728,476	60,099	4.7
Public, societal benefit	454	4,952,242	5,218,757	-266,515	373,585	325,554	48,031	7.5
Religion-related	304	616,329	882,808	-266,479	77,653	81,946	-4,293	12.6
Unknown, unclassified	--	--	--	--	--	--	--	--

[1] The National Taxonomy of Exempt Entities (NTEE) is a classification system using 26 major field areas that can be aggregated into 10 categories, shown above. It was developed by the National Center for Charitable Statistics. The classifications describe the purposes and activities of nonprofit organizations. See Notes and References, footnote 7.

[2] Excludes most colleges and universities operated by State and local Governments.

[3] For derivations, see Figure D.

NOTES: Data are from Forms 990 and 990-T filed by nonprofit charitable organizations that are tax-exempt under Code section 501(c)(3) and exclude private foundations, most churches, and certain other types of religious organizations. Detail may not add to totals because of rounding.

The 7,543 section 501(c)(3) charitable organizations for which statistics are shown in Figure C represent about 5 percent of the 155,330 population of section 501(c)(3) organizations filing Form 990 for 1997, based on the Form 990 sample (excluding Form 990-EZ). Figure C illustrates, to a large degree, the extent to which the section 501(c)(3) organizations engaged in unrelated business activities. This is measured in two ways: by using actual income and expense items reported on the returns (top panel of the table) and by using derived amounts of gross receipts and expenditures (bottom panel of the table). The derived amounts take into account certain adjustments made to income and expense items reported on Forms 990 and 990-T to make them more analogous for comparing total financial activity with unrelated business activity and to include only those components that are considered to be current tax year (1997) gross receipts and associated expenditures. The formulas used to derive Forms 990 and 990-T gross receipts and associated expenditures are shown in Figure D.

Analysis of Income and Expenses by Major NTEE Categories, As Reported on Forms 990 and 990-T

In the top panel of Figure C, total revenue and total expenses reported on Form 990 include both exempt-function (related) and nonexempt-function (unrelated) income and expenses. These Form 990 totals, in addition to unrelated business gross income (UBGI) and total deductions reported on Form 990-T, are tabulated directly from the amounts required to be reported on the respective returns for tax administration purposes. Therefore, the data shown in the top panel represent a tax concept of exempt organizations' income and expenses. While these data may be useful from a tax administration perspective, they do not provide a truly accurate representation of a business "receipts and expenditures" concept of actual financial activity. An attempt has been made in the lower panel of Figure C to present amounts actually generated and expended by nonprofit charitable organizations, by NTEE major category. This is discussed in the next section of this article, which analyzes Forms 990 and 990-T adjusted, or "derived," income and expense data.

The charitable organizations described under section 501(c)(3) cover a broad range of tax-exempt missions. Myriad organizations with a large number of different nonprofit purposes are included in the nine specific aggregated NTEE major categories (excluding "unknown, unclassified") listed in Figure C. As can be seen from the top part of Figure C, "health" was by far the largest category in terms of returns filed and income reported on Form 990 and Form 990-T. Organizations in this category accounted for 43 percent of the $4.6 billion of total unrelated business gross income shown in column 5. They were also responsible for 65 percent of total (related and unrelated) income reported on Form 990. The health category includes organizations that promote the wellness of individuals, the general treatment and prevention of disease or illness (including mental health and illness), and the medical rehabilitation of the physically disabled. Examples are hospi-

Figure D

Formulas Used To Derive Total Receipts, Total Expenditures, Unrelated Business Gross Receipts, and Unrelated Business Total Expenditures, from Forms 990 and 990-T, as Shown in Figure C

Form 990 Total Receipts =

Total revenue (Part I, line 12)
+ Rental expenses[1] (Part I, line 6b)
+ Direct expenses from special events, other than fundraising[1] (Part I, line 9b)
+ Cost of sales and services[2] (Part I, line 10b)
- Contributions, gifts, and grants received (Part I, line 1d)

Form 990 Total Expenditures =

Total expenses (Part I, line 17)
+ Rental expenses[1] (Part I, line 6b)
+ Direct expenses from special events, other than fundraising[1] (Part I, line 9b)
+ Cost of sales and services[2] (Part I, line 10b)
- Fundraising expenses associated with contributions, gifts, and grants received (Part I, line 15)
- Payments to affiliates (Part I, line 16)
- Grants and allocations (Part II, line 22B)

Form 990-T Unrelated Business Gross Receipts =

Unrelated business gross income (Part I, line 13A)
+ Cost of sales and services[2] (Part I, line 2)

Form 990-T Unrelated Business Total Expenditures =

Unrelated business total deductions [sum of total expenses (Part I, line 13B) and total deductions (Part II, line 29)]
+ Cost of sales and services[2] (Part I, line 2)
- Charitable contributions paid (Part II, line 20)
- Net operating loss carryover (Part II, line 31)
- Specific deduction[3] (Part II, line 33)

[1] On Form 990, these expenses were deducted from gross income prior to calculating total revenue.
[2] On Forms 990 and 990-T, this expense was deducted from gross income prior to calculating total revenue and unrelated business gross income.
[3] This was a deduction, up to $1,000, allowed to all organizations reporting net income on Form 990-T.

tals; nursing or convalescent facilities; health care financing activities; substance abuse treatment services; organizations that study ethics or promote the practice of ethical behavior in medical care and research; health associations active in the prevention or treatment of diseases; and medical research.

"Human services" organizations accounted for the second largest number of matched Forms 990 and 990-T filed (26 percent), but only 6 percent of total unrelated business gross income.

Organizations classified within the NTEE-defined purpose of "mutual, membership benefit" accounted for the second highest amount of UBGI reported, or about 21 percent of the total shown in Figure C. Some types of organizations that can be included in this category are insurance providers; organizations that manage pension and retirement funds; research institutes and public policy organizations; and organizations whose primary purpose is to raise funds (which may also include fund distribution) for a single institution or multiple organizations.

The major category of "education" ranked third in both the amount of UBGI reported and the number of returns filed. Eleven percent of total UBGI was attributable to organizations with educational purposes or programs. This category includes higher education (excluding most colleges and universities operated by State and local Governments), elementary and secondary schools, correspondence schools, libraries, educational testing services, organizations providing opportunities for continuing education outside the framework of formal education, and student services and organizations.

Following health, the "human services" major category accounted for the second largest number of matched Forms 990 and 990-T filed by nonprofit charitable organizations shown in Figure C, but it was responsible for only 6 percent of total UBGI. This major category was comprised of organizations in several classifications performing a variety of services focused on specific needs within the community: housing and shelter programs, including housing, construction, management, and services to assist in locating, acquiring, or sustaining housing; job training and placement services; public safety, disaster preparedness, and relief services, including activities related to the effects of disasters and the providing of relief to accident victims; recreation and sports programs provided by organizations for camps, parks, and playgrounds, and amateur sports activities; crime prevention and legal services; and multipurpose organizations providing a broad range of social or human services to individuals and families.

Analysis of Gross Receipts and Expenditures by Major NTEE Categories, As Derived from Forms 990 and 990-T

The lower panel of Figure C shows "adjusted" income and expense amounts that were derived from amounts specifically reported on Forms 990 and 990-T (contained in the top panel) to portray an actual business, or operating, "receipts and expenditures" concept of tax-exempt organizations' financial activities. When comparing exempt organizations' finances reported on Forms 990 and 990-T, it is important to exclude certain receipts, payments, or deductions--such as contributions, gifts, and grants received or paid; payments to affiliates; and the "net operating loss carryover"--because the receipts were not actively generated by the organizations and the payments or deductions were not considered as current-year operating costs. Also, it is necessary to add back to income the expenses that had been deducted from gross income for tax purposes only (and which, therefore, were excluded from income and deduction totals reported on the IRS forms), so that the Forms 990 and 990-T comparative analysis is based on total, versus "net," receipts from operations.

As mentioned above, Figure D contains a description of the items used to calculate the adjusted amounts. Conclusions about the relative importance of certain financial items to the various NTEE categories of section 501(c)(3) charitable organizations can be drawn from the data in the lower panel of Figure C.

Overall Importance of Forms 990 and 990-T Adjustment Items

In computing "total receipts," the largest financial item that was factored out of reported total revenue on Form 990 was contributions, gifts, and grants received (CGGR). Figure E shows CGGR and other selected items as a percentage of certain income, expense, and deduction items specifically reported on

Figure E

Selected Adjustment Items Shown in Figure D, as a Percentage of Selected Items Reported on Forms 990 and 990-T, Classified by National Taxonomy of Exempt Entities (NTEE) Major Category, Tax Year 1997

NTEE major category [1]	Reported on Form 990: Contributions, gifts, and grants received, as a percentage of total revenue	Reported on Form 990: Grants and allocations, as a percentage of total expenses	Reported on Form 990-T: Cost of sales and services: As a percentage of gross income	Reported on Form 990-T: Cost of sales and services: As a percentage of total deductions	Reported on Form 990-T: Net operating loss carryover, as a percentage of total deductions
	(1)	(2)	(3)	(4)	(5)
Total	**9.4**	**2.7**	**13.0**	**10.5**	**18.1**
Arts, culture, and humanities	37.1	1.8	9.7	8.2	13.8
Education [2]	22.1	9.5	17.2	14.7	24.1
Environment, animals	35.1	2.3	31.2	13.1	36.0
Health	2.5	0.7	17.2	12.2	24.7
Human services	26.4	4.0	14.9	11.2	12.0
International, foreign affairs	87.1	4.8	13.9	8.3	30.1
Mutual, membership benefit	([3])	([3])	([3])	([3])	([3])
Public, societal benefit	31.1	15.5	17.2	16.7	7.7
Religion related	48.0	4.9	7.7	6.1	7.8
Unknown, unclassified	--	--	--	--	--

[1] The National Taxonomy of Exempt Entities (NTEE) is a classification system using 26 major field areas that can be aggregated into 10 categories, shown above. It was developed by the National Center for Charitable Statistics. The classifications describe the purposes and activities of nonprofit organizations. See Notes and References, footnote 7.

[2] Excludes most colleges and universities operated by State and local Governments.

[3] Less than 0.05 percent.

NOTES: Data are from Forms 990 and 990-T filed by nonprofit charitable organizations that are tax-exempt under Code section 501(c)(3) and exclude private foundations, most churches, and certain other types of religious organizations.

Forms 990 and 990-T. In aggregate, CGGR was close to 10 percent of the total revenue of nonprofit charitable organizations included in Figure C.

Included in CGGR were contributions, gifts, grants, and bequests received directly from the public; indirect public support in the form of contributions received from other fundraising organizations, such as the United Way; and contributions or grants received from a governmental unit. As a counterpart to subtracting CGGR from total revenue, fundraising expenses associated with CGGR were also factored out of total expenses. The three items shown in Figure D other than CGGR that were factored into the derivation of "total receipts" were each less than 1 percent of aggregate total revenue reported on Form 990.

The largest item that affected the computation of aggregate Form 990 "total expenditures" was grants and allocations made to individuals and organizations, which were 2.7 percent of reported total expenses. All other items used to derive the adjusted amount of aggregate total expenditures shown in Figure D were each less than 1 percent of total expenses reported on Form 990.

The "net operating loss carryover" (NOLC) is a deduction allowed in computing unrelated business taxable income on Form 990-T. Generally, unrelated business losses incurred in prior tax years can be used to reduce taxable income in a later tax year. (See the definition of Net Operating Loss Carryover in the Explanation of Terms section of this article.) Factoring NOLC out of unrelated business total deductions significantly affects the computation of adjusted unrelated business total expenditures. The aggregate NOLC reported by organizations included in Figure C was 18 percent of total deductions reported on Form 990-T.

"Cost of sales and services" was also an important factor in the computation of adjustments to both UBGI and unrelated business total deductions. Cost of sales and services is allowed as a deduction from gross receipts from sales and services prior to computing total unrelated business gross income (which is the determining factor for whether no return, a partial return, or a complete return is required). Therefore, cost of sales and services is reported in the gross income section of Form 990-T, rather than the deductions section, and it is not included in unrelated business total deductions shown in column 6 of Figure C. The $483.0 million of cost of sales and services used in the Form 990-T computations shown in Figure D were 13 percent of UBGI and 11 percent of unrelated business total deductions reported by section 501(c)(3) charitable organizations in all NTEE categories, combined. Charitable deductions paid and the "specific deduction" (defined in the Explanation of Terms section) were each less than 1 percent of unrelated business total deductions and had little effect on the computation of the adjusted amounts.

Effect of Adjustments on Reported Income, Expenses, and Deductions

As can be seen in Figure E, the results obtained from adjusting reported income and expense amounts vary by NTEE major category. The major NTEE categories most affected by the subtraction of contributions, gifts, and grants (CGGR) from total revenue were "international, foreign affairs," "religion-related," "arts, culture, and humanities," and "environment, animals." Organizations in the "health" category (which includes hospitals) were least affected by the adjustment, with CGGR being only 3 percent of their total revenue. Traditionally, organizations classified within the health category rely much more heavily on revenue from program services, rather than receipts from CGGR, as a major source of income.

Adjustments made to Form 990 total expenses primarily affected organizations in the "public, societal benefit" category. Grants and allocations, which were subtracted from total expenses, were 16 percent of the expenses reported by organizations in this category. For each of the other NTEE major categories shown in Figure E, the ratio of grants and allocations to total expenses was less than 10 percent.

Of all items used to adjust Form 990-T gross income and deductions, the "net operating loss carryover" by far had the greatest impact.

Of all the items used to adjust Form 990-T gross income and deductions, the net operating loss carryover (NOLC) was by far the most important, indicating that these filers had significant business losses in the immediately preceding years. Factoring the NOLC out of Form 990-T unrelated business total deductions had the greatest impact on the NTEE categories of environment, animals; international, foreign affairs; health; and arts, culture, and humanities. Cost of sales and services (CSS) from unrelated business activities was added to both gross income and total deductions in the computation of unrelated business receipts and expenditures. Therefore, the CSS adjustment did not impact the amount of receipts over expenses shown in column 15 of Figure C, but it significantly increased unrelated business gross income reported by organizations in each of the NTEE major categories of environment, animals; "education"; health; and public, societal benefit.

Measuring Unrelated Business Involvement Using Derived Amounts

As stated earlier, adjustments to Forms 990 and 990-T reported amounts were made for the purpose of comparing the related and unrelated financial activities of nonprofit charitable organizations, which required an attempt to make both types of receipts and expenditures more analogous. The lower panel of Figure C was designed to allow for a more accurate analysis of related and unrelated finances by treating both types of receipts and expenditures as consistently as possible. It is not intended for any other types of analysis.

A comparison of Form 990 total revenue minus expenses (column 4) and total receipts minus expenses (column 12) illustrates the importance of the receipt of contributions, gifts, and grants to the programs of nonprofit charitable organizations. After adjustments, receipts minus expenses were significantly reduced for all NTEE major categories, except for health, where the reduction were small relative to the others, and for the category of "mutual, membership benefit," where receipts minus expenses increased slightly.

Adjustments to income and deductions resulted in significantly higher derived amounts of unrelated business gross receipts minus expenditures shown in column 15, compared to their counterpart amounts shown in column 7, which were specifically reported on Form 990-T. Unrelated business net income (less loss) changed from negative to positive for NTEE categories as a whole and for three specific categories: arts, culture, and humanities; education; and public, societal benefit. Factoring the net operating loss carryover out of unrelated business total deductions was the primary reason for this result. However, organizations in the NTEE categories of environment, animals; health; "human services"; international, foreign affairs; and religion-related still had negative net income (less loss), or apparently unprofitable unrelated business operations, after subtracting out the NOLC from their respective unrelated business total deductions. The section, Income and Deductions, above, contains a discussion of the types of deductions reported on Form 990-T and their connection with annual overall deficits reported by nonprofit organizations since Tax Year 1990.

The percentages shown in columns 8 and 16 of Figure C are indicators of the extent to which section 501(c)(3) charitable organizations engage in unrelated business activities. They represent the ratio of unrelated income to total (related and unrelated) income. The percentages shown in column 8, based on actual amounts reported on the returns, are generally smaller than those shown in column 16, based on derived amounts. Also, the NTEE major categories fall into a different order of dominance, in terms of unrelated business activity, as measured by the percentages in the two columns.

The column 16 percentages, which take into account the adjustments shown in Figure D, indicate that a small proportion, 1.5 percent, of the total receipts of all section 501(c)(3) charitable organizations shown in Figure C was generated from unrelated business activities. Based on derived Forms 990 and 990-T receipts, the percentages in column 16 increased over those in column 8 for all of the NTEE major categories, except mutual, membership benefit, which remained the same. As a group, organizations classified in Figure C as religion-related, which excludes most churches (see footnote 2 at the end of this article), were more extensively involved in generating income from unrelated business activities than those included in other NTEE categories, with more than 12 percent of total receipts coming from unrelated business receipts.

The religion-related NTEE major category includes organizations whose primary purpose is worship, religious training or study, governance or administration of organized religions, or the promotion of religious activities. As already mentioned, most churches were excluded from the Form 990-T integrated sample because they are not required to file Form 990. In addition to churches and other organized places of worship, the religion-related category could include religious associations; church auxiliaries; religious orders; missions; and religious organizations involved in advocacy, research, fundraising, management support, media, or publishing activities. Less than 1 percent of total receipts was attributable to unrelated business activities within the education and health classifications. The remaining major NTEE categories shown in Figure C had UBGR-to-total-receipts ratios of 6 percent to 8 percent.

Summary

After applying $8.5 billion of total deductions against $7. 8 billion of gross unrelated business income (UBI), nonprofit organizations reported an overall net income (less deficit) of $-0.7 billion for Tax Year 1997. The $1.4 billion of taxable profits from unrelated business income reported on Forms 990-T, *Exempt Organizations Business Income Tax Returns,* represented an 18-percent increase over 1996--much smaller than the 31-percent and 39-percent increases, respectively, associated with Tax Years 1995 and 1996. The unrelated business income tax (UBIT) liability associated with taxable profits was $418.4 million. In addition to UBIT, the $422.7 million of total tax took into account $7.2 million of "proxy tax" on certain lobbying and political expenditures, $1.0 million of "alternative minimum tax," and $3.9 million of tax credits. Seventy-two percent of reported total tax was attributable to Internal Revenue Code section 501(c)(9) voluntary employee beneficiary associations and section 501(c)(3) charitable organizations.

The number of returns filed between 1996 and 1997 declined, overall, by 3 percent, from 40,621 to 39,302. Organizations with gross UBI of $10,000 or less filed 14 percent fewer Forms 990-T from 1996 to 1997, while the number of returns filed by organizations with larger amounts of gross UBI increased by 7 percent. The largest drop in filers, by type of organization, was for Individual Retirement Arrangement (IRA) trusts, tax-exempt under Code section 408(e), which filed 28 percent fewer Forms 990-T, compared to 1996.

Using the National Taxonomy of Exempt Entities (NTEE) classification system, an "integrated" sample of Form 990 (*Return of Organization Exempt From Income Tax*) and 990-T returns filed for 1997 by the same section 501(c)(3) charitable organizations was classified by institutional purpose and major programs. "Health" was by far the largest NTEE major category in terms of returns filed and income reported on Forms 990 and 990-T that were part of the integrated sample. Organizations in this category filed 32 percent of the population of 7,543 returns estimated from the integrated sample, 65 percent of Form 990 total income, and 43 percent of Form 990-T gross UBI. Organizations with an NTEE classification of "mutual, membership benefit" were small in number, based on the integrated sample, but accounted for the second highest amount of gross UBI reported, or 21 percent of the total. "Human services" organizations filed the second highest number of "matched" Forms 990 and 990-T, 26 percent, but were responsible for only 6 percent of gross UBI reported. "Education" ranked third in both the amount of gross UBI reported (11 percent of the total) and the number of Forms 990-T filed (16 percent of the total).

Based on adjusted income amounts derived from returns in the integrated sample, the group of organizations classified as "religion-related" were more extensively involved in unrelated business activities than organizations within other NTEE major categories. These organizations generated a little more than 12 percent of total receipts (related plus unrelated) from unrelated business gross receipts (UBGR). Six out of the eight other NTEE major groups of organizations had UBGR-to-total-receipts ratios ranging from 6 percent to 8 percent. These six groups were classified as "arts, culture, and humanities"; "environment, animals"; human services; "international, foreign affairs"; mutual, membership benefit; and "public, societal benefit". For the remaining two major NTEE groups, education and health, less than 1 percent of total receipts was attributable to unrelated business activities.

Data Sources and Limitations

The statistics in this article are based on a sample of Tax Year 1997 Forms 990-T, *Exempt Organization Business Income Tax Return*. The Internal Revenue Service required organizations having accounting periods beginning in 1997 (and, therefore, ending between December 1997 and November 1998) to file a 1997 Form 990-T to report any unrelated business income. The associated required filing period for Tax Year 1997 Forms 990-T generally was May 1998 to April 1999 (April 1998 to March 1999 for Internal Revenue Code section 220(e), 401(a), and 408(e) trusts), but extensions of time to file beyond this period were granted to many organizations. Returns filed after Calendar Year 1999 were not included in the sample. Because the accounting periods of the organizations filing a 1997 return vary, the financial activities covered in this article span the period January 1997 through November 1998 (although the majority of activities occurred during Calendar Year 1997).

The data analyzed in the section titled Nonprofit Charitable Organizations Classified by National Taxonomy of Exempt Entities (and presented in Figures C and E) were from matched Forms 990 and 990-T returns filed by Internal Revenue Code section 501(c)(3) charitable organizations. As explained earlier, this matching procedure ensured that the Form 990-T sample included unrelated business income tax returns filed by any tax-exempt organizations whose information returns were selected for the Form 990 sample of section 501(c)(3) organizations [13]. (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.) The Form 990-T sample is described below.

The population from which the 1997 Form 990-T sample was drawn consisted of Form 990-T records posted to the IRS Business Master File system during 1998 and 1999. The returns in the sample were stratified based on the size of gross unrelated business income (UBI). A sample of 8,052 returns was selected from a population of 39,521. After excluding returns that were selected for the sample but later rejected, the sample size was 8,002, and the estimated population size was 39,302. Rejected returns included those which had gross UBI below the

$1,000 filing threshold, were filed only to claim a refund or report the "proxy tax," or were filed for a part-year accounting period that began in a year other than 1997. For example, a final return filed for the short period of January 1998-- June 1998 may have been selected for the 1997 sample based on the criterion of an accounting period that ended between December 1997 and November 1998, but it was rejected because, in actuality, it was a Tax Year 1998 return.

Sampling rates ranged from a minimum of 5 percent (Form 990-T gross UBI less than $20,000, with either no Form 990 match or a Form 990 match to a Code section 501(c)(3) return with assets under $2,500,000) 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 assets of $10,000,000 or more). Other Forms 990/990-T matches within various ranges of gross UBI, assets, and Internal Revenue Code sections were selected at rates ranging from 10 percent to 40 percent.

The information presented in this article was obtained from returns as originally filed with the IRS. The data were subjected to comprehensive testing and correction procedures in order to improve statistical reliability and validity. In most cases, 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 F shows CV's for selected financial data. CV's are not shown for returns with gross UBI of $500,000 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 *Bulletin*.

Explanation of Selected Terms

In some of the following explanations, tax-exempt organizations are cited by the Internal Revenue Code

Figure F

Coefficients of Variation for Selected Items, by Size of Gross Unrelated Business Income, Tax Year 1997

Size of gross unrelated business income (UBI)	Gross unrelated business income	Total deductions	Net income (taxable profit)	Total tax
	Coefficient of variation (percentages)			
	(1)	(2)	(3)	(4)
Total	**0.26**	**0.66**	**0.49**	**0.99**
$1,000 under $10,001 [1]	2.75	8.21	5.24	7.41
$10,001 under $100,000 [1]	1.38	4.26	4.16	5.06
$100,000 under $500,000	0.84	2.50	2.65	2.78
$500,000 or more	N/A	N/A	N/A	N/A

[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.

N/A - Not applicable.

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.

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 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 property. However, net capital gains 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. (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). Any unused contributions carried over from earlier years were also allowed. The contributions deduction was allowed whether or not directly connected with the carrying on of a trade or business.

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 directly connected with rental of personal property; those allocable to unrelated debt-financed income; those directly connected with 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; bad debts; interest; taxes; depreciation (unless deducted elsewhere); depletion; contributions to deferred compensation plans; contributions to employee benefit plans; the "net operating loss carryover"; 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 below), except for two items that were required to be reported separately: the "net operating loss carryover" and the "specific deduction," 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, 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 of exempt expenses over exempt income 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 income 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 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 (see the explanation of 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, as shown on the tax return, were gross profit (less loss) from sales and services; capital gain net income; net gain (less loss), sales of noncapital assets; net capital loss deduction (trusts only); income (less loss) from partnerships; rental income; unrelated debt-financed income; investment income (less loss) of Internal Revenue Code section 501(c)(7), (9), and (17) organizations; annuities, interest, rents, and royalties from controlled organizations; "exploited exempt activity" income; advertising income; and "other" income (less loss). (For an explanation of these sources of income, see the separate explanations of each component.)

Income from Controlled Organizations.—A new definition of "controlled organization" was effective for tax years beginning after August 5, 1997. However, there was a 2-year grace period for organizations that had a written, binding contract with a controlled organization that was in effect on June 8, 1997. Organizations qualifying for the grace period reported income under the old law. (A very small number of Tax Year 1997 Forms 990-T included controlled-organization income that was calculated under new rules.) Under both the old and new tax law provisions, 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.)

For organizations that had tax years beginning *on or before August 5, 1997*, or were covered by the 2-year grace period: When an exempt organization controls another organization the gross annuities, interest, rents, and royalties from the controlled organization are included in the gross UBI of the controlling organization at a specified ratio, depending on whether the controlled organization is tax-exempt or not. "Control" meant: (a) for a stock corporation, the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote, and ownership of at least 80 percent of the total number of shares of all other classes of stock of the corporation; or (b) for a nonstock organization, at least 80 percent of the directors or trustees of the organization were either representatives of, or directly or indirectly controlled by, a tax-exempt organization.

For organizations that had tax years beginning *after August 5, 1997*, and were not covered by the 2-year grace period: When an exempt organization controls another organization, the entire amount of gross annuities, interest, rents, and royalties (termed "specified payments" under the new law) from the controlled organization are included in the gross UBI of the controlling organization, to the extent that the specified payments reduced the net unrelated income (or increased the net unrelated loss) of the controlled organization. "Net unrelated income (or loss)" for an exempt controlled organization was its unrelated business taxable income (or loss). For a nonexempt controlled organization, it was the part of its taxable income (or loss) that would be unrelated business taxable income (or loss) if it 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.

Income (Less Loss) from Partnerships.—If an organization was a partner in any partnership that carried on an unrelated trade or business, this was the organization's share of partnership gross unrelated business income less its share of partnership deductions that were directly connected with the unrelated income.

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 negative component of gross unrelated business income.

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 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 (net income), negative (deficit), or zero. Net income represented taxable profit, which 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.)

Net Operating Loss Carryover.—The net operating loss carryover (as described in Internal Revenue Code section 172) was allowed as a deduction in computing unrelated business taxable income. However, the net operating loss carryback or carryover (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 statistics in this article represent only the net operating loss carryover 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 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 were allocable, then the proxy tax was imposed on the organization. It was computed as the aggregate amount of nondeductible lobbying expenditures that was not included in the notices sent to the organization's members, multiplied by 35 percent. 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 generally were 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. Any rents excluded from 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.—These amounts were allowed to social 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)) as a deduction from investment income. 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 ($2.0 billion for 1997), which was subtracted from gross receipts from sales and services in computing gross profit (less loss) from sales and services. Gross profit (less loss) from sales and services was 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. 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.

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 expenditures, the tax from recomputing certain prior-year credits ("recapture taxes"), and the "alternative minimum tax."

Unrelated Business Income.—This was income of a tax-exempt organization that was from a trade or business which was regularly carried on by the organization and which 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 activity carried on for the production of income from selling goods or performing services. Activities of producing or distributing goods or performing services from which gross income was derived 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.

Unrelated Business Income Tax.—This was the tax imposed on unrelated business net income (taxable profit). It was determined based on the regular corporate or trust income tax rates that were in effect for the 1997 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	$1,600	15%	$0
1,650	3,900	$247.50 + 28%	1,650
3,900	5,950	877.50 + 31%	3,900
5,950	8,100	1,513.00 + 36%	5,950
8,100	--	2,287.00 + 39.6%	8,100

Unrelated Debt-financed Income.—Gross income from investment property for which there was acquisition indebtedness 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] Churches, which are tax-exempt under 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. 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, "Charities and Other Nonprofit Organizations, 1997," *Statistics of Income Bulletin*, Fall 2000, Volume 20, Number 2. For the most recent annual data on private foundations, see Whitten, Melissa, "Domestic Private Foundations and Charitable Trusts, 1996-1997," *Statistics of Income Bulletin*, Fall 2000, Volume 20, 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 Whitten, cited above. For results of a new SOI study of certain types of split-interest trusts, which file Form 5227, *Return of Split-interest Trust,* see Belvedere, Melissa J., "Charitable Remainder Trusts, 1998," *Statistics of Income Bulletin*, Winter 2000-2001, Volume 21, Number 3.

[2] While most tax-exempt organizations are required to file a Form 990/990EZ information return each year, Form 990-T is required to be filed only for a year in which a tax-exempt organization has unrelated business income.

[3] 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).

[4] The $2.0 billion in costs of sales and services are not included in total deductions. These costs are subtracted from gross receipts from sales and services prior to computing gross unrelated business income on Form 990-T.

[5] Taxes other than UBIT can also include "recapture taxes" (such as from recomputation of prior-year investment or low-income housing credits), but none were reported on Forms 990-T for 1997. Credits against tax included the foreign tax credit, general business credit, prior-year minimum tax credit, and other credits (such as the U.S. possessions tax credit, nonconventional source fuel credit, and qualified electric vehicle credit).

[6] For example, the investment portfolios of nonprofit trusts are usually overseen by only one or two trust managers, so deductions for salaries and wages, a significant deduction item for many corporate nonprofit entities, are relatively small, resulting in higher taxable income.

[7] For information on the National Taxonomy of Exempt Entities classification system, see Hodgkinson, Virginia A.; Weitzman, Murray S.;

et.al., *Nonprofit Almanac, 1996-1997: Dimensions of the Independent Sector,* Jossey-Bass, Inc., 1996; Stevenson, David R.; Pollak, Thomas H.; and Lampkin, Linda M.; et.al., *State Nonprofit Almanac 1997: Profiles of Charitable Organizations,* The Urban Institute, 1997; and *The National Taxonomy of Exempt Entities Manual,* The Urban Institute, 1997.

[8] In addition to Forms 990, the section 501(c)(3) sample included Forms 990-EZ *(Short Form Return of Organization Exempt From Income Tax)* which could be filed by smaller organizations (those with annual gross receipts of less than $100,000 and total end-of-year assets of less than $250,000). A small number of these returns matched Forms 990-T in the integrated sample, but they were excluded from the analysis because they did not contain all of the detailed financial data items reported on Form 990 that are needed for comparison with Form 990-T financial data. (Some items that were required to be reported separately on Form 990 were allowed to be lumped together in an "other" category on the Form 990-EZ, such as "other income.")

[9] For additional information on the Form 990 and Form 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.

[10] The Form 990 sample weights, rather than the Form 990-T sample weights, were used to produce matched Forms 990/990-T population estimates presented in this section of the article. The matched data represent Form 990-T information reported only by the organizations whose returns were selected for the section 501(c)(3) Form 990 sample. Some tax-exempt organizations file Form 990-T but do not file Form 990. See footnote 11, items (2), (3), and (4), for a description of these organizations. Form 990-T sample weights were used to produce the estimates presented elsewhere in this article. Because Figure C is based on Form 990 sample weights, and the statistics presented in all other sections of this article are based on Form 990-T sample weights, data in Figure C are not comparable to the data shown in Figure A or Tables 1 through 7. For detailed information on Statistics of Income sampling methodology for producing population estimates, see the general appendix, located near the back of this issue of the *Bulletin*, particularly the Sample Criteria and Selection of Returns section and the Method of Estimation section. See, also, the Data Sources and Limitations section of this article.

[11] Some reasons why the estimates of matched Form 990-T filings shown in Figure C (produced using Form 990 sample weights) are lower than the estimates of overall Form 990-T filings shown in Table 1 (produced using Form 990-T sample weights) are (1) Forms 990-T and matching "short" Forms 990-EZ that were part of the integrated samples were excluded from the matched-return analysis (see footnote 8); (2) some organizations filed a Form 990-T, but did not file a Form 990 because their gross receipts were below the $25,000 Form 990 filing threshold; (3) churches, which are tax-exempt under Internal Revenue Code section 501(c)(3), are not required to file Form 990 or Form 990-EZ, but are required to file Form 990-T if they had unrelated business income; and (4) private foundations, which are tax-exempt under section 501(c)(3), file Form 990-PF, not Form 990; therefore, a Form 990-T filed by a private foundation would not have a matching record in the Form 990 sample.

[12] For more information on the NTEE classification of all section 501(c)(3) organizations filing Forms 990, see Arnsberger, cited in footnote 1.

[13] For an explanation of the Form 990 section 501(c)(3) sample, see the Data Sources and Limitations section in Arnsberger, cited in footnote 1.

SOURCE: IRS, Statistics of Income Bulletin, Spring 2001, Publication 1136 (Revised 5-01).

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)	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)	Individual Retirement Arrangements (IRA's)	Fiduciary agent for retirement funds
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	Lodge 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 societies and associations	Lodges, societies, or associations devoting their net earnings to charitable, fraternal, and other specified purposes, without life, health, accident, or other insurance benefits to members
(11)	Teachers' retirement fund associations	Fiduciary association providing for payment of retirement benefits
(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

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)(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 depoits 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	Activities implied by the nature of the organization
(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 multiemployer 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

NOTE: Prepaid legal service funds, 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, Net Income (Less Deficit), Net Income (Taxable Profit), and Total Tax, by Internal Revenue Code Section Describing Type of Tax-Exempt Organization, Tax Year 1997

[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]		Net income (less deficit)		Net income (taxable profit)	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	**39,302**	**7,808,558**	**39,070**	**8,494,930**	**34,537**	**-686,374**	**1,374,757**	**20,724**	**422,740**
220(e)	--	--	--	--	--	--	--	--	--
401(a)	835	178,636	812	112,786	812	65,850	141,512	700	46,751
408(e)	6,085	32,803	6,049	10,448	6,044	22,354	22,354	6,023	6,527
501(c)(2)	274	58,104	274	73,576	225	-15,472	6,790	128	2,314
501(c)(3)	10,614	4,179,076	10,521	5,246,023	9,319	-1,066,947	337,023	4,008	103,321
501(c)(4)	1,485	272,962	1,484	326,845	1,278	-53,884	12,073	414	2,908
501(c)(5)	2,610	214,293	2,609	258,046	2,042	-43,753	24,173	866	6,328
501(c)(6)	6,315	836,414	6,315	1,005,997	5,154	-169,584	76,139	2,082	27,649
501(c)(7)	7,004	465,283	6,963	456,851	6,183	8,432	96,559	4,838	21,568
501(c)(8)	979	68,287	979	94,977	904	-26,690	5,817	438	970
501(c)(9)	687	1,302,482	681	688,445	400	614,037	629,447	311	199,492
501(c)(10)	300	14,719	300	19,898	300	-5,178	992	103	154
501(c)(11)	--	--	--	--	--	--	--	--	--
501(c)(12)	143	25,567	143	25,303	109	264	4,943	51	1,499
501(c)(13)	*57	*3,082	*36	*3,643	*57	*-561	*1,087	*10	*266
501(c)(14)	96	11,541	95	13,689	96	-2,148	1,054	*70	*250
501(c)(15)	--	--	--	--	--	--	--	--	--
501(c)(16)	--	--	--	--	--	--	--	--	--
501(c)(17)	**	**	**	**	**	**	**	**	**
501(c)(18)	--	--	--	--	--	--	--	--	--
501(c)(19)	1,811	135,645	1,800	152,854	1,606	-17,209	10,268	679	1,486
501(c)(21) [5]	--	--	--	--	--	--	--	--	--
501(c)(22)	--	--	--	--	--	--	--	--	--
501(c)(23)	--	--	--	--	--	--	--	--	--
501(c)(24)	--	--	--	--	--	--	--	--	--
501(c)(25)	**	**	**	**	**	**	**	**	**

*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 $2.0 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 net 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 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, total proxy tax was $7.2 million.

[5] 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, Net Income (Less Deficit), Net Income (Taxable Profit), and Total Tax, by Size of Gross UBI, Tax Year 1997

[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]		Net income (less deficit)		Net income (taxable profit)	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	**39,302**	**7,808,558**	**39,070**	**8,494,930**	**34,537**	**-686,374**	**1,374,757**	**20,724**	**422,740**
$1,000 under $10,001 [5]	16,468	61,678	16,342	94,498	14,492	-32,820	20,250	10,725	3,678
$10,001 under $100,000 [5]	15,142	555,131	15,063	831,609	13,180	-276,478	100,035	6,717	23,308
$100,000 under $500,000	5,698	1,229,886	5,675	1,667,120	5,080	-437,234	158,336	2,444	43,358
$500,000 under $1,000,000	961	670,903	960	863,778	854	-192,875	80,411	391	24,338
$1,000,000 under $5,000,000	842	1,719,188	839	1,892,906	761	-173,718	264,243	364	86,979
$5,000,000 or more	190	3,571,771	190	3,145,019	169	426,752	751,482	82	241,079

[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 $2.0 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 net 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 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, total proxy tax was $7.2 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, Net Income (Less Deficit), and Total Tax, by Size of Net Income (Taxable Profit) or Deficit, Tax Year 1997

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

Size of net income (taxable profit) or deficit	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income (less deficit)		Total tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	**39,302**	**7,808,558**	**39,070**	**8,494,930**	**34,537**	**-686,374**	**20,724**	**422,740**
Deficit	13,710	2,964,013	13,710	5,025,143	13,710	-2,061,130	239	6,063
Zero[5]	4,765	770,049	4,765	770,049	--	--	41	371
$1 under $1,000	5,680	40,712	5,680	38,134	5,680	2,578	5,607	387
$1,000 under $10,000	9,114	456,569	8,988	420,718	9,114	35,850	8,899	5,989
$10,000 under $100,000	4,992	681,824	4,913	529,645	4,992	152,179	4,904	28,654
$100,000 under $500,000	773	605,770	750	442,208	773	163,562	769	52,050
$500,000 under $1,000,000	120	178,028	119	93,859	120	84,169	117	27,807
$1,000,000 or more	148	2,111,592	145	1,175,174	148	936,418	147	301,420

[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 $2.0 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 net 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 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, total proxy tax was $7.2 million.

[5] 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 Net Income (Taxable Profit): Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Net Income (Taxable Profit), and Total Tax, by Type of Organization and Size of Gross UBI, Tax Year 1997

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

Type of organization and size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income (taxable profit)	Total tax [3]	
			Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ALL ORGANIZATIONS							
Total	**20,827**	**4,074,496**	**20,594**	**2,699,738**	**1,374,757**	**20,443**	**416,306**
$1,000 under $10,001 [4]	10,911	35,762	10,785	15,512	20,250	10,684	3,438
$10,001 under $100,000 [4]	6,699	235,858	6,620	135,822	100,035	6,597	18,630
$100,000 under $500,000	2,416	524,405	2,393	366,069	158,336	2,372	42,979
$500,000 under $1,000,000	385	267,499	384	187,088	80,411	378	24,205
$1.000.000 under $5.000.000	343	691.013	340	426.771	264.243	341	86.226
$5,000,000 or more	72	2,319,958	72	1,568,476	751,482	71	240,827
TAX-EXEMPT CORPORATIONS							
Total	**13,420**	**2,723,522**	**13,252**	**2,172,989**	**550,532**	**13,078**	**152,614**
$1.000 under $10.001 [4]	4.677	20.175	4.571	8.326	11.849	4.470	1.751
$10,001 under $100,000 [4]	5,885	210,082	5,836	128,211	81,871	5,803	12,826
$100,000 under $500,000	2,212	478,337	2,201	356,323	122,014	2,168	30,318
$500,000 under $1,000,000	339	234,939	338	182,253	52,686	332	14,413
$1,000,000 under $5,000,000	268	532,697	267	399,080	133,617	267	43,671
$5,000,000 or more	38	1,247,292	38	1,098,796	148,496	37	49,636
TAX-EXEMPT TRUSTS							
Total	**7,407**	**1,350,974**	**7,342**	**526,749**	**824,224**	**7,365**	**263,692**
$1,000 under $10,001 [4]	6,234	15,587	6,214	7,186	8,401	6,214	1,687
$10,001 under $100,000 [4]	814	25,775	783	7,611	18,164	794	5,805
$100.000 under $500.000	204	46.068	192	9.746	36.322	204	12.661
$500,000 under $1,000,000	46	32,560	46	4,835	27,725	46	9,793
$1.000.000 under $5.000.000	75	158.317	73	27.691	130.626	74	42.556
$5,000,000 or more	34	1,072,666	34	469,680	602,986	34	191,192

[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 net income (taxable profit), cost of sales and services was $742.6 million, all of which was attributable to tax-exempt corporations.

[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 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 net income (taxable profit), total proxy tax was $2.0 million, all of which was attributable to tax-exempt corporations.

[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, Net Income (Less Deficit), Net Income (Taxable Profit), and Total Tax, by Primary Unrelated Business Activity or Industrial Grouping, Tax Year 1997

[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]		Net income (less deficit)		Net income (taxable profit)	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	**39,302**	**7,808,558**	**39,070**	**8,494,930**	**34,537**	**-686,374**	**1,374,757**	**20,724**	**422,740**
Agriculture, forestry, and fishing	346	25,557	346	51,925	320	-26,367	3,788	161	1,217
Mining	209	19,899	209	16,436	204	3,463	6,473	150	1,877
Construction	*11	*5,388	*11	*12,742	*11	*-7,354	--	--	--
Manufacturing	884	189,993	878	241,504	593	-51,511	19,737	175	6,929
Transportation and public utilities	446	145,708	446	201,289	395	-55,581	10,359	202	2,947
Wholesale trade	149	5,709	149	9,109	146	-3,400	1,618	*88	*374
Retail trade	3,986	588,346	3,976	832,131	3,726	-243,785	52,967	1,489	14,637
Finance, insurance, and real estate, total	17,433	3,298,025	17,276	2,580,985	15,789	717,039	1,071,508	12,687	331,274
Unrelated debt-financed activities, except rental of real estate	1,047	166,065	1,046	84,021	1,041	82,044	98,250	842	31,477
Investment activities of Code section 501(c)(7), (9), and (17) organizations	4,092	1,447,073	4,044	799,671	3,384	647,403	659,191	3,131	203,788
Rental of personal property	885	66,064	865	88,379	823	-22,315	4,608	414	924
Passive income activities with controlled organizations	349	37,416	348	45,158	316	-7,742	7,614	257	2,174
Other finance, insurance, and real estate	11,060	1,581,407	10,974	1,563,757	10,225	17,650	301,845	8,043	92,912
Services	15,255	3,447,739	15,196	4,463,954	12,888	-1,016,215	194,550	5,485	59,480
Exploited exempt activities	303	60,333	303	67,592	213	-7,260	5,153	144	1,202
Not allocable	279	21,860	279	17,263	252	4,598	8,604	144	2,802

* 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 $2.0 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 net 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 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, total proxy tax was $7.2 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 1997

[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 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	**39,302**	**7,808,558**	**16,256**	**3,718,354**	**1,018**	**548,639**
$1,000 under $10,001 [2]	**16,468**	**61,678**	**3,406**	**13,587**	**288**	**1,089**
$10,001 or more, total [2,3]	**22,834**	**7,746,879**	**12,850**	**3,704,767**	**730**	**547,550**
$10,001 under $100,000 [2]	15,142	555,131	7,866	261,038	374	10,585
$100,000 under $500,000	5,698	1,229,886	3,691	658,924	202	30,389
$500,000 under $1,000,000	961	670,903	627	348,263	40	17,480
$1,000,000 under $5,000,000	842	1,719,188	548	867,863	82	100,434
$5,000,000 or more	190	3,571,771	117	1,568,679	32	388,664

Size of gross unrelated business income (UBI)	Sources of gross 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: Number of returns	Income (less loss) from partnerships: Amount
	(7)	(8)	(9)	(10)	(11)	(12)
Total	**41**	**139**	**401**	**11,995**	**7,229**	**286,078**
$1,000 under $10,001 [2]	***21**	***62**	***124**	***80**	**5,804**	**13,347**
$10,001 or more, total [2,3]	**21**	**77**	**277**	**11,915**	**1,425**	**272,731**
$10,001 under $100,000 [2]	*5	*15	134	576	944	19,741
$100,000 under $500,000	*7	*21	92	2,131	270	23,667
$500,000 under $1,000,000	3	24	17	213	65	13,913
$1,000,000 under $5,000,000	6	18	28	10,071	108	57,405
$5,000,000 or more	--	--	6	-1,077	38	158,006

Size of gross unrelated business income (UBI)	Sources of gross 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	**4,057**	**158,696**	**2,852**	**300,684**	**6,360**	**976,929**
$1,000 under $10,001 [2]	**1,288**	**5,957**	**876**	**3,152**	**2,899**	**9,326**
$10,001 or more, total [2,3]	**2,770**	**152,739**	**1,976**	**297,532**	**3,461**	**967,604**
$10,001 under $100,000 [2]	1,992	39,152	1,227	37,112	2,094	31,241
$100,000 under $500,000	569	45,572	526	66,797	1,088	70,563
$500,000 under $1,000,000	109	23,218	98	33,391	141	43,514
$1,000,000 under $5,000,000	88	36,047	103	100,099	107	120,024
$5,000,000 or more	12	8,749	22	60,132	32	702,261

Footnotes at end of table.

Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 1997 --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	**1,241**	**75,052**	**1,014**	**124,203**	**8,178**	**1,159,773**	**5,168**	**448,292**
$1,000 under $10,001 [2]	**298**	**548**	**152**	**601**	**2,713**	**11,730**	**1,063**	**2,324**
$10,001 or more, total [2,3]	**943**	**74,504**	**863**	**123,603**	**5,465**	**1,148,043**	**4,104**	**445,969**
$10,001 under $100,000 [2]	605	9,712	456	8,958	3,475	94,100	2,601	42,932
$100,000 under $500,000	238	15,686	257	25,557	1,453	213,894	1,109	76,727
$500,000 under $1,000,000	43	6,389	76	22,042	263	121,193	203	41,309
$1,000,000 under $5,000,000	43	20,669	62	41,924	222	270,422	157	94,248
$5,000,000 or more	13	22,048	11	25,122	52	448,434	33	190,752

*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, Tax Year 1997

[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 $10,000 or less [3]: Total deductions [2,4]: Number of returns	Total deductions [2,4]: Amount	Net operating loss carryover: Number of returns	Net operating loss carryover: Amount	Specific deduction: Number of returns	Specific deduction: Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**39,302**	**39,070**	**8,494,930**	**16,342**	**94,498**	**1,663**	**36,703**	**11,658**	**11,150**
$1,000 under $10,001 [3]	16,468	16,342	94,498	16,342	94,498	1,663	36,703	11,658	11,150
$10,001 under $100,000 [3]	15,142	15,063	831,609	--	--	--	--	--	--
$100,000 under $500,000	5,698	5,675	1,667,120	--	--	--	--	--	--
$500,000 under $1,000,000	961	960	863,778	--	--	--	--	--	--
$1,000,000 under $5,000,000	842	839	1,892,906	--	--	--	--	--	--
$5,000,000 or more	190	190	3,145,019	--	--	--	--	--	--

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [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	**22,728**	**8,400,432**	**21,168**	**7,663,150**	**1,135**	**91,699**	**1,769**	**279,892**	**1,011**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	15,063	831,609	13,777	800,374	773	19,047	1,084	38,368	447
$100,000 under $500,000	5,675	1,667,120	5,492	1,590,450	248	33,603	474	65,527	428
$500,000 under $1,000,000	960	863,778	917	811,479	56	14,783	94	31,113	65
$1,000,000 under $5,000,000	839	1,892,906	803	1,767,338	49	19,651	96	87,806	62
$5,000,000 or more	190	3,145,019	177	2,693,509	9	4,615	20	57,078	9

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [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	**233,228**	**397**	**55,642**	**759**	**113,305**	**5,063**	**844,289**	**2,057**	**47,109**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	2,357	230	5,974	396	7,306	3,196	80,411	1,174	11,410
$100,000 under $500,000	4,620	113	9,097	228	23,850	1,353	167,250	639	13,721
$500,000 under $1,000,000	2,297	19	3,498	70	20,001	253	87,911	111	4,747
$1,000,000 under $5,000,000	9,176	27	15,816	56	36,521	212	193,915	105	5,980
$5,000,000 or more	214,777	8	21,257	10	25,628	49	314,802	28	11,252

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]--Continued: Deductions directly connected with UBI--Continued: Salaries and wages: Number of returns	Salaries and wages: Amount	Repairs: Number of returns	Repairs: Amount	Bad debts: Number of returns	Bad debts: Amount	Interest: Number of returns	Interest: Amount
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)
Total	**10,263**	**1,127,514**	**7,219**	**75,106**	**769**	**27,897**	**2,743**	**67,894**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	5,882	107,702	4,295	12,675	220	330	1,418	5,660
$100,000 under $500,000	3,238	284,485	2,161	23,567	335	2,432	969	13,193
$500,000 under $1,000,000	554	130,254	393	9,064	83	2,552	177	6,843
$1,000,000 under $5,000,000	488	304,247	304	17,365	96	11,221	142	23,440
$5,000,000 or more	101	300,826	66	12,436	35	11,362	37	18,758

Footnotes at end of table.

Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income, Tax Year 1997--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) over $10,000 [3]--Continued							
	Deductions directly connected with UBI--Continued							
	Taxes and licenses paid deduction		Depreciation		Depletion		Contributions to deferred compensation plans	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)
Total	**11,146**	**173,560**	**7,627**	**154,442**	**76**	**4,128**	**819**	**9,016**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	7,106	24,751	4,552	18,983	*39	*238	359	341
$100,000 under $500,000	3,125	62,202	2,234	43,938	34	2,519	312	1,452
$500,000 under $1,000,000	466	24,589	396	18,571	--	--	78	1,071
$1,000,000 under $5,000,000	366	26,596	360	37,824	4	1,371	57	1,897
$5,000,000 or more	83	35,422	84	35,126			13	4,254

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]--Continued							
	Deductions directly connected with UBI--Continued						Deductions not directly connected with UBI	
	Contributions to employee benefit plans		Net operating loss carryover		Other deductions		Total	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)
Total	**4,453**	**131,340**	**6,102**	**1,695,144**	**14,108**	**2,531,944**	**12,528**	**737,281**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	2,002	6,304	3,618	308,512	8,739	150,004	8,392	31,234
$100,000 under $500,000	1,677	22,718	1,779	502,607	3,965	313,671	3,068	76,670
$500,000 under $1,000,000	356	15,368	305	236,306	682	202,510	521	52,298
$1,000,000 under $5,000,000	343	38,217	329	381,600	591	555,859	444	125,568
$5,000,000 or more	75	48,732	70	266,119	131	1,309,900	103	451,511

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]--Continued							
	Deductions not directly connected with UBI--Continued							
	Specific deduction		Contributions		Set-asides [7]		Excess exempt expenses	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(52)	(53)	(54)	(55)	(56)	(57)	(58)	(59)
Total	**10,123**	**9,736**	**1,697**	**42,694**	**452**	**436,733**	**2,301**	**248,118**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	6,935	6,602	1,078	4,616	239	4,476	1,284	15,540
$100,000 under $500,000	2,421	2,373	454	7,828	128	24,544	680	41,924
$500,000 under $1,000,000	367	364	75	2,107	41	21,048	159	28,779
$1,000,000 under $5,000,000	330	327	68	3,833	29	53,370	142	68,037
$5,000,000 or more	69	69	22	24,309	15	333,295	36	93,838

* 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 $2.0 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 carryover, 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 $56.9 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 $1.9 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.