Unrelated Business Income Tax Returns, 2003: Financial Highlights and A Special Analysis of Nonprofit Charitable Organizations' Revenue and Taxable Income

by Margaret Riley

Nonprofit charitable and other types of tax-exempt organizations reported $8.4 billion of gross income from activities that were considered unrelated to their philanthropic missions for Tax Year 2003 (Filing Years 2004 and 2005). Engaging in these types of activities is permissible, but income produced from them is subject to Federal taxation and must be reported on Form 990-T, *Exempt Organization Business Income Tax Return*. The 36,064 Forms 990-T filed to report "unrelated business income" (UBI) for 2003 slightly exceeded the number filed for each of Tax Years 2001 and 2002, but remained below the number filed for any tax year between 1995 and 2000. For Tax Year 2003, under 4 percent of all nonprofit charitable organizations filed Forms 990-T, and UBI accounted for less than one-half of 1 percent of their total revenue. An analysis of selected sources of total revenue and UBI of these organizations is presented in the section, "Revenue and Unrelated Business Income Reported by Nonprofit Charitable Organizations."

Aggregate gross UBI of tax-exempt organizations increased by more than 8 percent over Tax Year 2002. After offsetting the $8.4 billion of total gross UBI with a nearly equal amount of total deductions, the resulting unrelated business taxable income (less deficit) for 2003 was $23.2 million. Organizations reporting positive unrelated business taxable income (UBTI) numbered 15,580, or 43 percent of all filers. UBTI reported on Form 990-T increased by over 20 percent between 2002 and 2003, totaling $780.1 million, and the associated unrelated business income tax (UBIT) rose 13 percent, to $219.9 million [1]. After adjusting UBIT with certain credits and other taxes, the resulting total tax reported on Form 990-T was $220.9 million. Figure A contains these and other statistics for selected major financial data items reported on Forms 990-T for Tax Years 2002 and 2003.

Total tax takes into account the $219.9 million of unrelated business income tax, plus $0.8 million of alternative minimum tax, $3.0 million of "proxy tax" on certain nondeductible lobbying and political expenditures, and $0.2 million of "other" taxes, minus $3.1 million of tax credits [2, 3]. (Detail does not equal total because of rounding.) Tax credits included the foreign tax credit ($1.1 million), general business credit ($1.4 million), credit for prior-year minimum tax ($0.1 million), and "other" credits ($0.5 million).

Nonprofit charitable organizations exempt from tax under Internal Revenue Code (IRC) section 501(c)(3) were the largest group of filers. They

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Figure A

Selected Items from Forms 990-T, Exempt Organization Business Income Tax Returns, Tax Years 2002 and 2003

[Money amounts are in thousands of dollars]

Item	2002	2003	Percentage change
	(1)	(2)	(3)
Number of returns, total	**35,103**	**36,064**	**2.7**
With gross unrelated business income of $10,000 or less [1]	13,395	12,681	-5.3
With gross unrelated business income over $10,000 [1]	21,708	23,383	7.7
With unrelated business taxable income	14,495	15,580	7.5
Without unrelated business taxable income [2]	20,608	20,484	-0.6
Gross unrelated business income	**7,776,017**	**8,436,027**	**8.5**
Total deductions [3]	**7,922,208**	**8,412,822**	**6.2**
Unrelated business taxable income (less deficit)	**-146,191**	**23,204**	**115.9**
Unrelated business taxable income	647,246	780,149	20.5
Deficit	793,438	756,944	-4.6
Unrelated business income tax	**194,074**	**219,949**	**13.3**
Total tax	**192,747**	**220,916**	**14.6**

[1] Organizations with gross unrelated business income (UBI) between $1,000 (the filing threshold) and $10,000 were not required to report itemized expenses and deductions, or to complete return schedules. Those with gross UBI over $10,000 were required to fill out a more detailed "complete" return.
[2] Includes returns with deficits and returns with equal amounts of gross unrelated business income and total deductions.
[3] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33. Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services (GPSS). GPSS is a component of gross unrelated business income (upon which the filing requirement is based). Total cost of sales and services was $2.4 billion for 2002 and $2.5 billion for 2003.
NOTES: Detail may not add to totals because of rounding. See the Explanation of Selected Terms section of this article for definitions of gross unrelated business income, total deductions, unrelated business taxable income (less deficit), unrelated business income tax, and total tax.

accounted for 37 percent of Forms 990-T filed for 2003 and 46 percent of total tax liability [4]. Section 501(c)(6) business leagues, chambers of commerce, and real estate boards accounted for 16 percent of UBI tax forms filed and 13 percent of total tax liability. Another 16 percent of Forms 990-T were attributable to section 501(c)(7) social and recreational clubs, and they accounted for 7 percent of total tax liability. Section 501(c)(9) voluntary employees' beneficiary associations accounted for less than 2 percent of forms filed, but over 15 percent of total tax liability. Section 408(e) traditional Individual Retirement Arrangement trusts filed 7 percent of all UBI returns, although they accounted for only 2 percent of total tax liability. Less than 1 percent of Form 990-T filers were section 401(a) pension, profit-sharing, and stock bonus plan trusts, yet they were responsible for 6 percent of total tax liability. The various types of tax-exempt organizations subject to the unrelated business income tax provisions are described by IRC section in the Appendix to this article.

Background

Definition of Unrelated Business Income

Nonprofit organizations that are granted Federal tax exemption based on their mission-related purposes are allowed to generate income from unrelated business activities; however, the income from these activities is subject to taxation. Unrelated business income is produced from an activity that is both conducted on a regular basis and not directly related to an organization's tax-exempt mission. The fact that the income may be used for furthering an organization's exempt purposes does not alter the definition [5]. Any profits from an organization's unrelated business activities are taxed at regular corporate or trust income tax rates [6]. There are certain exclusions to this income taxation; some examples are engaging in business activities in which substantially all of the work is performed by volunteer labor; selling merchandise that the organization received as a gift or contribution; and operating certain games of chance, as specified in the Internal Revenue Code.

Form 990-T Filing Requirements

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

Nonprofit charitable organizations accounted for 37 percent of Forms 990-T filed for Tax Year 2003 and 46 percent of total tax liability.

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). IRC section 501(c)(3) private foundations and certain charitable trusts file an information return on Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation* [7]. The Form 990-T is required only for a tax year in which an organization has unrelated business income. While specific taxpayer information reported on an exempt organization's Form 990/990-EZ or Form 990-PF "information return" can be disclosed to the public, specific taxpayer information reported on its Tax Year 2003 Form 990-T "tax return" cannot [8]. Under disclosure rules governing the release of taxpayer information, only aggregate totals from Form 990-T can be presented in this article.

To report unrelated business income of $1,000 (the filing threshold) or more for Tax Year 2003, IRC section 220(e), 401(a), 408(e), 408A, and 530(a) trusts' required reporting period was Calendar Year 2003, and the Form 990-T filing date was April 15, 2004. For all other organizations, the required reporting period was any accounting period beginning in Calendar Year 2003 (and, therefore, ending between December 2003 and November 2004, for full-year return filers). The associated required due dates for filing their Tax Year 2003 Forms 990-T generally spanned May 2004 to April 2005, but extensions of time to file beyond this period were routinely granted to many organizations. Corresponding to the required filing dates, the Tax Year 2003 study sample was drawn from Forms 990-T processed by IRS throughout Calendar Years 2004 and 2005. (See the "Data Sources and Limitations" section of this article for detailed information on the study sample.) Because of the various accounting periods of the organizations filing a Tax Year 2003 return, the financial activities covered in this article span the period January 2003 through November 2004, although 51 percent of Form 990-T filers had Calendar Year 2003 accounting periods.

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

Statistical Tables

At the end of this article, Tax Year 2003 statistics covering selected financial data (including gross UBI, total deductions, unrelated business taxable income (UBTI), and total income tax) are shown in Tables 1-5. Tables 6 and 7 provide data on detailed sources of UBI and deductions, respectively. Statistics shown in Table 1 are distributed by type of organization based on Internal Revenue Code sections. Tables 2, 4, 6, and 7 are distributed by size of gross UBI; Table 4 is also distributed by type of entity. Table 3 is distributed by size of UBTI, while Table 5 is distributed by unrelated business activity or industrial grouping.

Revenue and Unrelated Business Income Reported by Nonprofit Charitable Organizations

Figure B contains Tax Year 2003 data from an estimated population of 10,064 Internal Revenue Code section 501(c)(3) nonprofit charitable organizations that filed both a Form 990/990-EZ information return and a Form 990-T tax return [9]. Estimates of section 501(c)(3) organizations shown in Figure B are lower than the estimates of these organizations' overall Form 990-T filings shown in Table 1 because some tax-exempt entities are required to file Form 990-T, but not Form 990/990-EZ. These entities include section 501(c)(3) private foundations, most organizations with receipts less than $25,000, most churches, and certain other types of religious organizations.

About 4 percent of the 263,353 nonprofit charitable organizations filing Forms 990/990-EZ for 2003 also filed Forms 990-T. Overall, nonprofit charitable organizations filing Forms 990/990-EZ reported an aggregate $1,072.2 billion of total revenue for 2003, of which less than one-half of 1 percent, or $4.2 billion, was attributable to unrelated business income (UBI). The 10,064 organizations filing both Forms 990/990-EZ and 990-T reported $483.9 billion of total revenue, with UBI comprising close to 1 percent.

When examining similar statistics for each of the asset groupings shown in Figure B, organizations are clearly distinguished by the fraction of Form 990/990-EZ filers that also file Form 990-T. Compared to the 4-percent ratio overall, only about 1 percent of nonprofit charitable organizations with assets under $100,000 filed Form 990-T, whereas 39 percent of organizations with assets of $50,000,000 or more filed Form 990-T. As an organization's asset size increases, so does the likelihood for engaging in unrelated business activities, which results in the filing of Form 990-T.

Large nonprofit charitable organizations, such as hospitals, universities, and museums, usually are financially sophisticated and operate institutions that can easily conduct ancillary activities that are a natural outgrowth of their exempt operations, yet sometimes considered unrelated to their tax-exempt missions. A typical example would a large nonprofit hospital with a medical and diagnostic laboratory offering lab testing services for a fee to physicians' offices that are not related to the hospital's operation. Other examples are that of a museum selling gift shop items that have no connection to its tax-exempt purposes, or a university renting out its arena to a private vendor for an amusement or recreational activity with no educational purpose.

Smaller nonprofit charities often do not have equal opportunities to engage in unrelated business activities to the same extent as the larger organizations. They usually have fewer staff members and

Figure B

Selected Sources of Revenue and Income Reported on Information Returns and Tax Returns of Nonprofit Charitable Organizations, by Size of Assets, Tax Year 2003

[Money amounts are in thousands of dollars]

Item	Total	Size of assets: Under $100,000 [1]	$100,000 under $500,000	$500,000 under $1,000,000	$1,000,000 under $10,000,000	$10,000,000 under $50,000,000	$50,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ALL NONPROFIT CHARITABLE ORGANIZATIONS							
Number of Form 990/990-EZ information returns, total	**263,353**	**103,336**	**66,267**	**25,451**	**52,393**	**10,934**	**4,973**
Total revenue	**1,072,170,661**	**11,808,125**	**23,235,394**	**19,403,000**	**146,304,520**	**150,100,042**	**721,319,581**
Program service revenue	754,585,374	3,934,568	8,610,109	10,036,550	76,839,877	98,044,847	557,119,424
Contributions, gifts, and grants	229,986,768	6,453,743	12,300,514	7,406,941	60,193,416	41,718,532	101,913,621
Total gain (loss) from sales of assets	25,788,120	-583,698	-7,806	126,809	580,109	1,365,329	24,307,377
Investment income [2]	23,571,762	170,305	184,285	191,362	1,819,884	2,628,385	18,577,542
All other revenue	38,238,637	1,833,207	2,148,292	1,641,338	6,871,234	6,342,949	19,401,617
Total expenses	**1,009,674,864**	**19,146,198**	**22,715,331**	**19,024,515**	**140,090,433**	**142,257,138**	**666,441,249**
NONPROFIT CHARITABLE ORGANIZATIONS REPORTING UNRELATED BUSINESS INCOME							
Number	**10,064**	**1,343**	**1,501**	**769**	**3,123**	**1,386**	**1,943**
Percentage of all nonprofit charitable organizations	3.8	1.3	2.3	3.0	6.0	12.7	39.1
Form 990/990-EZ information returns:							
Total revenue	**483,916,385**	**173,525**	**899,345**	**947,897**	**12,047,371**	**27,081,661**	**442,766,586**
Program service revenue	391,580,964	47,617	498,311	695,703	6,408,019	18,894,300	365,037,016
Contributions, gifts, and grants	52,897,450	82,990	146,215	135,730	4,218,510	5,652,440	42,661,565
Total gain (loss) from sales of assets	14,290,106	0	1,168	-8,182	55,215	265,634	13,976,271
Investment income [2]	9,637,502	284	4,101	6,067	113,604	303,240	9,210,207
All other revenue	15,510,363	42,634	249,550	118,579	1,252,023	1,966,047	11,881,527
Total expenses	**452,781,450**	**168,352**	**885,961**	**1,135,199**	**11,682,781**	**26,270,622**	**412,638,534**
Form 990-T unrelated business income tax returns:							
Gross unrelated business income	**4,170,467**	**81,259**	**314,516**	**21,651**	**343,827**	**526,568**	**2,882,647**
Gross profit (less loss) from sales and services	2,855,494	73,237	212,967	10,548	152,134	250,757	2,155,852
Advertising income	518,369	6,590	22,174	7,262	82,311	154,087	245,944
Unrelated debt-financed income	185,377	118	395	2,329	50,604	44,316	87,616
All other gross income	611,227	1,314	78,980	1,512	58,778	77,408	393,235
Total deductions [3]	**4,362,304**	**80,130**	**319,837**	**21,951**	**369,611**	**559,131**	**3,011,643**
Unrelated business taxable income [4]	**220,930**	**4,903**	**9,413**	**2,249**	**19,855**	**36,026**	**148,485**
Unrelated business income tax	**63,267**	**735**	**1,424**	**408**	**4,129**	**10,619**	**45,952**

[1] Includes returns with zero assets or assets not reported.
[2] Includes "interest on savings and other cash investments," "dividends and interest from securities," and "other investment income" from Form 990, and "investment income" from Form 990-EZ.
[3] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33. Detailed expenses and deductions data are not presented in this figure because organizations with gross unrelated business income of $10,000 or less are not required to report itemized deductions on Form 990-T.
[4] Includes data from returns with positive amounts of unrelated business taxable income only.
NOTES: Data are from Forms 990, 990-EZ, and 990-T for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000, most churches, and certain other types of religious organizations. Detail may not add to totals because of rounding.

conduct charitable programs that do not easily lend themselves to ancillary activities that could generate unrelated business income. Another factor attributable to the low UBI tax return filing rate is that the gross UBI of smaller charities is more likely to fall below the $1,000 threshold for filing Form 990-T. It is notable, however, that while less than 2 percent of the 169,603 smaller nonprofit charitable organizations (those with assets below $500,000) filed a Form 990-T, those that did file the tax form reported aggregate gross UBI that was 37 percent of total revenue reported on their Form 990/990-EZ returns. Over 39 percent of the 4,973 largest organizations, those with assets of $50,000,000 or more, filed Forms 990-T, but the gross UBI of these Form 990-T filers was only 1 percent of their total revenue. Still, these largest organizations accounted for nearly 70 percent of all gross UBI reported on Forms 990-T filed by nonprofit charitable organizations for 2003. Between 3 percent and 13 percent of the 88,778 organizations with assets of $500,000 under $50,000,000 filed Forms 990-T. Their respective gross UBI-to-total revenue ratios were between 2 percent and 3 percent.

The selected Form 990/990-EZ revenue items and Form 990-T unrelated business income items shown in Figure B are the largest sources based on aggregate amounts reported by all filers. The composition of total revenue and gross UBI differs substantially within each asset-size grouping. For example, program service revenue accounted for 70 percent of total revenue on Forms 990/990-EZ overall, but its proportionate share of revenue increased incrementally, from 33 percent to 77 percent, as size of assets increased. On the whole, nonprofit charitable organizations received 22 percent of their revenue from contributions, gifts, and grants, but the percentage varied, from 14 percent for the largest organizations to 55 percent for the smallest. The largest organizations reported gain (loss) from sales of assets and investment income as their third and fourth largest aggregate sources of revenue, together accounting for 6 percent of their total revenue and 87 percent of the total amount of these two revenue items reported by all Form 990/990-EZ filers.

The 10,064 nonprofit charitable organizations filing UBI tax returns accounted for 45 percent of total revenue, 52 percent of program service revenue, and 23 percent of revenue from contributions, gifts, and grants reported by all nonprofit charitable organizations.

Combined revenue from program services and contributions, gifts, and grants comprised 92 percent of total revenue reported by these UBI tax return filers, the same percentage applicable to the population of nonprofit charitable organizations. However, when each of these two main revenue sources is analyzed separately, the proportions they contribute to total revenue vary when comparing all nonprofit charitable organizations to those that reported UBI on Form 990-T. The Form 990-T filers reported 81 percent of total revenue from program services and 11 percent of total revenue from contributions, gifts, and grants, while nonprofit charitable organizations as a whole reported 70 percent and 22 percent, respectively, from these sources. For the 91,718 nonprofit charitable organizations with assets of $100,000 under $1,000,000, the differences are the most striking. Within this asset-size grouping, organizations that generated UBI reported program service revenue and contributions, gifts, and grants that were a respective 65 percent and 15 percent of their total revenue, compared to respective proportions of 44 percent and 46 percent for all organizations of that size. Typically, nonprofit charitable organizations engaging in unrelated business activities report a sizable portion of their UBI as program service revenue on Form 990/990-EZ.

Nearly 70 percent of nonprofit charitable organizations' gross UBI reported on Form 990-T was attributable to gross profit (less loss) from sales and services. Organizations that had assets under $100,000 relied heavily on sales and services to generate UBI, with aggregate profit from sales and services accounting for 90 percent of their unrelated business income. Organizations with assets of $100,000 under $500,000 and those with assets of $50 million or more also generated large proportions of gross UBI from sales and services, 68 percent and 75 percent, respectively. Profits from sales and services accounted for smaller shares of UBI for the three classes having combined assets of $500,000 under $50,000,000, varying from 44 percent to 49 percent. Organizations within these midsize classes also reported aggregate advertising income that ranged from 24 percent to 34 percent of total revenue, compared to only 7 percent to 9 percent for organizations of smaller and larger asset sizes.

The data in Figure B make it clear that it is important to analyze UBI of nonprofit charitable organizations within the context of the asset size of the organization conducting unrelated business activities. The proportion of total revenue that nonprofit charitable organizations, as a whole, generate from unrelated business activities appears to be insignificant, but that is hardly the case for small asset-size organizations that engage in these activities. While the largest organizations generate a very small percentage of revenue from unrelated business activities, a significant number, nearly 40 percent, engage in these activities to some extent.

Primary Unrelated Business Activities of Nonprofit Charitable Organizations

Figure C presents the primary unrelated business activities (PUBAs) in which nonprofit charitable organizations were most frequently engaged during Tax Year 2003. The activities are listed in descending order of frequency reported by all organizations, as a

Figure C

Most Frequently Reported Primary Unrelated Business Activities of All Nonprofit Charitable Organizations Filing Forms 990/990-EZ and 990-T, by Size of Assets, Tax Year 2003

[Money amounts are in thousands of dollars]

Primary unrelated business activity [1]	All organizations		Size of Assets: Under $500,000 [2]		Size of Assets: $500,000 under $50,000,000		Size of Assets: $50,000,000 or more	
	Number of returns	Percentage of returns	Number of returns	Percentage of returns	Number of returns	Percentage of returns	Number of returns	Percentage of returns
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Number of returns, total	**10,064**	**100.0**	**2,843**	**100.0**	**5,278**	**100.0**	**1,943**	**100.0**
Advertising and related services	2,121	21.1	948	33.3	1,039	19.7	134	6.9
Lessors of real estate [3]	1,799	17.9	237	8.3	1,414	26.8	148	7.6
Gambling industries	738	7.3	553	19.5	184	3.5	0	0.0
Gift shops	517	5.1	237	8.3	212	4.0	68	3.5
Medical and diagnostic laboratories	446	4.4	0	0.0	60	1.1	386	19.9
Caterers	310	3.1	79	2.8	162	3.1	69	3.6
Unrelated debt-financed activities, other than rental of real estate [4]	228	2.3	79	2.8	99	1.9	50	2.6
All other primary activities	3,905	38.8	710	25.0	2,108	39.9	1,088	56.0

[1] Based on taxpayer-reported primary unrelated business activity codes selected from a list included in the Form 990-T instructions. The list contained 122 North American Classification System industry codes and five additional categories that reflected certain provisions of the Internal Revenue code pertaining to exempt organizations.
[2] Includes returns with zero assets or assets not reported.
[3] Includes lessors of residential buildings, nonresidential buildings, and other real esatate property.
[4] See the Explanation of Selected Terms section of this article for a definition of Unrelated Debt-Financed Income.
NOTES: Data are from Forms 990, 990-EZ, and 990-T for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000, most churches, and certain other types of religious organizations. Detail may not add to totals because of rounding.

whole [10]. The order changes when these organizations are grouped by asset size. Nearly 40 percent of all charities reported either advertising or a form of leasing of real estate as their primary unrelated business activity. Gambling industries was the third most frequently reported PUBA of all charities, but 75 percent of these charities were small organizations, having assets under $500,000.

The PUBAs reported most often by organizations with assets under $500,000 were advertising and related services (33 percent of small organizations), gambling industries (20 percent), gift shops (8 percent), and lessors of real estate (8 percent). For organizations within the three midsize classes, those holding assets of $500,000 under $50,000,000, the PUBAs reported with the greatest frequencies were lessors of real estate (27 percent of midsize organizations), advertising and related services (20 percent), gift shops (4 percent), and gambling industries (4 percent). The most frequently reported PUBAs of organizations with assets of $50,000,000 or more were medical and diagnostic laboratories (20 percent of large organizations), lessors of real estate (8 percent), advertising and related services (7 percent), pharmacies and drug stores (5 percent), caterers (4 percent), and gift shops (4 percent). The activity of pharmacies and drug stores is not shown in Figure C because this was not a top-ranked PUBA of nonprofit charitable organizations overall.

Summary

During 2004 and 2005, tax-exempt organizations filed an estimated 36,064 Forms 990-T, *Exempt Organization Business Income Tax Return*, for Tax Year 2003, ending a 4-year decline in annual Form 990-T filings. After offsetting $8.4 billion of total gross unrelated business income (UBI) with a nearly equal amount of total deductions, the resulting unrelated business taxable income (less deficit) for 2003 was $23.2 million. Positive unrelated business taxable income reported on Form 990-T increased by over 20 percent between Tax Years 2002 and 2003, totaling $780.1 million, and the associated unrelated business income tax (UBIT) rose 13 percent, to $219.9 million. After adjusting UBIT with certain credits and other taxes, the resulting total tax reported on Form 990-T was $220.9 million. These and other major financial data items from Form 990-T are presented in Figure A.

For Tax Year 2003, under 4 percent of the 263,353 Internal Revenue Code section 501(c)(3) nonprofit charitable organizations filing Forms

990/990-EZ, *Return of Organization Exempt From Income Tax/Short Form Return of Organization Exempt From Income Tax*, also filed Forms 990-T. Aggregate gross UBI reported on the 10,064 Forms 990-T that they filed accounted for less than one-half of 1 percent of their total revenue. Grouping by asset-size classes clearly distinguishes these nonprofit charitable organizations, within the context of the percentage of organizations that filed Forms 990-T and the percentage of their total revenue attributable to unrelated business income. Across six asset-size classes, the percentage of nonprofit charitable organizations that filed both Forms 990/990-EZ and 990-T for 2003 increased incrementally as asset size increased, from about 1 percent for charities with assets under $100,000 to 39 percent for charities with assets of $50,000,000 or more. For the 10,064 nonprofit charitable organizations filing both Forms 990/990-EZ and 990-T, ratios of gross UBI to total revenue differ significantly among various asset-size classes. Charities within the two smallest asset-size classes, those with assets under $500,000, reported gross UBI that was 37 percent of their total revenue, compared to charities with assets of $50,000,000 or more, whose gross UBI was under 1 percent of their total revenue. Even so, these largest organizations were responsible for 70 percent of aggregate gross UBI reported by all charities that filed Forms 990/990-EZ. Within the medium asset-size classes, gross UBI ranged from 2 percent to 3 percent of total revenue. Additional statistics on selected sources of total revenue and UBI of nonprofit charitable organizations are presented in Figure B.

Data Sources and Limitations

The Tax Year 2003 Form 990-T study incorporated a two-stage sample design consisting of a stratified random sample and a special "integrated" sample. The stratified random sample was designed to represent the entire population of Form 990-T filers reporting unrelated business income. The integrated sample was designed to gather information on "related" (tax-exempt) and "unrelated" (taxable) income and expenses for section 501(c)(3) nonprofit charitable organizations that filed both Form 990, *Return of Organization Exempt from Income Tax* (or Form 990-EZ, the short-form version of this information return), and Form 990-T. This integrated sampling program ensured that the Statistics of Income sample of Forms 990-T included any unrelated business income tax returns (with gross UBI of $1,000 or more) filed by organizations whose Form 990 or Form 990-EZ information returns were selected for the separate sample of section 501(c)(3) nonprofit charitable organizations. Organizations exempt under other Code sections were not subjected to the integrated sampling program.

The Form 990-T returns were initially divided into strata, based on gross UBI, and selected using Bernouli sampling. Section 501(c)(3) returns not selected randomly were then linked, by Employer Identification Number (EIN), to returns in the Forms 990/990-EZ sample. These linked returns, along with any randomly selected Forms 990-T that also had counterparts in the Forms 990/990-EZ sample, formed the "integrated" IRC section 501(c)(3) portion of the Form 990-T sample [11].

Returns in the Form 990-T sample frame were classified into two-dimensional strata, based on the size of gross UBI in the Form 990-T population and the size of assets in the section 501(c)(3) Form 990/990-EZ population of returns having EINs that matched Form 990-T EINs. Within the two populations, returns in each stratum were identified by a distinct two-digit sample code. Thus, the Forms 990-T and 990/990-EZ matched sample strata were labeled with combined four-digit sample codes. The first two digits represented the income sample code from Form 990-T, and the last two represented the asset sample code from Form 990/990-EZ. An asset sample code of "00" was assigned when Form 990-T had no matching Form 990/990-EZ. The rate applied to the sample strata was the higher of the UBI or asset rate. The strata were then consolidated into five sample groups for weighting purposes.

As shown in Figure D, the designed sampling rates ranged from a minimum of 2 percent (Form 990-T gross UBI less than $20,000, with either no Form 990/990-EZ EIN match or an EIN match to a section 501(c)(3) Form 990/990-EZ with total assets under $1,000,000) to a maximum of 100 percent (either Form 990-T gross UBI of $300,000 or more, or Form 990-T with any amount of gross UBI and an EIN match to a section 501(c)(3) Form 990 with total assets of $30,000,000 or more). Other Forms 990-T were selected at rates ranging from 4 percent to 30 percent.

The population from which the Form 990-T sample was drawn consisted of Tax Year 2003 Form

Figure D

Population and Sample Counts, and Designed and Achieved Sample Rates, by Sample Group, Tax Year 2003

Sample group number	Sample group [1]	Population count	Sample count	Designed sample rate	Achieved sample rate
				Percentage	
		(1)	(2)	(3)	(4)
1	Gross unrelated business income (UBI) $1,000 under $20,000 and total assets under $1,000,000, or Gross UBI $1,000 under $20,000 and no matching IRC section 501(c)(3) Form 990 or Form 990-EZ...	14,963	299	2.00	2.00
2	Gross UBI $1,000 under $20,000 and total assets $1,000,000 under $2,500,000, or Gross UBI $20,000 under $60,000 and total assets under $2,500,000, or Gross UBI $20,000 under $60,000 and no matching Form 990 or Form 990-EZ....................................	7,127	296	4.00	4.15
3	Gross UBI $1,000 under $60,000 and total assets $2,500,000 under $10,000,000, or Gross UBI $60,000 under $150,000 and total assets under $10,000,000, or Gross UBI $60,000 under $150,000 and no matching Form 990 or Form 990-EZ..................................	6,336	628	10.00	9.91
4	Gross UBI $1,000 under $150,000 and total assets $10,000,000 under $30,000,000, or Gross UBI $150,000 under $300,000 and total assets under $30,000,000, or Gross UBI $150,000 under $300,000 and no matching Form 990 or Form 990-EZ................................	2,951	902	30.00	30.57
5	Gross UBI $300,000 or more, or total assets $30,000,000 or more...	4,827	4,827	100.00	100.00
	All sample groups [2]...	**36,204**	**6,952**	**N/A**	**19.20**

N/A - Not applicable.

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

[2] After excluding returns that were originally selected for the sample but later rejected, the sample size was 6,925, and the estimated population size was 36,064.

990-T records posted to the IRS Business Master File system during 2004 and 2005. Returns filed after Calendar Year 2005 were not included in the sample, unless a return was considered a large income-size case (over $300,000 or more of gross UBI). A sample of 6,952 returns was selected from a population of 36,204. After excluding returns that were selected for the sample but later rejected, the resulting sample size was 6,925 returns, and the estimated population size was 36,064. Rejected returns included those that had gross UBI below the $1,000 filing threshold; were filed for a part-year accounting period for 2003, 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 2003. For example, a final return filed for the 6-month period of January 2004-June 2004 may have been initially selected for the 2003 sample based on the criterion of an accounting period that ended between December 2003 and November 2004, but it was later rejected because, in actuality, it was a Tax Year 2004 return.

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

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 E shows CVs for selected financial data estimates derived from the Form 990-T stratified random sample. CVs are not shown for returns with gross UBI of $300,000 or more because they were sampled at a 100-percent rate and, therefore, are not subject to sampling variability. Figure F contains CVs for selected financial data estimates derived from the Forms 990/990-EZ and 990-T integrated sample of nonprofit charitable

Figure E

Coefficients of Variation for Selected Items From the Form 990-T Sample, by Size of Gross Unrelated Business Income, Tax Year 2003

Size of gross unrelated business income	Number of returns	Gross unrelated business income	Total deductions	Unrelated business taxable income	Total tax
	Coefficient of variation (percentage)				
	(1)	(2)	(3)	(4)	(5)
Total	**0.16**	**0.20**	**0.26**	**1.07**	**0.96**
$1,000 under $10,001 [1]	3.07	4.71	7.23	9.65	9.99
$10,001 under $100,000 [1]	2.77	2.23	2.82	7.07	8.01
$100,000 under $300,000	2.30	1.80	2.12	6.07	7.98
$300,000 or more	N/A	N/A	N/A	N/A	N/A

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

[1] Organizations with gross unrelated business income (UBI) between $1,000 (the filing threshold) and $10,000 were not required to report itemized expenses and deductions, or to complete return schedules. Those with gross UBI over $10,000 were required to fill out a more detailed "complete" return.

organizations. Forms 990/990-EZ and 990-T integrated sample estimates are presented in Figures B and C in this article. A discussion of the reliability of estimates based on samples and methods for evaluating both the magnitude of sampling and nonsampling error and the precision of sample estimates can be found in the general Appendix, located near the back of this issue of the *SOI Bulletin*.

Explanation of Selected Terms

In some of the following explanations, tax-exempt organizations are cited by the Internal Revenue Code section under which they are described. The various types of tax-exempt organizations subject to the unrelated business income tax provisions are described by Code section in the Appendix to this article. This section provides definitions for the terms contained in the article and in Tables 1 through 7, at the end of the article.

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

Figure F

Coefficients of Variation for Selected Items From the Forms 990/990-EZ and 990-T Integrated Sample, by Size of Total Assets, Tax Year 2003

Size of total assets	Number of returns	Form 990/990-EZ: Total revenue	Form 990/990-EZ: Total expenses	Form 990-T: Gross unrelated business income	Form 990-T: Total deductions
	Coefficient of variation (percentage)				
	(1)	(2)	(3)	(4)	(5)
Total	**5.71**	**0.45**	**0.49**	**4.66**	**4.55**
Under $100,000 [1]	24.01	34.49	34.28	67.32	64.72
$100,000 under $500,000	22.70	36.34	37.20	52.81	53.28
$500,000 under $1,000,000	32.69	47.19	51.60	49.26	51.02
$1,000,000 under $10,000,000	6.81	10.03	9.99	16.87	16.37
$10,000,000 under $50,000,000	4.50	6.39	6.61	11.68	11.09
$50,000,000 or more	N/A	N/A	N/A	N/A	N/A

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

[1] Includes returns with zero assets or assets not reported.

NOTE: Data are from Forms 990, 990-EZ, and 990-T for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000, most churches, and certain other types of religious organizations.

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

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

Cost of Sales and Services.—Cost of sales and services may have included depreciation, salaries and wages, and certain other types of deductible items. For this reason, the total amount shown for some of the separately reported components of total deductions, such as "salaries and wages," may be understated. Cost of sales and services was subtracted from gross receipts from sales and services in computing gross profit (less loss) from sales and services, which is a component of gross unrelated business income (UBI).

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

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

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

Exploited Exempt Activity Income, Except Advertising.—In some cases, exempt activities create goodwill or other intangibles that are capable of being exploited in a commercial manner. When an organization exploited such an intangible in commercial activities that did not contribute importantly to the accomplishment of an exempt purpose, the 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. Gross profit (less loss) from sales and services is computed as gross receipts from sales or services, less returns and allowances, minus cost of sales and services.

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

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

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

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

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

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

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

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

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

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

Proxy Tax.—This was a tax on certain nondeductible lobbying and political expenditures. A membership organization that was tax-exempt under Internal Revenue Code sections 501(c)(4), 501(c)(5), or 501(c)(6) was liable for the proxy tax if the organization did not notify its members of the shares of their dues that were allocated to the nondeductible lobbying and political expenditures, or if the notice did not include the entire amount of dues that was allocated. The proxy tax was computed as 35 percent of the aggregate amount of nondeductible lobbying expenditures that was not included in the notices sent to the organization's members. The proxy tax was required to be reported on Form 990-T and was included in total tax; however, there was no connection between the proxy tax and the taxation of income from an organization's unrelated business activities.

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

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

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

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

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

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

Unrelated Business Income Tax.—This was the tax imposed on unrelated business taxable income. It was determined based on the regular corporate or trust income tax rates that were in effect for the 2003 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	$1,900	15%	$0
1,900	4,500	$285 + 25%	1,900
4,500	6,850	935 + 28%	4,500
6,850	9,350	1,593 + 33%	6,850
9,350	—	2,418 + 35%	9,350

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

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

Notes and References

[1] The unrelated business income tax (UBIT) was imposed on the portion of a tax-exempt organization's income produced from a trade or business that was conducted on a regular basis and was not substantially related to the organization's tax-exempt mission. After reducing gross income by allowable deductions, any resulting positive net income was subject to UBIT.

[2] 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 imposition of the unrelated business income tax or an organization's involvement in unrelated business activities. A tax-exempt membership organization was liable for the proxy tax on certain nondeductible lobbying and political expenditures if the organization did not notify its members of the shares of their dues that were allocated to the nondeductible expenditures, or if the notice did not include the entire amount of dues that was allocated. (See "Proxy Tax" in the Explanation of Selected Terms section of this article for more information.) The proxy tax of $3.0 million shown in the total tax computation is only that reported by Form 990-T filers with gross unrelated business income above the $1,000 filing threshold, a criterion for selection for the Statistics of Income (SOI) sample. Proxy tax reported by organizations that had no UBI or those that had UBI below the filing threshold is not included. According to IRS Business Returns Transactions File records, total proxy tax of $10.8 million was reported on Forms 990-T for Tax Year 2003.

[3] 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 litigation.

[4] The term "nonprofit charitable organizations" 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.

[5] 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, extent, and nature of the activities involved must be considered in relation to the size, extent, and nature 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.

[6] The unrelated business income tax (UBIT) for exempt corporations and trusts is determined based on the regular corporate and trust income tax rates in effect for the tax year of the Form 990-T filing. Trusts that are eligible for the maximum 28-percent tax rate on capital gain net income figured their tax based on Schedule D of Form 1041, *U.S. Income Tax Return for Estates and Trusts*. The corporate and trust tax-rate schedules for Tax Year 2003 are included in the definition of Unrelated Business Income Tax, found in the Explanation of Selected Terms section of this article.

[7] Churches, which are tax-exempt under Internal Revenue Code section 501(c)(3), are not required to apply for exemption unless they desire to obtain an Internal Revenue Service ruling, and they do not have to file a Form 990 information return. However, these churches are required to file Form 990-T if they received $1,000 or more of gross income from business activities that were considered unrelated to their religious purposes. For the most recent Form 990 annual data on organizations tax-exempt under Internal Revenue Code sections 501(c)(3) (excluding private foundations and most religious organizations) through 501(c)(9), see Arnsberger, Paul D., "Charities and Other Tax-Exempt Organizations, 2003," *Statistics of Income Bulletin,* Fall 2006, Volume 26, Number 2. For the most recent data on private foundations, see Ludlum, Melissa, "Private Foundations, Tax Year 2003," *Statistics of Income Bulletin*, Fall 2006, Volume 26, Number 2. Internal Revenue Code 4947(a)(1) "nonexempt charitable trusts" and section 4947(a)(2) "split-interest trusts" are required to report unrelated business income on Form 1041, *Estate and Trust Income Tax Return*, rather than Form 990-T. For information on split-interest trusts, which file Form 5227, *Split-Interest Trust Information Return,* see Schreiber, Lisa, "Split-Interest Trusts, Filing Year 2005," in this issue of the *Statistics of Income Bulletin*. These reports, along with statistical tables in Excel format, are available from the Tax Stats pages on the IRS Web site at http://www.irs.gov/taxstats.

[8] Under the Pension Protection Act of 2006, Internal Revenue Code section 501(c)(3) organizations are required to make available for public inspection any Forms 990-T filed after August 18, 2006, the date of enactment. However, the Act did not give authorization to IRS to disseminate Form 990-T information to the public.

[9] The main sources of data for this analysis were Form 990, Part I, "Revenue, Expenses, and Changes in Net Assets or Fund Balances," and Form 990-T, Part I, "Unrelated Trade or Business Income."

[10] Primary and secondary unrelated business activities are self-reported on Form 990-T, based on selected North American Industrial Classification System (NAICS) codes. Organizations code their primary and secondary activities based on the largest and second largest amounts of gross unrelated business income that each of their activities produces. See Table 5 at the end of this article for selected financial data distributed by major unrelated business activities/industrial groupings for all Form 990-T filers. The data shown in Figure C and Table 5 are based on the primary unrelated business activity only.

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

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

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

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

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

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

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

Table 1.—Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Internal Revenue Code Section Describing Type of Tax-Exempt Organization, Tax Year 2003

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

Internal Revenue Code section	Number of returns	Gross unrelated business income (UBI)	Total deductions [1, 2]		Unrelated business taxable income (less deficit) [3]		Unrelated business taxable income [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All sections	**36,064**	**8,436,027**	**35,893**	**8,412,822**	**27,954**	**23,204**	**15,580**	**780,149**	**15,524**	**220,916**
220(e)	0	0	0	0	0	0	0	0	0	0
401(a)	345	75,835	344	36,190	303	39,645	298	40,664	299	12,802
408(e)	2,691	81,129	2,630	72,054	2,640	9,075	2,585	19,534	2,535	5,361
408A	* 77	* 3,337	* 77	* 1,408	* 53	* 1,929	* 53	* 1,929	* 53	* 666
501(c)(2) [6]	341	90,028	341	101,223	324	-11,194	139	6,530	139	1,899
501(c)(3)	13,511	4,832,943	13,504	5,001,434	10,794	-168,491	5,065	351,523	5,080	101,599
501(c)(4)	1,616	592,638	1,616	612,979	948	-20,341	294	12,630	294	3,380
501(c)(5)	2,106	255,523	2,106	256,878	1,545	-1,356	617	25,181	618	6,978
501(c)(6)	5,659	943,032	5,659	911,719	3,659	31,313	1,695	93,737	1,827	29,800
501(c)(7)	5,775	540,483	5,675	508,983	4,914	31,500	3,450	64,621	3,321	15,992
501(c)(8)	658	84,174	658	79,630	438	4,544	204	9,870	205	2,369
501(c)(9)	678	631,487	677	511,106	440	120,382	394	129,032	393	33,694
501(c)(10)	228	21,984	228	22,569	196	-585	* 22	* 1,207	* 46	* 246
501(c)(11)	0	0	0	0	0	0	0	0	0	0
501(c)(12)	300	77,318	300	76,636	188	682	112	8,505	112	2,306
501(c)(13)	* 75	* 4,529	* 75	* 4,608	* 75	* -79	* 58	* 842	* 58	* 202
501(c)(14)	182	56,241	182	69,176	181	-12,935	135	4,797	135	1,254
501(c)(15)	d	d	d	d	d	d	d	d	d	d
501(c)(16)	0	0	0	0	0	0	0	0	0	0
501(c)(17)	d	d	d	d	d	d	d	d	d	d
501(c)(18)	0	0	0	0	0	-0	0	0	0	0
501(c)(19)	1,741	133,256	1,741	137,698	1,224	-4,442	433	4,756	383	771
501(c)(21) [7]	0	0	0	0	0	0	0	0	0	0
501(c)(22)	0	0	0	0	0	0	0	0	0	0
501(c)(23)	0	0	0	0	0	0	0	0	0	0
501(c)(24)	d	d	d	d	d	d	d	d	d	d
501(c)(25)	d	d	d	d	d	d	d	d	d	d
501(c)(26)	0	0	0	0	0	0	0	0	0	0
501(c)(27)	d	d	d	d	d	d	d	d	d	d
529(a)	d	d	d	d	d	d	d	d	d	d
530(a)	0	0	0	0	0	0	0	0	0	0

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

d – 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 $2.5 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33.

[3] Excludes data from 8,110 returns with equal amounts of gross UBI and total deductions.

[4] Includes data from returns with positive amounts of unrelated business taxable income only.

[5] 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 the alternative minimum tax, the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $3.0 million.

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

[7] 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 descriptions of the types of tax-exempt organizations filing Form 990-T, by the Internal Revenue Code section describing them.

Table 2.—Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Gross UBI, Tax Year 2003

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

Size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1, 2]		Unrelated business taxable income (less deficit) [3]		Unrelated business taxable income [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total	**36,064**	**8,436,027**	**35,893**	**8,412,822**	**27,954**	**23,204**	**15,580**	**780,149**	**15,524**	**220,916**
$1,000 under $10,001 [6]	12,681	52,818	12,531	52,266	9,841	551	6,956	14,502	6,906	2,325
$10,001 under $100,000 [6]	14,454	540,656	14,450	555,003	11,120	-14,347	5,319	82,404	5,321	14,530
$100,000 under $500,000	6,471	1,392,866	6,456	1,406,641	5,066	-13,775	2,419	159,434	2,386	44,064
$500,000 under $1,000,000	1,155	804,835	1,154	822,327	916	-17,491	445	79,716	445	24,262
$1,000,000 under $5,000,000	1,044	2,110,620	1,044	2,089,962	810	20,658	347	218,856	355	66,951
$5,000,000 or more	258	3,534,231	258	3,486,623	201	47,608	93	225,237	111	68,785

[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 $2.5 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(b), 29, 31, and 33.

[3] Excludes data from 8,110 returns with equal amounts of gross UBI and total deductions.

[4] Includes data from returns with positive amounts of unrelated business taxable income only.

[5] 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 the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $3.0 million.

[6] 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 (not required to report itemized expenses and deductions, or to complete return schedules) and all other Form 990-T filers (required to file a more detailed "complete" return). Organizations with gross UBI below $1,000 were not required to file Form 990-T.

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

Table 3.—Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), and Total Tax, by Size of Unrelated Business Taxable Income or Deficit, Tax Year 2003

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

Size of unrelated business taxable income or deficit	Number of returns	Gross unrelated business income (UBI)	Total deductions [1, 2]		Unrelated business taxable income (less deficit)		Total tax [3]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	**36,064**	**8,436,027**	**35,893**	**8,412,822**	**27,954**	**23,204**	**15,524**	**220,916**
Deficit	12,374	3,809,957	12,374	4,566,901	12,374	-756,944	19	330
Zero [4]	8,110	1,966,547	8,110	1,966,547	0	0	200	811
$1 under $1,000	2,839	47,013	2,839	45,839	2,839	1,174	2,737	177
$1,000 under $10,000	7,392	295,084	7,242	267,743	7,392	27,341	7,293	4,312
$10,000 under $100,000	4,188	637,592	4,184	511,854	4,188	125,738	4,123	22,192
$100,000 under $500,000	904	592,081	888	405,815	904	186,266	898	58,599
$500,000 under $1,000,000	114	268,484	113	190,523	114	77,961	113	25,641
$1,000,000 or more	143	819,269	143	457,600	143	361,669	142	108,854

[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 $2.5 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33.

[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 the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $3.0 million.

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

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

Table 4.—Returns with Positive Unrelated Business Taxable Income: Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income, and Total Tax, by Type of Entity and Size of Gross UBI, Tax Year 2003

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

Type of entity and size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1, 2]		Unrelated business taxable income	Total tax [3]	
			Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ALL ENTITIES							
Total	**15,580**	**2,659,524**	**15,409**	**1,879,374**	**780,149**	**15,305**	**219,775**
$1,000 under $10,001 [4]	6,956	25,989	6,806	11,487	14,502	6,856	2,260
$10,001 under $100,000 [4]	5,319	191,620	5,315	109,215	82,404	5,232	14,357
$100,000 under $500,000	2,419	540,365	2,404	380,930	159,434	2,351	43,868
$500,000 under $1,000,000	445	304,081	444	224,365	79,716	432	24,169
$1,000,000 under $5,000,000	347	658,697	347	439,841	218,856	341	66,756
$5,000,000 or more	93	938,773	93	713,537	225,237	93	68,365
TAX-EXEMPT CORPORATIONS							
Total	**12,036**	**2,355,298**	**11,929**	**1,811,248**	**544,050**	**11,813**	**155,103**
$1,000 under $10,001 [4]	4,300	18,031	4,200	7,901	10,130	4,250	1,522
$10,001 under $100,000 [4]	4,793	172,726	4,789	104,839	67,886	4,705	10,407
$100,000 under $500,000	2,167	484,897	2,164	370,822	114,074	2,100	29,822
$500,000 under $1,000,000	400	273,345	400	216,509	56,836	387	16,953
$1,000,000 under $5,000,000	296	562,106	296	417,681	144,425	290	46,192
$5,000,000 or more	81	844,194	81	693,496	150,698	81	50,208
TAX-EXEMPT TRUSTS							
Total	**3,544**	**304,226**	**3,480**	**68,126**	**236,099**	**3,493**	**64,672**
$1,000 under $10,001 [4]	2,656	7,958	2,606	3,586	4,372	2,606	738
$10,001 under $100,000 [4]	527	18,894	527	4,376	14,518	527	3,950
$100,000 under $500,000	252	55,468	240	10,108	45,360	251	14,047
$500,000 under $1,000,000	45	30,736	44	7,856	22,880	45	7,216
$1,000,000 under $5,000,000	51	96,591	51	22,160	74,431	51	20,564
$5,000,000 or more	12	94,580	12	20,040	74,539	12	18,157

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For exempt organizations reporting positive unrelated business taxable income, cost of sales and services was $709.5 million, 99 percent of which was attributable to tax-exempt corporations.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33.

[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 the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. 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 $2.5 million.

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

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

Table 5.—Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Primary Unrelated Business Activity or Industrial Grouping, Tax Year 2003

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

Primary unrelated business activity or industrial grouping	Number of returns	Gross unrelated business income (UBI)	Total deductions [1, 2]		Unrelated business taxable income (less deficit) [3]		Unrelated business taxable inocme [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All activities and groupings	**36,064**	**8,436,027**	**35,893**	**8,412,822**	**27,954**	**23,204**	**15,580**	**780,149**	**15,524**	**220,916**
Agriculture, forestry, hunting, and fishing	219	43,763	218	39,478	142	4,285	109	8,527	107	2,741
Mining	240	25,770	240	17,694	229	8,075	228	9,641	228	2,827
Utilities	98	31,807	98	32,029	47	-222	* 26	* 1,322	* 26	* 267
Construction	70	126,357	70	123,965	64	2,392	* 49	* 3,251	* 49	* 899
Manufacturing	218	80,595	218	89,715	167	-9,120	115	9,383	116	2,879
Wholesale trade	95	11,307	95	4,781	* 92	* 6,526	* 65	* 7,472	* 65	* 2,567
Retail trade	1,560	670,604	1,560	701,935	1,301	-31,331	616	29,274	601	8,394
Transportation and warehousing	* 41	* 5,669	* 41	* 5,796	* 37	* -127	* 27	* 1,087	* 27	* 289
Information	705	197,556	702	199,812	529	-2,257	134	21,905	135	6,806
Finance and insurance, total	8,538	1,489,201	8,424	1,242,919	7,287	246,282	6,154	318,616	6,082	86,176
Unrelated debt-financed activities, other than rental of real estate [6]	1,012	110,111	1,012	75,698	850	34,413	646	44,113	646	13,347
Investment activities of Code section 501(c)(7), (9), and (17) organizations [6,7]	2,813	650,442	2,762	506,216	2,360	144,226	2,091	152,144	2,015	39,508
Passive income activities with controlled organizations [6]	333	170,471	333	153,920	285	16,551	240	31,668	241	9,500
Other finance and insurance	4,381	558,176	4,317	507,084	3,791	51,092	3,177	90,691	3,180	23,821
Real estate and rental and leasing, total	6,488	928,481	6,486	910,698	5,515	17,782	2,742	115,337	2,751	31,539
Rental of personal property	462	58,309	462	59,379	378	-1,070	166	3,788	168	814
Other real estate and rental and leasing	6,026	870,171	6,024	851,319	5,136	18,852	2,576	111,548	2,584	30,725
Professional, scientific, and technical services	8,181	1,757,270	8,181	1,779,936	5,101	-22,666	2,223	105,960	2,294	32,826
Management of companies and enterprises	36	8,966	36	4,954	* 34	* 4,012	* 32	* 4,067	* 32	* 1,351
Administrative and support and waste management and remediation services	677	356,505	677	372,512	537	-16,007	193	22,916	196	7,194
Educational services	26	22,480	26	23,735	23	-1,255	4	1,753	5	590
Healthcare and social assistance	1,061	1,258,278	1,061	1,320,262	864	-61,984	296	65,159	317	21,108
Arts, entertainment, and recreation	4,234	653,987	4,184	699,286	2,992	-45,299	1,472	24,156	1,456	4,733
Accommodation and food services	2,629	510,604	2,629	570,457	2,212	-59,852	704	18,878	642	4,837
Other services	661	173,401	661	188,870	620	-15,470	289	6,199	290	1,406
Exploited exempt activities	208	81,410	208	81,924	158	-514	101	5,245	103	1,487
Not allocable	* 77	* 2,015	* 77	* 2,063	* 3	* -48	0	0	0	0

*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 $2.5 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33.

[3] Excludes data from 8,110 returns with equal amounts of gross UBI and total deductions.

[4] Includes data from returns with positive amounts of unrelated business taxable income only.

[5] 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 the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $3.0 million.

[6] See the Explanation of Selected Terms section of this article for definitions of Unrelated Debt-Financed Income, Investment Income (Less Loss), and Income from Controlled Organizations.

[7] Section 501(c)(7) organizations are social and recreational clubs; section 501(c)(9) organizations are voluntary employees' beneficiary associations; and section 501(c)(17) organizations are supplemental unemployment benefit trusts.

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 2003

[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)		Sources of gross unrelated business income (UBI) [1]			
			Gross profit (less loss) from sales and services		Capital gain net income	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
Total	**36,064**	**8,436,027**	**15,379**	**4,501,523**	**1,178**	**148,657**
$1,000 under $10,001 [2]	**12,681**	**52,818**	**2,536**	**10,051**	**520**	**1,508**
$10,001 or more, total [2,3]	**23,383**	**8,383,209**	**12,842**	**4,491,472**	**658**	**147,149**
$10,001 under $100,000	14,454	540,656	7,162	231,104	341	9,343
$100,000 under $500,000	6,471	1,392,866	4,030	747,750	194	23,421
$500,000 under $1,000,000	1,155	804,835	775	437,840	42	10,274
$1,000,000 under $5,000,000	1,044	2,110,620	693	1,167,718	58	49,163
$5,000,000 or more	258	3,534,231	182	1,907,060	22	54,947

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]—Continued					
	Net capital loss (trusts only)		Net gain (less loss), sales of noncapital assets [4]		Income (less loss) from partnerships and S corporations	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(7)	(8)	(9)	(10)	(11)	(12)
Total	**211**	**612**	**325**	**13,073**	**4,806**	**301,520**
$1,000 under $10,001 [2]	*** 100**	*** 301**	**50**	**8**	**2,986**	**7,589**
$10,001 or more, total [2,3]	**111**	**311**	**275**	**13,065**	**1,820**	**293,932**
$10,001 under $100,000	* 48	* 119	160	1,802	936	21,909
$100,000 under $500,000	30	89	47	96	521	59,147
$500,000 under $1,000,000	10	30	27	664	117	25,414
$1,000,000 under $5,000,000	19	61	26	7,196	174	65,514
$5,000,000 or more	4	12	15	3,307	72	121,947

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]—Continued					
	Rental income [5]		Unrelated debt-financed income		Investment income (less loss) [6]	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(13)	(14)	(15)	(16)	(17)	(18)
Total	**4,599**	**274,300**	**3,256**	**407,164**	**5,193**	**642,120**
$1,000 under $10,001 [2]	**1,360**	**6,231**	**905**	**3,342**	**2,202**	**7,009**
$10,001 or more, total [2,3]	**3,238**	**268,069**	**2,352**	**403,821**	**2,991**	**635,111**
$10,001 under $100,000	2,176	57,284	1,471	44,373	1,658	16,511
$100,000 under $500,000	800	71,528	623	87,056	1,041	45,527
$500,000 under $1,000,000	130	34,856	105	48,937	178	27,956
$1,000,000 under $5,000,000	105	52,831	123	104,871	94	86,279
$5,000,000 or more	28	51,569	29	118,584	20	458,838

Footnotes at end of table.

Table 6.—Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2003—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	**906**	**206,355**	**876**	**151,591**	**8,346**	**1,280,994**	**4,737**	**509,342**
$1,000 under $10,001 [2]	*** 127**	*** 243**	*** 165**	*** 820**	**3,227**	**13,673**	**987**	**2,645**
$10,001 or more, total [2,3]	**780**	**206,111**	**712**	**150,772**	**5,119**	**1,267,321**	**3,750**	**506,697**
$10,001 under $100,000	312	8,214	367	8,258	3,060	88,043	2,024	53,933
$100,000 under $500,000	304	24,776	184	18,334	1,439	220,851	1,248	94,469
$500,000 under $1,000,000	60	14,967	63	15,416	275	135,898	208	52,642
$1,000,000 under $5,000,000	70	56,912	76	54,462	277	310,664	221	155,071
$5,000,000 or more	34	101,242	21	54,301	67	511,866	49	150,582

* 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 (not required to report itemized expenses and deductions, or to complete return schedules) and all other Form 990-T filers (required to file a more detailed "complete" return). 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 property 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) social and recreational clubs, section 501(c)(9) voluntary employees' beneficiary associations, and section 501(c)(17) supplemental unemployment benefit trusts only.

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

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

Table 7.—Unrelated Business Income Tax Returns: Types of Deductions by Size of Gross Unrelated Business Income (UBI), Tax Year 2003

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

Size of gross unrelated business income (UBI)	All organizations: Total number of returns	All organizations: Total deductions [1, 2]: Number of returns	All organizations: Total deductions [1, 2]: Amount	Organizations with gross unrelated business income (UBI) of $1,000 under $10,001 [3]: Total deductions [2, 4]: Number of returns	Total deductions [2, 4]: Amount	Net operating loss deduction: Number of returns	Net operating loss deduction: Amount	Specific deduction: Number of returns	Specific deduction: Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**36,064**	**35,893**	**8,412,822**	**12,531**	**52,266**	**866**	**1,576**	**7,736**	**7,234**
$1,000 under $10,001 [3]	12,681	12,531	52,266	12,531	52,266	866	1,576	7,736	7,234
$10,001 under $100,000 [3]	14,454	14,450	555,003	N/A	N/A	N/A	N/A	N/A	N/A
$100,000 under $500,000	6,471	6,456	1,406,641	N/A	N/A	N/A	N/A	N/A	N/A
$500,000 under $1,000,000	1,155	1,154	822,327	N/A	N/A	N/A	N/A	N/A	N/A
$1,000,000 under $5,000,000	1,044	1,044	2,089,962	N/A	N/A	N/A	N/A	N/A	N/A
$5,000,000 or more	258	258	3,486,623	N/A	N/A	N/A	N/A	N/A	N/A

Organizations with gross unrelated business income (UBI) of $10,001 or more [3]—Continued

Size of gross unrelated business income (UBI)	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	**23,362**	**8,360,556**	**22,107**	**7,768,739**	**1,799**	**185,905**	**2,226**	**409,308**	**832**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	14,450	555,003	13,484	523,155	1,264	31,737	1,415	47,675	261
$100,000 under $500,000	6,456	1,406,641	6,223	1,325,064	380	49,137	567	96,286	409
$500,000 under $1,000,000	1,154	822,327	1,130	765,875	67	21,637	100	46,051	105
$1,000,000 under $5,000,000	1,044	2,089,962	1,021	1,966,286	68	34,069	117	112,161	52
$5,000,000 or more	258	3,486,623	249	3,188,358	21	49,325	27	107,134	5

Organizations with gross unrelated business income (UBI) of $10,001 or more [3]—Continued

Size of gross unrelated business income (UBI)	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	**251,296**	**494**	**144,721**	**641**	**141,852**	**4,716**	**920,394**	**1,812**	**57,013**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	1,081	243	6,307	343	8,139	2,826	72,688	841	7,831
$100,000 under $500,000	6,456	140	16,699	152	16,325	1,311	156,432	729	16,626
$500,000 under $1,000,000	3,332	39	10,100	59	12,908	257	99,433	101	4,640
$1,000,000 under $5,000,000	2,529	45	29,968	68	53,242	260	220,743	112	8,897
$5,000,000 or more	237,898	27	81,647	19	51,239	61	371,099	29	19,019

Organizations with gross unrelated business income (UBI) of $10,001 or more [3]—Continued

Size of gross unrelated business income (UBI)	Deductions directly connected with UBI—Continued: Salaries and wages: Number of returns	Salaries and wages: Amount	Repairs and maintenance: Number of returns	Repairs and maintenance: Amount	Bad debts: Number of returns	Bad debts: Amount	Interest: Number of returns	Interest: Amount
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)
Total	**10,186**	**1,556,878**	**7,007**	**108,065**	**757**	**47,372**	**2,873**	**55,698**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	5,118	125,102	3,487	13,119	140	360	1,277	6,954
$100,000 under $500,000	3,602	350,519	2,511	34,487	304	1,236	1,166	14,858
$500,000 under $1,000,000	689	192,088	489	14,932	126	6,829	225	9,512
$1,000,000 under $5,000,000	619	433,790	416	24,224	131	11,689	156	14,621
$5,000,000 or more	158	455,379	105	21,303	56	27,257	49	9,752

Footnotes at end of table.

Table 7.—Unrelated Business Income Tax Returns: Types of Deductions by Size of Gross Unrelated Business Income (UBI), Tax Year 2003—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	**10,424**	**170,153**	**7,704**	**249,904**	**122**	**2,756**	**1,047**	**11,231**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	5,742	20,414	3,977	20,711	* 105	* 621	381	329
$100,000 under $500,000	3,517	67,235	2,626	60,329	* 8	* 327	466	2,263
$500,000 under $1,000,000	572	28,124	481	32,449	* 3	* 104	109	1,549
$1,000,000 under $5,000,000	472	32,830	485	64,244	** 5	** 1,704	** 90	** 7,090
$5,000,000 or more	120	21,549	135	72,170	**	**	**	**

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							
	Contributions to employee benefit programs		Net operating loss deduction		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	**5,259**	**225,143**	**3,746**	**175,799**	**14,050**	**3,055,253**	**11,686**	**591,817**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	2,223	9,333	2,285	20,174	7,737	130,580	7,182	31,847
$100,000 under $500,000	1,954	31,526	1,004	31,040	4,469	373,284	3,289	81,576
$500,000 under $1,000,000	472	24,241	192	17,649	854	240,297	579	56,452
$1,000,000 under $5,000,000	478	69,268	206	52,269	787	796,608	496	123,676
$5,000,000 or more	132	90,776	59	54,667	203	1,514,485	139	298,265

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		Charitable contributions		Set-asides [7]		Excess exempt-activity expenses [8]	
	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	**9,380**	**8,901**	**1,775**	**43,669**	**361**	**252,108**	**2,224**	**287,139**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	5,926	5,565	972	4,377	* 168	* 3,550	1,138	18,355
$100,000 under $500,000	2,564	2,454	547	7,760	130	19,396	715	51,966
$500,000 under $1,000,000	448	443	119	10,592	23	14,868	152	30,549
$1,000,000 under $5,000,000	348	346	88	6,110	29	41,634	174	75,587
$5,000,000 or more	93	93	49	14,830	10	172,660	45	110,683

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

**Data in adjacent size classes are combined to avoid disclosure of information about specific taxpayers.

N/A - Not applicable.

[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 $2.5 billion.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33, respectively.

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

[4] Excludes $51.5 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 $2.5 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) social and recreational clubs, section 501(c)(9) voluntary employees' beneficiary associations, and section 501(c)(17) supplemental unemployment benefit trusts only.

[8] Includes excess exempt-activity expenses from Form 990-T, Schedule I, and excess readership costs from Form 990-T, Schedule J.

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