Unrelated Business Income Tax Returns, 1998

by Margaret Riley

Organizations classified by the Internal Revenue Service as exempt from Federal income taxation reported a total of $7.6 billion of gross “unrelated business income” (UBI) for Tax Year 1998. While these organizations are generally tax-exempt, they are subject to Federal taxation of income received from commercial and other activities that are not substantially related to their tax-exempt missions. The 46,208 organizations filing a 1998 Form 990-T, *Exempt Organization Business Income Tax Return,* offset gross UBI with a total of $8.2 billion of deductions, resulting in an overall deficit of $0.6 billion. However, slightly more than half of the filers reported taxable profits (positive net income), which amounted to $1.7 billion.

Income is defined as UBI if it is produced from an activity that is conducted on a regular basis and is not directly related to an organization’s tax-exempt mission. The fact that the income may be used for furthering an organization’s exempt purposes does not alter the definition. Any profits from an organization’s unrelated business activities are taxed at regular corporate or trust income tax rates [1].

Organizations reported $505.9 million of unrelated business income tax liability on Tax Year 1998 Forms 990-T. Total tax liability, which is computed as unrelated business income tax, plus other taxes, minus total credits, was $464.3 million [2]. Much of the total amount of additional taxes reported on Form 990-T for 1998 was the “proxy tax,” which was imposed on certain membership dues used for lobbying activities. Figure A shows the computation of total tax liability for 1998.

Proxy Tax

The proxy tax is required to be reported on Form 990-T and is included in total tax, but it has no connection to the unrelated business income tax or an organization’s involvement in unrelated business activities. The proxy tax, which was effective beginning with Tax Year 1994, is imposed on a tax-exempt organization’s nondeductible lobbying and political expenditures when they are financed with dues collected from organization members, and the organization either fails to notify the members of their shares of dues that were spent on lobbying and political activities, or the organization fails to state the full amount of allocable dues in the notification.

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Figure A

Computation of Total Tax Reported on Exempt Organization Business Income Tax Returns, Tax Year 1998

[Money amounts are in thousands of dollars]

Item	Amount
Total unrelated business income tax (UBIT)	**505,896**
Corporate UBIT	261,970
Trust UBIT	243,926
PLUS:	
Total additional taxes [1]	**3,486**
Alternative minimum tax	551
Proxy tax [2]	2,935
MINUS:	
Total tax credits	**45,094**
Foreign tax credit	44,251
General business credit	699
Credit for prior-year minimum tax	73
Other credits	71
EQUALS:	
Total tax	**464,288**

[1] Additional taxes can include "recapture taxes," but none were reported on Form 990-T for 1998.

[2] Represents the tax for only those organizations that reported gross UBI above the $1,000 filing threshold. The total proxy tax reported on all Forms 990-T was $10.7 million. Some organizations filed Form 990-T only to report the proxy tax and had no unrelated businss income.

The proxy tax applies only to Internal Revenue Code section 501(c)(4) civic and social welfare organizations, section 501(c)(5) agricultural and labor organizations, and section 501(c)(6) business leagues, chambers of commerce, and real estate boards. (The various types of tax-exempt organizations subject to the unrelated business income tax provisions are described by Internal Revenue Code section in the Appendix to this article.)

Organizations that had no unrelated business income (UBI), yet were required to file Form 990-T to report the proxy tax, were not included in the Statistics of Income (SOI) study sample because they did not meet the $1,000 gross UBI filing threshold, which was a criterion for sample selection. As shown in Figure A, the proxy tax reported on returns selected for the SOI study was $2.9 million. After taking into account the additional Forms 990-T filed solely to report the proxy tax, the total amount of proxy tax reported for 1998 was $10.7 million. It is estimated that about 64 percent of all organizations reporting proxy tax filed Form 990-T solely for that purpose (no income from unrelated business activities was reported) [3].

Selected Financial Data for Tax Years 1997 and 1998

As shown in column 3 of Figure B, both gross unrelated business income (UBI) and total deductions declined by about 3 percent and 4 percent, respectively, between 1997 and 1998. The primary reason for these decreases is the exclusion from the 1998 statistics of Teachers Insurance and Annuity Association of America (TIAA), which reported relatively large amounts of gross UBI and total deductions on Form 990-T for 1997 [4]. The tax-exempt status of TIAA was terminated, effective for Tax Year 1998, under a provision of the Taxpayer Relief Act of 1997. Beginning with Tax Year 1998, TIAA was no longer subject to file Form 990-T for 1998 and later years because it became a for-profit corporation that was taxed at corporate income tax rates.

If the 1997 statistics are adjusted to exclude TIAA, as shown in column 4 of Figure B, the aggregate amounts of gross UBI and total deductions increased by 8 percent and 5 percent, respectively, from 1997 to 1998. The adjusted information presented in Figure B provides a more consistent means for assessing the real change between 1997 and 1998 in aggregate financial data items reported by organizations on Forms 990-T.

Of note in Figure B is the 27-percent rise in the amount of unrelated business income tax liability (UBIT) reported on Forms 990-T between 1997 (adjusted) and 1998. This corresponds to a similar increase in taxable profits realized by organizations for 1998. The 140 organizations having taxable profits of $1,000,000 or more, shown in Table 3 at the end of this article, made up less than half of 1 percent of all filers, yet they accounted for over three-fourths of UBIT reported for 1998.

Table 4 at the end of this article presents major financial data items reported by tax-exempt trusts and corporations that had taxable profits for 1998.

Figure B

Selected Financial Data from Exempt Organization Business Income Tax Returns, Tax Years 1997 (Unadjusted and Adjusted) and 1998

[Money amounts are in thousands of dollars]

Item	1997	1998	Percentage change, 1997 to 1998	1997 (adjusted) [1]	1998	Percentage change, 1997 (adjusted) to 1998
	(1)	(2)	(3)	(4)	(5)	(6)
Gross unrelated business income	**7,808,558**	**7,584,915**	**-2.9**	**7,020,551**	**7,584,915**	**8.0**
Total deductions [2]	**8,494,930**	**8,181,766**	**-3.7**	**7,767,004**	**8,181,766**	**5.3**
Net income (less deficit)	**-686,374**	**-596,853**	**13.0**	**-746,454**	**-596,853**	**20.0**
Net income (taxable profit)	1,374,757	1,669,753	21.5	1,314,676	1,669,753	27.0
Deficit	2,061,130	2,266,605	10.0	2,061,130	2,266,605	10.0
Unrelated business income tax	**418,431**	**505,896**	**20.9**	**397,403**	**505,896**	**27.3**
Total tax	**422,740**	**464,288**	**9.8**	**402,816**	**464,288**	**15.3**

[1] The adjusted 1997 data exclude Teachers Insurance and Annuity Association of America (TIAA), which filed a return for 1997, but not for 1998. The tax-exempt status of TIAA, which reported relatively large amounts of unrelated business income and deductions for 1997, was terminated under a provision of the Taxpayer Relief Act of 1997. The termination was effective beginning with Tax Year 1998, at which time TIAA became a for-profit corporation. The adjusted 1997 data are being provided with permission from TIAA.

[2] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services (GPSS). GPSS is a component of gross unrelated business income (upon which the filing requirement is based). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. Total cost of sales and services was $2.1 billion for 1998.

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.

The aggregate gross income of organizations that had taxable profits for 1998 was 7 percent higher than the amount reported by organizations with taxable profits for 1997 (based on unpublished adjusted statistics). Total deductions reported by these two groups of organizations decreased by 7 percent between the 2 years. Corporations made up 55 percent of the 24,332 organizations reporting taxable profits on Forms 990-T for 1998, but their shares of gross UBI and total deductions were much higher, at 67 percent and 81 percent, respectively. Tax-exempt corporations collectively reported 51 percent of the total $1.7 billion of taxable profits for 1998, and tax-exempt trusts reported the remainder. Additionally, the respective split of corporate and trust total tax liability was 48 percent and 52 percent.

North American Industry Classification System (NAICS)

Beginning with Tax Year 1998, organizations filing Form 990-T were required to report a 6-digit code to classify their primary and secondary (if applicable) unrelated business activities according to the North American Industry Classification System (NAICS). Previously, filers had to classify their unrelated business activities according to the Standard Industrial Classification (SIC) system.

The NAICS was developed as a much needed replacement for the older SIC (developed between 1937 and 1939 and updated periodically) because rapidly emerging changes in national and global economies made the SIC less useful for statistical analysis of industrial composition and organization. NAICS was jointly developed by Canada, Mexico, and the United States (participants in the North American Free Trade Agreement, or NAFTA) and was adopted for use in the United States in 1997.

Three main reasons for developing NAICS were: (1) to expand coverage of the services sector, which has increasingly played a more important role than manufacturing in the U.S. economy in recent years; (2) to give more attention to industries engaged in advanced technologies; and (3) to reflect the changed structure of the economy due to emerging new industries and changes in consumer preferences. As a common classification system for Canada, Mexico, and the United States, NAICS provides a standard for comparative statistical analyses of industrial sectors within the three countries' respective economies. On a global level, it also serves as a useful tool to assess current and future trade and investment practices, in addition to understanding the effect of international competition on certain industries.

The 1997 U.S. version of NAICS consists of 20 major industrial sectors, with 1,170 industries in the United States [5]. The list of NAICS codes provided with the Form 990-T instructions contains 19 of the 20 major industrial sectors (Public Administration is excluded) and 164 selected industries. In addition, five special codes are provided with the Form 990-T NAICS list that describe specific types of unrelated business activities, which correspond to line-item descriptions in the income statement section of the tax return. These five classifications are "unrelated debt-financed activities, except rental of real estate," "investment activities of Code section 501(c)(7), (9), or (17) organizations," "passive income activities with controlled organizations," "rental of personal property," and "exploited exempt activities."

For statistical purposes, the first three of these activities are grouped within the Finance and Insurance sector. Rental of personal property is included in the Real Estate and Rental and Leasing sector. The last special activity is treated as an independent category and is not included in any of the NAICS major industrial sectors. The five special types of activities were listed separately because the tax treatment of income received from these activities is governed by special rules that are applied specifically to Form 990-T filers. Each of the five special classifications is defined in the Explanation of Selected Terms section of this article. Table 5 at the end of this article shows selected financial data distributed by primary unrelated business activity or industrial grouping, as classified under NAICS, and including the five special categories.

Primary Unrelated Business Activity Classifications Using NAICS

While the unrelated business income of tax-exempt organizations is a very small part of national income within the U.S. economy (gross UBI was less than 0.1 percent of gross domestic product for 1998), it is nonetheless of interest to certain Governmental statistical and regulatory agencies, tax practitioners, researchers, and tax-exempt organization administrators [6]. Nearly 75 percent of the total $7.6 billion of gross UBI reported for 1998 was associated with filers having a primary unrelated business activity within one of the service sectors. Twenty-one percent of all organizations reported one of the five special activity codes used specifically for Form 990-T filers, another 78 percent reported a NAICS-based primary activity code, and less than 1 percent did not report any code or other information to allow them to be classified.

The proportions of gross UBI attributed to organizations reporting either a special activity code or one of the NAICS-based codes to describe a primary activity were about 21 percent and 79 percent, respectively, similar to the breakout of the number of organizations reporting the two types of codes. Almost 16 percent, or $1.2 billion, of total gross UBI was reported by organizations that indicated their primary unrelated business activity was "investment activities of Code section 501(c)(7), (9), or (17) organizations," one of the five special categories [7]. This was the largest amount of aggregate gross UBI ascribed to any one single activity description contained on the Form 990-T list of 169 codes used to describe primary unrelated business activities.

It is important to note that, in addition to providing a code for a primary unrelated business activity, organizations may report another NAICS code to classify a secondary unrelated business activity, if appropriate. However, they are not required to identify the portion of gross UBI associated with each activity. Therefore, the aggregate gross UBI amounts contained in Table 5 and Figures C through H can be attributed to the group of organizations reporting a given primary activity, but cannot be entirely attributed to the primary activity itself. Because 17 percent of all organizations also reported a secondary activity code, it is evident that some part of the aggregate gross UBI amounts contained in Table 5 and Figures C through H would actually be connected to an activity other than that shown as the primary activity.

Rankings of Primary Unrelated Business Activities by Type of Organization

For selected types of tax-exempt organizations, classified by IRC section, Figures C through H contain rankings of primary unrelated business activities (UBA's). The rankings are based on the size of aggregate gross UBI attributable to the groups of organizations reporting the primary business activities. The top 10 primary UBA's are provided in Figures C and D for all organizations and for Code section 501(c)(3) charitable organizations, respectively [8]. Figures E through H show the top 5 primary UBA's of organizations tax-exempt under sections 501(c)(4) through 501(c)(7), respectively. Ten activity rankings are provided for charitable organizations because they are a much larger and more diverse group, compared to the other organizations shown in Figures E through H [9].

For the most part, organizations wishing to supplement income by engaging in an unrelated business activity will choose an ancillary activity that is closely tied to their exempt-program operations [10]. By doing so, they can take advantage of organizational expertise and resources readily available to them. This is clearly the case with section 501(c)(3) charitable organizations that reported "medical and diagnostic laboratories" as their primary unrelated business activity. Virtually all of these organizations were hospitals and medical centers. The same is true of section 501(c)(6) organizations that reported "advertising and related services." Many of these

Figure C

Top 10 Primary Unrelated Business Activities of All Organizations, Ranked by Size of Organizations' Total Gross Unrelated Business Income (UBI), Tax Year 1998

[Money amounts are in thousands of dollars]

Primary unrelated business activity	Number of returns	Total gross UBI
All organizations, all activities	**46,208**	**7,584,915**
Total, top 10 activities	**22,223**	**4,462,110**
1. Investment activities of Code section 501(c)(7), (9) and (17) organizations	3,930	1,194,561
2. Advertising and related services	5,884	940,997
3. Medical and diagnostic laboratories	440	570,715
4. Securities, commodity contracts, and other intermediation and brokerage	73	471,340
5. Offices of real estate agents and brokers	1,861	264,033
6. Other amusement and recreation industries	1,928	240,540
7. Other professional, scientific, and technical services	879	238,203
8. Gambling industries	1,719	205,956
9. Periodical publishers	954	173,445
10. Unrelated debt-financed activities other than rental of real estate	4,555	162,320

NOTE: Any activity described as "All other..." or "Other..." is a distinct category within the North American Industrial Classification System (NAICS). An "other" classification was to be assigned, within a particular industry group, to an activity that did not correspond to any of the more specific NAICS activity classifications within the group.

Figure D

Top 10 Primary Unrelated Business Activities of Internal Revenue Code (IRC) Section 501(c)(3) Organizations, Ranked by Size of Organizations' Total Gross Unrelated Business Income (UBI), Tax Year 1998

[Money amounts are in thousands of dollars]

Primary unrelated business activity	Number of returns	Total gross UBI
IRC section 501(c)(3) charitable organizations, all activities [1]	**10,898**	**4,127,119**
Total, top 10 activities	**4,311**	**2,272,077**
1. Medical and diagnostic laboratories	439	567,212
2. Securities, commodity contracts, and other intermediation and brokerage	33	451,760
3. Advertising and related services	1,841	412,342
4. Lessors of nonresidential buildings, except miniwarehouses	747	171,357
5. Other professional, scientific, and technical services	270	141,241
6. Direct health and medical insurance carriers	4	115,953
7. Pharmacies, drug stores	108	110,042
8. All other ambulatory healthcare services	151	105,176
9. Other amusement and recreation industries	383	99,641
10. Gift, novelty, and souvenir stores	335	97,353

[1] 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).

NOTE: Any activity described as "All other..." or "Other..." is a distinct category within the North American Industrial Classification System (NAICS). An "other" classification was to be assigned, within a particular industry group, to an activity that did not correspond to any of the more specific NAICS activity classifications within the group.

business leagues, chambers of commerce, real estate boards, and similar organizations reported unrelated business income from paid advertisements displayed in their trade publications.

In other cases, the unrelated income of an organization may not be generated from an active trade or business, but rather from passive activities. Earning investment income from securities purchased with debt-financed funds is one example, as in the case of section 501(c)(3) organizations reporting “securities, commodity contracts, and other intermediation and brokerage” as their primary unrelated business activity. All investment income, whether debt-financed or not, of section 501(c)(7), (9), and (17) organizations is considered unrelated business income, while the investment income of other types of organizations is generally not taxed unless the investment was purchased with borrowed funds.

Unrelated Business Activity Coding Inconsistencies

The self-coding of UBA’s using the list of NAICS codes provided with Form 990-T is imperfect because of the different rationales employed by the return preparers when selecting the code that best describes their activities. In reviewing many of the NAICS code choices made by return preparers, it appears that some preparers selected different codes to describe like activities when there were two or more closely connected activity descriptions on the list. Others selected a code that might not have been the best choice available. A discussion of some of these cases follows.

Several organizations appear to have mistakenly provided NAICS codes for their primary UBA’s that are associated more directly with their *related* exempt missions than with their *unrelated* business activities. A number of section 501(c)(3) museums, for example, reported “museums, historical sites, and similar institutions” as their primary unrelated activity. This describes what type of tax-exempt organization they are, rather than identifying a specific unrelated business activity, such as “gift, novelty, and souvenir stores.” Hospitals and medical centers also followed

Figure E

Top 5 Primary Unrelated Business Activities of Internal Revenue Code (IRC) Section 501(c)(4) Organizations, Ranked by Size of Organizations' Total Gross Unrelated Business Income (UBI), Tax Year 1998

[Money amounts are in thousands of dollars]

Primary unrelated business activity	Number of returns	Total gross UBI
IRC section 501(c)(4) civic leagues, social welfare organizations, and local associations of employees, all activities	**1,500**	**263,236**
Total, top 5 activities	**880**	**171,647**
1. Advertising and related services	140	77,612
2. Gambling industries	514	53,079
3. Other amusement and recreation industries	137	16,547
4. Other professional, scientific, and technical services	52	13,026
5. Other activities related to real estate	37	11,383

NOTE: Any activity described as "All other..." or "Other..." is a distinct category within the North American Industrial Classification System (NAICS). An "other" classification was to be assigned, within a particular industry group, to an activity that did not correspond to any of the more specific NAICS activity classifications within the group.

Figure F

Top 5 Primary Unrelated Business Activities of Internal Revenue Code (IRC) Section 501(c)(5) Organizations, Ranked by Size of Organizations' Total Gross Unrelated Business Income (UBI), Tax Year 1998

[Money amounts are in thousands of dollars]

Primary unrelated business activity	Number of returns	Total gross UBI
IRC section 501(c)(5) labor, agricultural, and horticultural organizations, all activities	**2,497**	**226,132**
Total, top 5 activities	**1,465**	**132,119**
1. All other insurance-related activities	802	47,583
2. Advertising and related services	358	37,441
3. Other professional, scientific, and technical services	116	19,344
4. Periodical publishers	46	14,604
5. Lessors of nonresidential buildings, except miniwarehouses	143	13,147

NOTE: Any activity described as "All other..." or "Other..." is a distinct category within the North American Industrial Classification System (NAICS). An "other" classification was to be assigned, within a particular industry group, to an activity that did not correspond to any of the more specific NAICS activity classifications within the group.

this pattern, with some reporting a code for "hospitals" when they should have been reporting a code to describe the specific activity that produced unrelated business income.

It is also apparent that organizations sometimes choose different NAICS codes to identify like activities, which can diminish the usefulness of the self-coding system for statistical purposes. For example, while many organizations tax-exempt under sections 501(c)(3), 501(c)(5), and 501(c)(6) reported "periodical publishers" as their primary unrelated activity, perhaps they should have selected the code for "advertising and related services," because their sole source of income was advertising, and income from a periodical that contains no unrelated advertisements is tax-exempt.

In another example, an organization may choose a NAICS code for one of the broad "catchall" categories, such as "other professional, scientific, and technical services," which appears in many of the activity rankings in Figures C through H, instead of choosing a code for a more specific description within the same industrial grouping. Better choices might have been "management consulting services," "accounting, tax preparation, bookkeeping, and payroll services," or "custom computer programming services."

It is possible that the section 501(c)(3) organizations that reported "securities, commodity contracts, and other intermediation and brokerage" should have coded their primary unrelated business activity as "unrelated debt-financed activities, except rental of real estate." For some of these organizations, the largest source of gross UBI was capital gain net income; for others, it was income from partnerships and S corporations. None of the 501(c)(3) organizations reported the largest source of their gross UBI as debt-financed income.

Form 990-T filers are instructed to include in capital gain net income any net gains on the sale, exchange, or other disposition of debt-financed property. In this case, even though the income is from debt-financed property, it is not reported on the tax return as unrelated debt-financed income, so this results in the reporting of debt-financed income in at least two different lines on the return. In addition, if an exempt organization invested borrowed funds in a partnership carrying on an unrelated business activity,

Figure G

Top 5 Primary Unrelated Business Activities of Internal Revenue Code (IRC) Section 501(c)(6) Organizations, Ranked by Size of Organizations' Total Gross Unrelated Business Income (UBI), Tax Year 1998

[Money amounts are in thousands of dollars]

Primary unrelated business activity	Number of returns	Total gross UBI
IRC section 501(c)(6) business leagues, chambers of commerce, real estate boards, and like organizations, all activities	**6,238**	**817,893**
Total, top 5 activities	**4,530**	**576,008**
1. Advertising and related services	3,145	386,968
2. Periodical publishers	592	60,108
3. Other professional, scientific, and technical services	350	57,540
4. Lessors of nonresidential buildings, except miniwarehouses	275	36,730
5. All other insurance-related activities	168	34,662

NOTE: Any activity described as "All other..." or "Other..." is a distinct category within the North American Industrial Classification System (NAICS). An "other" classification was to be assigned, within a particular industry group, to an activity that did not correspond to any of the more specific NAICS activity classifications within the group.

Figure H

Top 5 Primary Unrelated Business Activities of Internal Revenue Code (IRC) Section 501(c)(7) Organizations, Ranked by Size of Organizations' Total Gross Unrelated Business Income (UBI), Tax Year 1998

[Money amounts are in thousands of dollars]

Primary unrelated business activity	Number of returns	Total gross UBI
IRC section 501(c)(7) social and recreational clubs, all activities	**6,840**	**482,213**
Total, top 5 activities	**5,485**	**402,558**
1. Investment activities of Code section 501(c)(7), (9), and (17) organizations	3,285	169,566
2. Full-service restaurants	658	95,381
3. Other amusement and recreation industries	1,064	94,070
4. Limited-service eating places	244	27,476
5. Spectator sports (including sports clubs and racetracks)	234	16,065

NOTE: Any activity described as "All other..." or "Other..." is a distinct category within the North American Industrial Classification System (NAICS). An "other" classification was to be assigned, within a particular industry group, to an activity that did not correspond to any of the more specific NAICS activity classifications within the group.

then the exempt organization's share of the partnership's gross income from the unrelated activity would be considered unrelated debt-financed income. Because income from sales and brokerage of investments in securities or commodities contracts is only considered to be UBI when purchased with borrowed funds, it can be argued that perhaps some of the above-mentioned 501(c)(3) organizations that reported the largest portion of their gross UBI as income from partnerships and S corporations should have reported it as debt-financed income.

For the 1998 study, an attempt was made to determine a NAICS code when one was not supplied by the filer or the code provided was not a valid code; otherwise the codes provided by the return filer were not changed. The description of an organization's principal unrelated business activity that is required to be reported on the return and the sources of income reported on the income statement were used during SOI processing in making a determination of a code, when necessary. For example, if the return filer was a section 501(c)(9) voluntary employees' beneficiary organization, and all or most of its income was reported as investments, then the code with the description " Investment activities of Code section 501(c)(7), (9), or (17) organizations" was used. However, in some cases, taxpayers did not provide the required description, and the income statement did not provide enough information to determine a code. In these cases, the returns were coded as "not allocable."

Future Plans for Unrelated Business Activity Coding

With the implementation of the NAICS codes for the Tax Year 1998 Statistics of Income study of Forms 990-T, this article has provided the first set of NAICS-based unrelated business activity statistics for analysis. It is apparent that there are some inconsistencies in the way organizations code their activities. The analysis of NAICS coding on Forms 990-T filed for 1998 has provided insight for making improvements in future SOI studies, such as additional testing and correction of the codes during return processing or revising the tax form instructions to provide more comprehensive guidance to the return preparer.

A data-entry system enhancement, effective with the Tax Year 2000 Form 990-T study, involves an automated comparison of the current year's primary NAICS code with that reported for the prior year, when available. If the two codes are not the same, a determination is made as to which code is more consistent with the organization's unrelated business activity, based on the activity description and any other information reported on the two returns. In cases where there is sufficient information available to make a determination, a correction is made to the code deemed to be inconsistent or incorrect. Additional testing of NAICS codes is planned for the Tax Year 2001 SOI study of Forms 990-T, which will be initiated in July 2002.

Because the United States NAICS classifications were updated for 2002, and, to a lesser extent, because of the findings from a review of NAICS codes reported on Forms 990-T for 1998, the list provided to filers of Tax Year 2002 Forms 990-T will be revised. SOI is directly involved in recommending changes to the Form 990-T NAICS code list. Certain new codes will be added, mostly within the Information sector, and several existing codes will be deleted altogether or rolled into a more general classification, mostly within the Manufacturing sector, because they were used rarely or not at all. Lessons learned from the 1998 study, along with an update of the codes on the current list, will lead to the improvement of the classification of unrelated business activities of tax-exempt organizations.

Summary

Tax-exempt organizations reported $7.6 billion of aggregate gross income from "unrelated business" activities on their 1998 Forms 990-T, *Exempt Organization Business Income Tax Returns*. After offsetting income with deductions, about half of the filers reported taxable profits, which collectively amounted to $1.7 billion. The unrelated business income tax (UBIT) liability reported by these filers was $505.9 million.

Figure B compares data from the Tax Year 1998 Form 990-T study with adjusted amounts from the 1997 study. (See the body of the article for details on the 1997 adjustments.) Overall, gross unrelated business income (UBI) and total deductions each rose at moderate rates, which were 8 percent and 5 percent, respectively. Both taxable profits and UBIT liability, however, increased 27 percent between the 2 years.

Beginning with 1998, the use of the North American Industry Classification System (NAICS) was implemented for coding the unrelated business activities of Form 990-T filers. This system replaced the Standard Industrial Classification (SIC) system that had been used previously. Organizations filing Forms 990-T are required to identify a primary unrelated business activity, and they are also permitted to identify a secondary activity, if applicable. Of the $7.6 billion of gross UBI reported for 1998, about 75 percent was associated with filers that reported NAICS-based primary unrelated business activities (UBA's) within one of the service sectors. Figures C and D in this article present the top-10 primary UBA's of all Form 990-T filers and Internal Revenue Code (IRC) section 501(c)(3) charitable organizations, respectively. Figures E through H provide the top-5 primary UBA's for each respective group of IRC section 501(c)(4) through 501(c)(7) organizations. (The various types of tax-exempt organizations subject to the unrelated business income tax provisions are described by Internal Revenue Code section in the Appendix to this article.)

Data Sources and Limitations

The statistics in this article are based on a sample of Tax Year 1998 Forms 990-T, *Exempt Organization Business Income Tax Returns*. The Internal Revenue Service required organizations having accounting periods beginning in 1998 (and, therefore, ending between December 1998 and November 1999, for full-year return filers) to file a 1998 Form 990-T to report unrelated business income of $1,000 (the filing threshold) or more. The associated required filing period for most Tax Year 1998 Forms 990-T generally spanned May 1999 to April 2000, but extensions of time to file beyond this period were granted to many organizations. For all Internal Revenue Code section 220(e), 401(a), 408(e), 408A, and 530(a) trusts, the required accounting period was Calendar Year 1998, and the filing date was April 15, 1999. Returns filed after Calendar Year 2000 were not included in the sample. Because of the various accounting periods of the organizations filing a 1998 return, the financial activities covered in this article span the period January 1998 through November 1999 (although the majority of activities occurred during Calendar Year 1998).

The 1998 Form 990-T study design incorporated a special "integrated" sample to gather information on "related" (tax-exempt) and "unrelated" (taxable) income and expenses for organizations that filed both Form 990, *Return of Organization Exempt from Income Tax*, 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 all organizations whose Form 990 information returns were selected for the sample of Internal Revenue Code section 501(c)(3) nonprofit charitable organizations. Organizations exempt under other Code sections were not subjected to the integrated sampling program.

By appending an organization's Form 990-T data to its Form 990 data, the resulting data set provides the means for consistency in analyzing exempt-function and nonexempt-function income of organizations that are involved in unrelated business activities. Special analyses of related and unrelated income and expenses of matched Forms 990/990-T records were published in past issues of the *SOI Bulletin* for Tax Years 1993, 1994, and 1997 [11]. Prior to Tax Year 1996, the integrated sample included returns of organizations exempt under sections 501(c)(3) through 501(c)(9). For 1996 and later years, only section 501(c)(3) returns were included in the integrated portion of the Form 990-T sample. An analysis of the combined Forms 990/990-T data has not been included in this article; however, Form 990-T returns from the integrated portion of the sample are represented in the statistics.

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 [12].

The population from which the 1998 Form 990-T sample was drawn consisted of Form 990-T records posted to the IRS Business Master File system during 1999 and 2000. The returns in the sample were stratified based on the size of gross unrelated business income (UBI). A sample of 7,598 returns was selected from a population of 46,307. After excluding returns that were selected for the sample but later rejected, the sample size was 7,577, and the estimated population size was 46,208. 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"; were filed for a part-year accounting period for 1998, and a full-year return was also filed for that year; or were filed for a part-year accounting period that began in a year other than 1998. For example, a final return filed for the short period of January 1999 -June 1999 may have been initially selected for the 1998 sample based on the criterion of an accounting period that ended between December 1998 and November 1999, but it was later rejected because, in actuality, it was a Tax Year 1999 return.

Figure I contains population counts, sample counts, designed sample rates, and achieved sample rates, by size of gross unrelated business income reported on Form 990-T and size of total assets reported on Form 990. The designed sampling rates ranged from a minimum of 3 percent (Form 990-T

Figure I

Population and Sample Counts, and Designed and Achieved Sample Rates, by Size of Gross Unrelated Business Income on Form 990-T and Size of Total Assets on Matching IRC Section 501(c)(3) Form 990, Tax Year 1998

Sample group number	Size of gross unrelated business income (UBI) on Form 990-T and size of total assets on matching IRC section 501(c)(3) Form 990	Population counts	Sample counts	Designed sample rate	Achieved sample rate
		(1)	(2)	(3)	(4)
1	Gross UBI $1,000 under $20,000 and total assets under $1,000,000, or Gross UBI $1,000 under $20,000 and no matching Form 990	26,204	773	0.0300	0.0295
2	Gross UBI $1,000 under $20,000 and total assets $1,000,000 under $2,500,000, or Gross UBI $20,000 under $60,000 and total assets under $2,500,000, or Gross UBI $20,000 under $60,000 and no matching Form 990	7,650	467	0.0600	0.0610
3	Gross UBI $1,000 under $60,000 and total assets $2,500,000 under $10,000,000, or Gross UBI $60,000 under $150,000 and total assets under $10,000,000, or Gross UBI $60,000 under $150,000 and no matching Form 990	5,268	698	0.1300	0.1325
4	Gross UBI $1,000 under $150,000 and total assets $10,000,000 under $30,000,000, or Gross UBI $150,000 under $300,000 and total assets under $30,000,000, or Gross UBI $150,000 under $300,000 and no matching Form 990	2,755	1,230	0.4500	0.4465
5	Gross UBI $300,000 or more, or total assets $30,000,000 or more	4,430	4,430	1.0000	1.0000
	All sample groups [1]	**46,307**	**7,598**	**N/A**	**N/A**

[1] After excluding returns that were originally selected for the sample but later rejected, the sample size was 7,577, and the estimated population size was 46,208.
N/A - Not applicable.

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 total assets under $1,000,000) to a maximum of 100 percent (either Form 990-T gross UBI of $300,000 or more, or Form 990-T with any amount of gross UBI and a match to a section 501(c)(3) Form 990 with total assets of $30,000,000 or more). Other Forms 990/990-T matches within various ranges of gross UBI, assets, and Internal Revenue Code sections were selected at rates ranging from 6 percent to 45 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 J 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*.

Figure J

Coefficients of Variation for Selected Items, by Size of Gross Unrelated Business Income, Tax Year 1998

Size of gross unrelated business income	Gross unrelated business income	Total deductions	Net income (taxable profit)	Total tax
	Coefficient of variation (percentages)			
	(1)	(2)	(3)	(4)
Total	**0.18**	**0.74**	**0.42**	**0.40**
$1,000 under $10,001 [1]	2.85	8.16	6.09	7.04
$10,001 under $100,000 [1]	1.75	5.17	5.17	6.25
$100,000 under $500,000	1.17	2.49	2.79	3.01
$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.

Explanation of Selected Terms

In some of the following explanations, tax-exempt organizations are cited by the Internal Revenue Code section under which they are described. The various types of tax-exempt organizations subject to the unrelated business income tax provisions are described by Code section in the Appendix to this article.

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, Except Advertising.) 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. Also, any gain or loss passed through from an S corporation or any gain or loss on the disposition of S corporation stock by a *qualified tax-exempt* (defined in the explanation of Income (Less Loss) from Partnerships and S Corporations) is taxed as a capital gain or loss. (See, also, the explanation of Investment Income (Less Loss) for information regarding investment income of section 501(c)(7), (9), and (17) organizations.)

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

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 elsewhere in this section), except for two items that were required to be reported separately: the "net operating loss carryover" (directly connected) and the "specific deduction" (not directly connected), both also defined below.

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

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

Exploited Exempt Activity Income, Except Advertising.--In some cases, exempt activities create goodwill or other intangibles that are capable of being exploited in a commercial manner. When an organization exploited such an intangible in commercial activities that did not contribute importantly to the accomplishment of an exempt purpose, the 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 part of gross receipts from sales and services. All other organizations reported this income separately.

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

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

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

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

Net Capital Loss (Trusts Only).--If a trust had a net loss from sales or exchanges of capital assets, it was allowed a deduction for the amount of the net loss or $3,000, whichever was lower. (Tax-exempt corporations were not allowed to deduct any excesses of capital losses over capital gains.) Tax-exempt trusts reported the net capital loss deduction on Form 990-T as a 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 Deduction.--The net operating loss carryover or carryback (as described in Internal Revenue Code section 172) was allowed as a deduction in computing unrelated business taxable income. However, the net operating loss carryover or carryback (allowed only to or from a tax year for which the organization was subject to tax on unrelated business income) was determined without taking into account any amount of exempt-function income or deductions that had been excluded from the computation of unrelated business taxable income. A "net operating loss" represented the excess of deductions over receipts for a specified year for which an organization reported an overall deficit from its unrelated trade or business activities. The 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 was 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 were generally excluded in computing unrelated business taxable income. In addition, gross rents from personal property that did not exceed 10 percent of the total rents from all leased property were excluded. 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.--This deduction from investment income was allowed to social and recreational clubs (Internal Revenue Code section 501(c)(7)), voluntary employees' beneficiary associations (section 501(c)(9)), and supplemental unemployment benefit trusts (section 501(c)(17)). The deduction was equal to the amount of passive income (generally, investment income) that these organizations set aside (1) to be used for charitable purposes or (2) to provide payment of life, health, accident, or other insurance benefits (section 501(c)(9) and (17) organizations only). However, any amounts set aside that exceeded the "qualified asset account" limit, as figured under section 419A, were not allowed as a deduction from unrelated business investment income; they were treated as taxable investment income. A section 419A qualified asset account is any account consisting of assets set aside to provide for the payment of disability benefits, medical benefits, severance pay benefits, or life insurance benefits.

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

Total Deductions.--Total deductions included both deductions reported on the main part of Form 990-T and expense items reported on any of six supporting schedules, which were also part of the tax form. It excluded cost of sales and services ($2.1 billion for 1998), 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 activities carried on for the production of income from selling goods or performing services. These activities did not lose their identity as trades or businesses merely because they were carried on within a larger aggregate of similar activities or within a larger complex of other endeavors that may, or may not, have been related to the exempt purposes of the organization. For example, soliciting, selling, or publishing commercial advertising is identified as a trade or business even though the advertising is published in an exempt organization's periodical that contains editorial matter related to the organization's exempt purpose.

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 1998 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	$1,700	15%	$0
1,700	4,000	$255 + 28%	1,700
4,000	6,100	899 + 31%	4,000
6,100	8,350	1,550 + 36%	6,100
8,350	--	2,360 + 39.6%	8,350

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] The unrelated business income tax (UBIT) for nonprofit corporations was determined based on the regular corporate income tax rates in effect for Tax Year 1998. Nonprofit trusts were generally taxed at the regular individual (single status) income tax rates established for estates and trusts for Tax Year 1998. Trusts that were eligible for the maximum 28-percent tax rate on capital gain net income figured their tax based on Schedule D of Form 1041, *U.S. Income Tax Return for Estates and Trusts*. The corporate and trust tax-rate schedules are included in the definition of Unrelated Business Income Tax, found in the Explanation of Selected Terms section of this article.

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

[3] The $10.7 million of total proxy tax was reported on 638 Forms 990-T filed for Tax Year 1998. These statistics are from an unpublished tabulation of IRS Business Returns Transaction File records.

[4] Information related to Teachers Insurance and Annuity Association of America's Form 990-T return filed for Tax Year 1997 is being disclosed with their permission.

[5] See Executive Office of the President, Office of Management and Budget, *North American Industry Classification System: United States, 1997,* Berman Press, Lanham, MD, 1998.

[6] Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts (NIPA) Tables, Table 1.9, Relation of Gross Domestic Product, Gross National Product, Net National Product, National Income, and Personal Income, February 28, 2002. This and other NIPA tables can be accessed from *http://www.bea.doc.gov/bea/dn/nipaweb.* According to Table 1.9, the amount of gross domestic product for 1998 was $8,781.5 billion.

[7] Eighty-six percent of the $1.2 billion of gross UBI associated with organizations having a

primary activity of "investment activities of Code section 501(c)(7), (9), or (17) organizations" was reported by Internal Revenue Code section 501(c)(9) voluntary employees' beneficiary associations, which generally administer trust funds for providing payment of life, health, accident, and other insurance benefits to their members. Any part of net investment income from these employee benefit associations that is not set aside for future charitable-purpose use is taxable.

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

[9] Another reason for presenting only the top-5 primary UBA's of organizations tax-exempt under sections 501(c)(4) through 501(c)(7) is that specific taxpayer information reported on Form 990-T cannot be disclosed to the public, and providing more UBA's beyond the top-5 activities in Figures E through H has the potential for disclosing the identity of the one or two organizations that reported some of them. 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). Form 990-T is required only for a tax year in which an organization has unrelated business income. While specific taxpayer information reported on an exempt organization's Form 990/990-EZ "information return" can be disclosed to the public, specific taxpayer information reported on its Form 990-T "tax return" cannot. Under disclosure rules governing the release of taxpayer information, only aggregate totals from Form 990-T can be presented in this article.

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

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

[11] These analyses can be found in Riley, Margaret, "Exempt Organization Business Income Tax Returns: Highlights and an Analysis of

Exempt and Nonexempt Finances, 1993," *Statistics of Income Bulletin*, Spring 1997, Volume 16, Number 4; Riley, Margaret, "Unrelated Business Income of Nonprofit Organizations, 1994," Spring 1998, Volume 17, Number 4; and Riley, Margaret, "Unrelated Business Income of Nonprofit Organizations, 1997," Spring 2001, Volume 20, Number 4.

[12] 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.

SOURCE: IRS, Statistics of Income Bulletin, Spring 2002, Publication 1136 (Revised 6-02).

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

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

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)(13)	Cemetery companies	Arranging for burials and incidental related activities
(14)	State-chartered credit unions and mutual insurance or reserve funds	Providing loans to members or providing insurance of, or reserve funds for, shares or deposits in certain banks or loan associations
(15)	Mutual insurance companies or associations other than life, if written premiums for the year do not exceed $350,000	Providing insurance to members, substantially at cost
(16)	Corporations organized to finance crop operations	Financing crop operations in conjunction with activities of a marketing or purchasing association
(17)	Supplemental unemployment benefit trusts	Fiduciary agent for payment of supplemental unemployment compensation benefits
(18)	Employee-funded pension trusts (created before June 25, 1959)	Providing for payments of benefits under a pension plan funded by employees
(19)	Posts or organizations of past or present members of the armed forces	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 multi-employer pension fund
(23)	Associations of past and present members of the armed forces founded before 1880	Providing insurance and other benefits to veterans or their dependents
(24)	Trusts described in section 4049 of the Employee Retirement Income Security Act of 1974	Providing funds for employee retirement income
(25)	Title-holding corporations or trusts with no more than 35 shareholders or beneficiaries and only one class of stock or beneficial interest	Acquiring real property and remitting all income earned from such property to one or more exempt organizations; pension, profit-sharing, or stock bonus plans; or governmental units
529(a)	Qualified State Tuition Plans	State- and agency-maintained plans that allow individuals to purchase credits or certificates, or make contributions to an account, to pay for future educational expenses
530(a)	Coverdall Education Savings Accounts	Fiduciary agent for accounts created for the purpose of paying qualified higher education expenses of a designated beneficiary

NOTE: Prepaid legal service funds, previously described in section 501(c)(20) of the Internal Revenue Code, were no longer tax exempt effective with tax years beginning after June 30, 1992.

Table 1.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Net Income (Less Deficit), Net Income (Taxable Profit), and Total Tax, by Internal Revenue Code Section Describing Type of Tax-Exempt Organization, Tax Year 1998

[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	**46,208**	**7,584,915**	**45,918**	**8,181,766**	**39,494**	**-596,853**	**1,669,753**	**24,172**	**464,288**
220(e)	--	--	--	--	--	--	--	--	--
401(a)	875	205,694	874	138,711	771	66,983	155,899	562	43,524
408(e)	12,635	75,443	12,599	44,678	11,279	30,765	32,298	9,707	8,567
408A	*118	*1,189	*118	*602	*118	*588	*588	*118	*171
501(c)(2)	290	43,045	290	79,362	235	-36,317	5,871	106	1,821
501(c)(3)	10,898	4,127,119	10,838	5,014,629	9,416	-887,510	654,792	3,838	174,699
501(c)(4)	1,500	263,236	1,465	307,137	1,222	-43,901	7,888	364	1,886
501(c)(5)	2,497	226,132	2,496	297,421	2,071	-71,289	23,655	933	6,143
501(c)(6)	6,238	817,893	6,238	996,064	5,047	-178,170	70,575	2,158	21,302
501(c)(7)	6,840	482,213	6,754	493,719	5,935	-11,506	89,745	4,438	19,532
501(c)(8)	920	67,283	887	95,091	697	-27,807	5,985	392	1,107
501(c)(9)	768	1,051,290	759	472,509	510	578,781	598,217	438	179,959
501(c)(10)	253	16,318	253	20,852	218	-4,534	662	*61	*100
501(c)(11)	--	--	--	--	--	--	--	--	--
501(c)(12)	186	31,658	185	31,849	147	-191	5,484	58	1,612
501(c)(13)	*59	*3,013	*59	*2,675	*25	*338	*426	*17	*132
501(c)(14)	125	14,975	125	18,411	125	-3,436	1,367	*85	*302
501(c)(15)	**	**	**	**	**	**	**	**	**
501(c)(16)	--	--	--	--	--	--	--	--	--
501(c)(17)	**	**	**	**	**	**	**	**	**
501(c)(18)	--	--	--	--	--	--	--	--	--
501(c)(19)	1,961	147,742	1,938	162,384	1,667	-14,642	10,720	888	1,677
501(c)(21) [5]	--	--	--	--	--	--	--	--	--
501(c)(22)	**	**	**	**	**	**	**	**	**
501(c)(23)	--	--	--	--	--	--	--	--	--
501(c)(24)	**	**	**	**	**	**	**	**	**
501(c)(25)	**	**	**	**	**	**	**	**	**
529(a)	--	--	--	--	--	--	--	--	--
530(a)	--	--	--	--	--	--	--	--	--

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

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

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.1 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 above the $1,000 filing threshold, total proxy tax was $2.9 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 1998

[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	**46,208**	**7,584,915**	**45,918**	**8,181,766**	**39,494**	**-596,853**	**1,669,753**	**24,172**	**464,288**
$1,000 under $10,001 [5]	22,124	88,072	21,972	123,954	18,269	-35,883	26,319	13,298	4,678
$10,001 under $100,000 [5]	16,280	590,066	16,166	873,554	14,272	-283,488	107,262	7,497	21,259
$100,000 under $500,000	5,753	1,269,423	5,738	1,707,771	5,128	-438,347	161,122	2,526	43,925
$500,000 under $1,000,000	1,001	693,854	997	867,526	885	-173,672	84,185	422	25,501
$1,000,000 under $5,000,000	836	1,711,502	833	2,053,544	752	-342,042	225,540	334	73,329
$5,000,000 or more	214	3,231,998	212	2,555,419	187	676,579	1,065,325	95	295,596

[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 $2.1 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 above the $1,000 filing threshold, total proxy tax was $2.9 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 1998

[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	**46,208**	**7,584,915**	**45,918**	**8,181,766**	**39,494**	**-596,853**	**24,172**	**464,288**
Deficit	15,162	3,282,002	15,162	5,548,608	15,162	-2,266,605	178	1,129
Zero [5]	6,714	796,292	6,714	796,292	--	--	31	521
$1 under $1,000	6,557	61,993	6,557	59,005	6,557	2,988	6,518	445
$1,000 under $10,000	11,521	300,271	11,369	255,302	11,521	44,969	11,269	7,900
$10,000 under $100,000	5,204	704,056	5,089	546,654	5,204	157,402	5,135	29,863
$100,000 under $500,000	808	575,050	793	403,035	808	172,014	799	54,821
$500,000 under $1,000,000	102	164,174	98	92,253	102	71,921	102	24,211
$1,000,000 or more	140	1,701,076	135	480,617	140	1,220,459	140	345,399

[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 $2.1 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 above the $1,000 filing threshold, total proxy tax was $2.9 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 1998

[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	**24,332**	**3,506,620**	**24,042**	**1,836,866**	**1,669,753**	**23,963**	**462,639**
$1,000 under $10,001 [4]	13,467	54,501	13,316	28,182	26,319	13,297	4,678
$10,001 under $100,000 [4]	7,524	252,405	7,410	145,143	107,262	7,405	20,742
$100,000 under $500,000	2,525	560,515	2,511	399,393	161,122	2,461	43,473
$500,000 under $1,000,000	421	291,536	417	207,351	84,185	408	25,348
$1.000.000 under $5.000.000	313	648.101	310	422.561	225.540	312	73.053
$5,000,000 or more	81	1,699,562	79	634,237	1,065,325	81	295,345
TAX-EXEMPT CORPORATIONS							
Total	**13,288**	**2,339,196**	**13,047**	**1,480,476**	**858,720**	**12,987**	**221,801**
$1.000 under $10.001 [4]	4.205	19.049	4.087	7.730	11.319	4.102	1.632
$10,001 under $100,000 [4]	6,099	215,948	5,985	133,234	82,713	5,980	12,832
$100,000 under $500,000	2,319	512,455	2,314	389,538	122,917	2,254	30,148
$500,000 under $1,000,000	375	260,217	373	201,095	59,122	362	17,262
$1,000,000 under $5,000,000	252	519,376	250	405,296	114,081	251	37,538
$5,000,000 or more	38	812,151	38	343,582	468,569	38	122,388
TAX-EXEMPT TRUSTS							
Total	**11,044**	**1,167,424**	**10,995**	**356,391**	**811,033**	**10,976**	**240,838**
$1,000 under $10,001 [4]	9,262	35,453	9,228	20,452	15,000	9,194	3,046
$10,001 under $100,000 [4]	1,425	36,457	1,425	11,908	24,549	1,425	7,910
$100.000 under $500.000	206	48.060	197	9.855	38.205	206	13.325
$500,000 under $1,000,000	46	31,319	44	6,255	25,064	46	8,085
$1.000.000 under $5.000.000	61	128.725	60	17.265	111.460	61	35.515
$5,000,000 or more	43	887,411	41	290,655	596,756	43	172,958

[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 $714.0 million, of which $701.3 million were 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 $1.9 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 1998

[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	**46,208**	**7,584,915**	**45,918**	**8,181,766**	**39,494**	**-596,853**	**1,669,753**	**24,172**	**464,288**
Agriculture, forestry, hunting, and fishing	314	27,324	314	50,549	312	-23,225	3,625	183	998
Mining	131	15,581	131	9,103	129	6,478	8,932	113	2,674
Utilities	65	22,869	64	34,327	64	-11,458	2,291	*60	*812
Construction	*35	*4,599	*35	*3,202	*33	*1,397	*1,517	*29	*400
Manufacturing	299	57,043	295	85,832	263	-28,789	9,221	79	2,578
Wholesale trade	84	10,636	84	13,613	49	-2,977	259	4	77
Retail trade	1,344	332,610	1,336	526,808	1,263	-194,198	22,531	453	6,772
Transportation and warehousing	47	5,755	47	7,353	21	-1,598	211	*11	*36
Information	1,985	408,675	1,985	512,982	1,455	-104,306	29,582	488	6,983
Finance and insurance, total	18,984	2,369,744	18,868	1,231,152	16,529	1,138,592	1,284,164	13,857	358,342
Unrelated debt-financed activities, other than rental of real estate	4,555	162,320	4,554	119,959	4,513	42,361	75,237	4,348	20,978
Investment activities of Code section 501(c)(7), (9), and (17) organizations	3,930	1,194,561	3,888	584,419	3,308	610,142	632,126	3,012	186,566
Passive income activities with controlled organizations	476	87,871	441	74,403	462	13,468	29,289	369	7,931
Other finance and insurance	10,023	924,992	9,985	452,371	8,247	472,621	547,512	6,127	142,867
Real estate and rental and leasing, total	5,186	610,380	5,177	856,501	4,507	-246,121	75,620	2,417	20,037
Rental of personal property	501	48,069	501	56,621	477	-8,553	4,849	305	1,028
Other real estate and rental and leasing	4,685	562,311	4,676	799,880	4,030	-237,569	70,771	2,112	19,009
Professional, scientific, and technical services	7,200	1,392,248	7,199	1,711,802	5,498	-319,554	83,283	2,266	25,784
Management of companies and enterprises	32	10,840	32	4,727	32	6,113	8,046	29	2,654
Administrative and support and waste management and remediation services	722	193,081	721	247,418	670	-54,336	12,176	182	3,351
Educational services	194	99,486	194	136,141	188	-36,656	4,465	79	1,341
Healthcare and social assistance	1,173	870,280	1,169	1,235,927	1,053	-365,648	33,642	401	10,097
Arts, entertainment, and recreation	4,192	508,763	4,107	635,770	3,710	-127,007	38,638	1,912	8,390
Accommodation and food services	3,159	434,078	3,135	556,984	2,789	-122,906	29,915	1,143	6,899
Other services	494	109,388	459	206,856	449	-97,468	4,008	217	856
Exploited exempt activities	326	83,711	326	104,440	273	-20,729	9,169	153	2,484
Not allocable	242	17,823	241	10,281	207	7,543	8,456	96	2,724

* 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 $2.1 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 above the $1,000 filing threshold, total proxy tax was $2.9 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 1998

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

Size of gross unrelated business income (UBI)	Gross unrelated business income (UBI): Number of returns	Gross unrelated business income (UBI): Amount	Sources of gross unrelated business income (UBI) [1]: Gross profit (less loss) from sales and services: Number of returns	Gross profit (less loss) from sales and services: Amount	Capital gain net income: Number of returns	Capital gain net income: Amount
	(1)	(2)	(3)	(4)	(5)	(6)
Total	**46,208**	**7,584,915**	**15,984**	**3,326,781**	**877**	**572,955**
$1,000 under $10,001 [2]	**22,124**	**88,072**	**3,039**	**11,569**	***37**	***218**
$10,001 or more, total [2,3]	**24,084**	**7,496,843**	**12,945**	**3,315,212**	**740**	**572,737**
$10,001 under $100,000 [2]	16,280	590,066	7,993	274,449	425	8,854
$100,000 under $500,000	5,753	1,269,423	3,624	676,211	158	22,675
$500,000 under $1,000,000	1,001	693,854	655	368,022	51	18,738
$1,000,000 under $5,000,000	836	1,711,502	550	867,867	68	72,832
$5,000,000 or more	214	3,231,998	123	1,128,663	39	449,639

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]--Continued: Net capital loss (trusts only): Number of returns	Net capital loss (trusts only): Amount	Net gain (less loss), sales of noncapital assets [4]: Number of returns	Net gain (less loss), sales of noncapital assets [4]: Amount	Income (less loss) from partnerships and S corporations: Number of returns	Income (less loss) from partnerships and S corporations: Amount
	(7)	(8)	(9)	(10)	(11)	(12)
Total	**28**	**98**	**314**	**3,264**	**13,878**	**627,537**
$1,000 under $10,001 [2]	**--**	**--**	***68**	***150**	**11,797**	**41,982**
$10,001 or more, total [2,3]	**28**	**98**	**246**	**3,114**	**2,080**	**585,556**
$10,001 under $100,000 [2]	--	--	147	1,443	1,517	28,747
$100,000 under $500,000	*19	*73	54	1,923	332	42,301
$500,000 under $1,000,000	4	9	20	443	72	12,568
$1,000,000 under $5,000,000	5	15	17	-537	107	43,813
$5,000,000 or more	--	--	8	-157	53	458,127

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]-- Continued: Rental income [5]: Number of returns	Rental income [5]: Amount	Unrelated debt-financed income: Number of returns	Unrelated debt-financed income: Amount	Investment income (less loss) [6]: Number of returns	Investment income (less loss) [6]: Amount
	(13)	(14)	(15)	(16)	(17)	(18)
Total	**4,235**	**171,275**	**2,892**	**334,156**	**6,061**	**795,020**
$1,000 under $10,001 [2]	**1,256**	**5,317**	**686**	**2,814**	**2,746**	**9,476**
$10,001 or more, total [2,3]	**2,979**	**165,958**	**2,205**	**331,342**	**3,315**	**785,544**
$10,001 under $100,000 [2]	2,058	40,136	1,375	33,523	1,992	32,713
$100,000 under $500,000	727	52,814	606	82,322	1,013	67,150
$500,000 under $1,000,000	98	21,691	102	34,866	168	46,635
$1,000,000 under $5,000,000	78	38,693	98	84,971	107	121,719
$5,000,000 or more	18	12,624	24	95,661	36	517,327

Footnotes at end of table.

Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 1998 --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	**1,509**	**87,846**	**957**	**114,414**	**8,432**	**1,227,675**	**5,215**	**324,088**
$1,000 under $10,001 [2]	**436**	**1,169**	***155**	***925**	**2,778**	**10,695**	**1,173**	**3,757**
$10,001 or more, total [2,3]	**1,073**	**86,677**	**802**	**113,489**	**5,654**	**1,216,979**	**4,042**	**320,332**
$10,001 under $100,000 [2]	709	10,781	417	10,372	3,732	105,891	2,533	43,159
$100,000 under $500,000	252	17,131	239	24,159	1,363	206,047	1,117	76,764
$500,000 under $1,000,000	41	5,775	66	17,291	271	129,016	192	38,817
$1,000,000 under $5,000,000	57	27,753	68	46,657	235	293,484	171	114,265
$5,000,000 or more	14	25,236	12	15,010	53	482,541	30	47,327

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

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

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

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

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

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

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

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

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

Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income (UBI), Tax Year 1998

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

Size of gross unrelated business income (UBI)	All organizations: Total number of returns	All organizations: Total deductions [1,2]: Number of returns	All organizations: Total deductions [1,2]: Amount	Organizations with gross unrelated business income (UBI) of $1,000 under $10,001 [3]: Total deductions [2,4]: Number of returns	Total deductions [2,4]: Amount	Net operating loss 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	**46,208**	**45,918**	**8,181,766**	**21,972**	**123,954**	**6,165**	**58,894**	**15,765**	**14,580**
$1,000 under $10,001 [3]	22,124	21,972	123,954	21,972	123,954	6,165	58,894	15,765	14,580
$10,001 under $100,000 [3]	16,280	16,166	873,554	--	--	--	--	--	--
$100,000 under $500,000	5,753	5,738	1,707,771	--	--	--	--	--	--
$500,000 under $1,000,000	1,001	997	867,526	--	--	--	--	--	--
$1,000,000 under $5,000,000	836	833	2,053,544	--	--	--	--	--	--
$5,000,000 or more	214	212	2,555,419	--	--	--	--	--	--

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]: Total deductions [2,5]: Number of returns	Total deductions [2,5]: Amount	Deductions directly connected with UBI: Total: Number of returns	Total: Amount	Allocable to rental income [6]: Number of returns	Allocable to rental income [6]: Amount	Allocable to unrelated debt-financed income [6]: Number of returns	Allocable to unrelated debt-financed income [6]: Amount	Allocable to investment income [6,7]: Number of returns
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Total	**23,946**	**8,057,812**	**22,565**	**7,338,661**	**1,293**	**96,219**	**1,923**	**282,165**	**984**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	16,166	873,554	15,037	839,178	875	20,517	1,174	38,936	393
$100,000 under $500,000	5,738	1,707,771	5,570	1,632,576	311	31,368	540	78,323	439
$500,000 under $1,000,000	997	867,526	956	801,127	48	13,309	96	30,119	77
$1,000,000 under $5,000,000	833	2,053,544	799	1,926,206	47	24,443	93	79,247	54
$5,000,000 or more	212	2,555,419	203	2,139,575	11	6,582	20	55,540	21

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]--Continued: Deductions directly connected with UBI--Continued: Allocable to investment income [6,7] --Continued: Amount	Allocable to income from controlled organizations [6]: Number of returns	Allocable to income from controlled organizations [6]: Amount	Allocable to exploited exempt activity income, except advertising [6]: Number of returns	Allocable to exploited exempt activity income, except advertising [6]: Amount	Direct advertising costs [6]: Number of returns	Direct advertising costs [6]: Amount	Compensation of officers, directors, and trustees: Number of returns	Compensation of officers, directors, and trustees: Amount
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Total	**54,634**	**478**	**61,430**	**699**	**102,153**	**5,218**	**887,327**	**2,087**	**53,348**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	3,214	295	8,320	351	8,693	3,412	84,049	1,180	12,825
$100,000 under $500,000	6,115	123	9,833	214	21,142	1,278	157,706	674	14,639
$500,000 under $1,000,000	2,436	18	4,475	60	14,396	258	92,181	103	4,574
$1,000,000 under $5,000,000	4,931	32	20,600	62	45,049	221	210,362	99	6,399
$5,000,000 or more	37,937	10	18,201	11	12,873	50	343,029	31	14,911

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]--Continued: Deductions directly connected with UBI--Continued: Salaries and wages: Number of returns	Salaries and wages: Amount	Repairs: 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	**10,544**	**1,171,642**	**7,089**	**78,521**	**834**	**29,399**	**2,829**	**81,111**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	6,045	114,207	4,004	11,791	319	383	1,473	8,226
$100,000 under $500,000	3,329	305,373	2,296	26,309	294	2,494	1,032	17,224
$500,000 under $1,000,000	564	139,191	393	8,997	85	1,782	136	4,909
$1,000,000 under $5,000,000	500	328,847	326	16,949	105	13,232	149	22,175
$5,000,000 or more	106	284,023	70	14,474	31	11,508	39	28,577

Footnotes at end of table.

Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income (UBI), Tax Year 1998 --Continued

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

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more ³--Continued							
	Deductions directly connected with UBI--Continued							
	Taxes and licenses paid deduction		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	**11,625**	**192,368**	**7,767**	**171,419**	**119**	**2,085**	**937**	**9,170**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	7,371	28,029	4,630	19,952	*105	*327	501	455
$100,000 under $500,000	3,325	63,800	2,268	51,779	*7	*163	285	1,376
$500,000 under $1,000,000	467	22,187	408	19,184	**	**	73	977
$1,000,000 under $5,000,000	366	27,421	376	43,055	**4	**1,030	65	2,533
$5,000,000 or more	96	50,930	85	37,450	3	565	13	3,828

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more ³--Continued							
	Deductions directly connected with UBI--Continued						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	**4,532**	**225,386**	**7,163**	**1,783,288**	**14,143**	**2,056,997**	**13,220**	**719,151**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	1,993	5,002	4,665	312,977	8,619	161,276	8,934	34,376
$100,000 under $500,000	1,732	24,409	1,727	506,744	4,070	313,777	3,200	75,195
$500,000 under $1,000,000	364	15,146	357	216,491	707	210,496	552	66,399
$1,000,000 under $5,000,000	360	42,989	326	447,288	601	589,931	418	127,338
$5,000,000 or more	83	137,841	88	299,788	146	781,517	116	415,844

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more ³--Continued							
	Deductions not directly connected with UBI--Continued							
	Specific deduction		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	**10,908**	**10,630**	**1,640**	**50,466**	**416**	**386,989**	**2,412**	**271,066**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	7,608	7,369	954	3,410	224	4,419	1,355	19,178
$100,000 under $500,000	2,520	2,485	505	8,247	107	20,022	713	44,440
$500,000 under $1,000,000	409	406	76	12,133	40	23,898	159	29,962
$1,000,000 under $5,000,000	293	292	75	5,047	32	52,931	148	69,068
$5,000,000 or more	78	78	30	21,629	13	285,719	37	108,417

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

**Not shown to avoid disclosure of information about specific taxpayers. However, the data are combined with data in an adjacent size class, as appropriate, and 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 $2.1 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 $40.1 million of cost of sales and services reported by organizations with gross UBI of $10,000 or less. See footnote 1 for explanation.

[5] Excludes $2.0 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.