

Unrelated Business Income Tax Returns, 1999

by Margaret Riley

The number of nonprofit organizations reporting “unrelated business income” (UBI) declined by nearly 9 percent between Tax Years 1998 and 1999. Gross UBI, amounting to \$7.7 billion for 1999, increased only slightly over the previous year, by less than 2 percent. Of the 42,151 organizations filing a 1999 Form 990-T, *Exempt Organization Business Income Tax Return*, 17,781 had gross UBI of \$10,000 or less, the threshold for being exempted from filing return schedules and reporting detailed information on deductions. Organizations in this income group filed 20-percent fewer returns and reported a 21-percent decrease in aggregate gross UBI, compared to 1998. The 24,369 organizations with gross UBI above \$10,000 were required to fill out a complete Form 990-T, including all applicable schedules. This income group filed about 1-percent more returns and reported a 2-percent increase in aggregate gross UBI for 1999.

Income is defined as UBI if it 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. Any profits from an organization’s unrelated business activities are taxed at regular corporate or trust income tax rates [1, 2].

After offsetting total gross UBI of \$7.7 billion with \$6.8 billion of deductions, the resulting unrelated business taxable income (less deficit) for 1999 was \$0.9 billion [3]. Although this appears to be a dramatic change from 1998--an overall loss of \$0.6 billion was reported--it is not a real change. It is due to a recently discovered problem in taxpayers’ reporting of the “net operating loss deduction.” See revised 1998 data in Figure A, and refer to the section, “Adjustments to Taxpayer Misreporting of Net Operating Loss Deduction,” for an explanation of how erroneous taxpayer reporting of this deduction has affected previous years’ statistics and how this was corrected during SOI processing of Tax Year 1999 returns that are the basis for this article.

Figure A contains the financial statistics cited above, plus other selected data items from Tax Years 1998 and 1999 Forms 990-T. The number of taxable

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Figure A

Selected Items from Exempt Organization Business Income Tax Returns, Tax Years 1998-1999

[Money amounts are in thousands of dollars]

Item	1998	1999	Percentage change, 1998 to 1999
	(1)	(2)	(3)
Number of returns, total	46,208	42,151	-8.8
With gross unrelated business income of \$10,000 or less ¹	22,124	17,781	-19.6
With gross unrelated business income over \$10,000 ¹	24,084	24,369	+1.2
With unrelated business taxable income ²	24,332	20,718	-14.9
Without unrelated business taxable income ^{2,3}	21,876	21,433	-2.0
Gross unrelated business income	7,584,915	7,722,135	+1.8
Total deductions ^{4, 5}	6,484,443	6,834,850	+5.4
Unrelated business taxable income (less deficit) ^{2, 5}	1,100,470	887,284	-19.4
Unrelated business taxable income ²	1,669,753	1,484,921	-11.1
Deficit ⁵	569,283	597,637	+5.0
Unrelated business income tax	505,896	423,065	-16.4
Total tax	464,288	421,746	-9.2

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

² The terms “unrelated business taxable income (less deficit)” and “unrelated business taxable income” replace the terms “net income (less deficit)” and “net income (taxable profit),” respectively, which were used in previously published *SOI Bulletin* articles on unrelated business income tax returns. Only the terminology has changed; in the case of any of the four terms used to cite data in this and all previous years’ articles, the source of the data is the Form 990-T line item named “Unrelated business taxable income.” See footnote 3 in this article for an explanation of this change.

³ Includes returns with deficits and “breakeven” returns with equal amounts of gross unrelated business income and total deductions.

⁴ 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 \$2.1 billion for 1998 and \$2.2 billion for 1999.

⁵ Previously published amounts of total deductions, unrelated business taxable income (less deficit), and deficit for 1998 have been revised. Revised amounts take into account certain adjustments made to reported amounts of the “net operating loss deduction.” See the section, “Adjustments to Taxpayer Reporting of Net Operating Loss Deduction,” in this article.

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.

and nontaxable returns is split about equally, at 49 percent and 51 percent, respectively. Based on \$1.5 billion of total unrelated business taxable income collectively reported for 1999, the associated unrelated business income tax (UBIT) was \$423.1 million, a 16-percent decrease from 1998. After adjusting UBIT for certain credits and other taxes, the result-

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ing total tax reported was \$421.7 million, which was 9 percent less than the amount reported for 1998 [4]. The large percentage decrease in the amount of UBIT reported between 1998 and 1999 is not attributable to changes in the Form 990-T filing population; rather, much of the decrease is attributable to an organization that reported UBIT in 1998 but not in 1999.

The \$421.7 million of total tax for 1999 are apportioned as \$423.1 million of unrelated business income tax, plus \$0.8 million of alternative minimum tax and \$3.4 million of “proxy tax” on certain nondeductible lobbying and political expenditures, minus \$5.4 million of tax credits [5, 6, 7]. (Detail does not add to total because of rounding.) The proxy tax is required to be reported on Form 990-T and is included in total tax, but it has no connection to the unrelated business income tax or an organization’s involvement in unrelated business activities. The \$3.4 million shown in the total tax computation above are only as reported by Form 990-T filers with gross unrelated business income (UBI) above the \$1,000-filing threshold, a criterion for selection for the SOI sample. Proxy tax reported by organizations that had no UBI or those that had UBI below the filing threshold is not included. According to unpublished data available from the IRS Business Returns Transaction File, \$20.9 million of proxy tax were reported on 634 returns for Tax Year 1999. About 68 percent of these returns were filed solely to report the proxy tax (no income from unrelated business activities was reported).

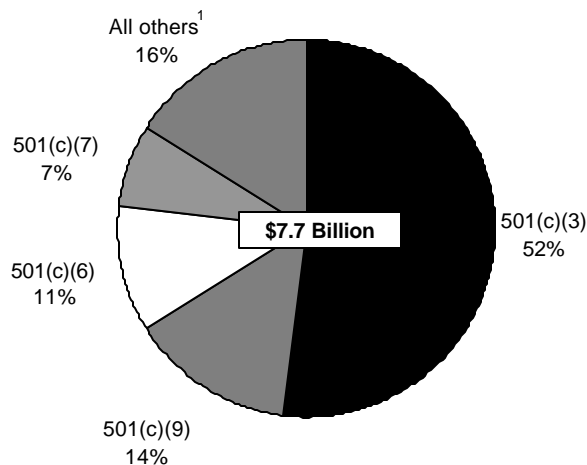
Financial Statistics by Selected Types of Organization

Organizations Classified by Internal Revenue Code Section

By far, the Internal Revenue Code section 501(c)(3) “charitable” organizations accounted for the largest portion of gross UBI attributable to a single organization type for 1999, reporting \$4.0 billion, or 52 percent of the total (Figure B) [8]. Charitable and other types of nonprofit organizations subject to the unrelated business income tax provisions are described by Internal Revenue Code section in the Appendix to this article. Also, see Table 1 at the end of this article for additional data by type of organization. As a group, charitable organizations comprised 28 percent of Form 990-T filers and were liable for 28 percent of total tax liability.

Figure B

Distribution of Gross Unrelated Business Income, by Internal Revenue Code Section, Tax Year 1999



¹ Includes any other organizations tax-exempt under Internal Revenue Code sections 501(c)(2)-(25), as well as Code section 220(e), 401(a), 408(e), 408A, 529(a), and 530(a) organizations.

NOTE: See the Appendix to this article for a description of the various types of tax-exempt organizations.

The next largest group in terms of gross UBI, the section 501(c)(9) voluntary employee beneficiary organizations (VEBA’s), reported \$1.1 billion of gross UBI. These organizations made up only 2 percent of all filers, but were responsible for 14 percent of gross UBI and 39 percent of total tax. Collectively, the section 501(c)(6) business leagues, chambers of commerce, real estate boards, and like organizations accounted for another 15 percent of filers; 11 percent, or \$0.9 billion of gross UBI; and 5 percent of total tax. The section 401(a) pension, profit-sharing, or stock bonus plan trusts were liable for 15 percent of total tax, but represented less than 2 percent of filers and reported only 4 percent of gross UBI. While section 501(c)(7) social and recreational clubs filed an additional 16 percent of all returns, they accounted for smaller portions of gross UBI and total tax, 7 percent and 6 percent, respectively.

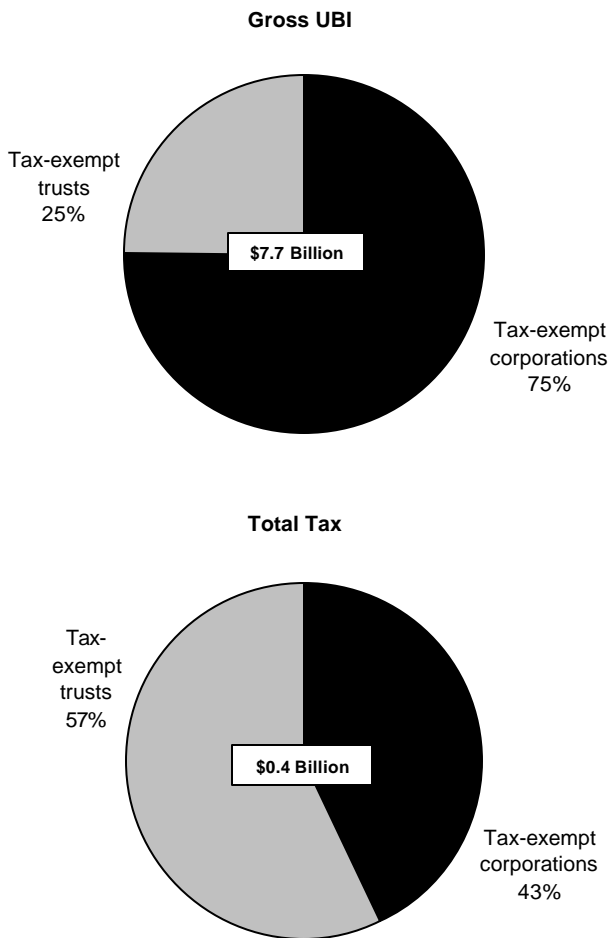
Organizations Classified by Type of Entity

Overall, three out of four organizations filing Form 990-T for 1999 were tax-exempt corporations, and one out of four was set up as a trust (Figure C). The tax-exempt corporations were responsible for slightly

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Figure C

Distribution of Gross Unrelated Business Income (UBI) and Total Tax, by Type of Entity, Tax Year 1999



more than four-fifths of the aggregate total of gross UBI reported. All of the corporate entities were exempt under Internal Revenue Code section 501(c). Eleven percent of the trusts were section 501(c) organizations, 7 percent were section 401(a) pension, profit-sharing, and stock bonus plans, and 82 percent were section 408(e) or 408(A) Individual Retirement Arrangements.

As indicated in Table 4 at the end of this article, of the 20,718 nonprofit organizations that had unrelated business taxable income for 1999, nearly 65

percent were corporate entities, and the remainder were trusts. Exempt corporations with taxable income were liable for 43 percent of total tax, while exempt trusts with taxable income accounted for 57 percent.

Typically, the trusts, by nature of their fiduciary role and the small number of staff required to operate, report relatively low amounts of deductions, compared to the corporate entities. This is apparent from the proportions of total deductions reported by the two types of organizations in Table 4--83 percent for exempt corporations and 17 percent for exempt trusts. Exempt corporations reported an average deduction of approximately \$122,000, compared to an average deduction reported by trusts of \$45,000, well under half of the corporate amount.

Organizations Classified by Major Unrelated Business Activity or Grouping

The list of NAICS codes provided with the Form 990-T instructions contains 19 of the 20 major industrial sectors (Public Administration is excluded) and 164 selected industries. In addition, five special codes are provided with the Form 990-T NAICS list. These five codes describe specific types of unrelated business activities, which correspond to line-item descriptions in the income statement section of the tax return. The five special classifications are "unrelated debt-financed activities, except rental of real estate," "investment activities of Code section 501(c)(7), (9), or (17) organizations," "passive income activities with controlled organizations," "rental of personal property," and "exploited exempt activities." For statistical purposes, the first three of these activities are grouped within the Finance and Insurance sector. Rental of personal property is included in the Real Estate and Rental and Leasing sector. The last special activity is treated as an independent category and is not included in any of the NAICS major industrial sectors. The five special types of activities were listed separately because the tax treatment of income received from these activities is governed by special rules that are applied specifically to Form 990-T filers. Each of the five special classifications is defined in the Explanation of Selected Terms section of this article.

The distribution of gross UBI by major industrial activity or grouping shown in Table 5 at the end of this article, and also illustrated in Figure D, reveals

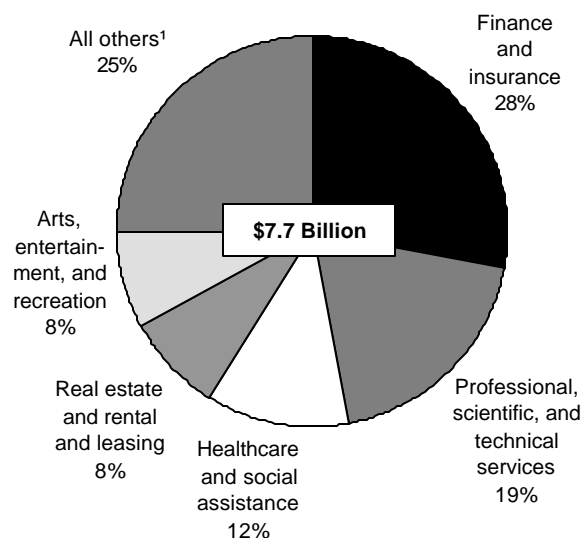
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that 75 percent of the \$7.7 billion of total gross UBI is attributable to just 5 of the 20 major categories of primary unrelated business activities or industrial groupings. These five categories were “finance and insurance,” (28 percent of gross UBI, reported by 34 percent of all organizations); “professional, scientific, and technical services” (19 percent of gross UBI, reported by 16 percent of all organizations); “healthcare and social assistance” (12 percent of gross UBI, reported by 3 percent of all organizations); “arts, entertainment, and recreation” (8 percent of gross UBI, reported by 10 percent of all organizations); and “real estate and rental and leasing” (8 percent of gross UBI, reported by 12 percent of all organizations) [9].

insurance sector included the special category, “investment activities of section 501(c)(7), (9), and (17) organizations,” to which 16 percent of total gross UBI was attributable. All investment income, whether debt-financed or not, of section 501(c)(7), (9), and (17) organizations is considered unrelated business income, while the investment income of other types of organizations is generally not taxed unless the investment was purchased with borrowed funds. The three most frequently reported unrelated business activities within the “healthcare and social assistance” sector were “medical and diagnostic laboratories” (reported by 43 percent of organizations within the sector), “child day care services” (10 percent), and “all other ambulatory health care services” (10 percent).

Figure D

Distribution of Gross Unrelated Business Income, by Major Category of Primary Unrelated Business Activities, Tax Year 1999



¹ Includes all other major categories of primary unrelated business activities, as shown in Table 5 at the end of this article.

“Professional, scientific, and technical services” included, among other activities, advertising, legal, accounting, payroll, research and development, and computer programming services. The finance and

Overall, the most frequently reported primary unrelated business activities selected from the NAICS-based list provided in the Form 990-T filing instructions booklet were “advertising and related services” (5,451 returns), “trusts, estates, and agency accounts,” reported mostly by trustees of Individual Retirement Arrangements and pension funds (4,834 returns), and “investment income of section 501(c)(7), (9), and (17) organizations” (3,842 returns). Organizations reporting one of these three primary activities accounted for one-third of all returns filed for 1999. The top three primary activities, in terms of the amount of gross UBI attributable to them, were “investment income of section 501(c)(7), (9), or (17) organizations” (\$1.2 billion), “advertising and related services” (\$1.0 billion), and “medical and diagnostic laboratories” (\$0.6 billion), which together accounted for 37 percent of gross UBI.

Forty-one percent of total tax reported for 1999 is attributable to organizations that reported a primary activity in the major grouping, “investment activities of section 501(c)(7), (9), and (17) organizations.” Most of these organizations were section 501(c)(9) VEBA’s, which, as discussed above, are trusts that typically report a relatively small amount of deductions and, therefore, incur comparatively larger amounts of tax liability. Organizations reporting primary activities that are within the “other finance and insurance” category were responsible for 14 percent of total tax and accounted for 20 percent of all filers. Close to three-quarters of these organizations were Individual Retirement Arrangement trusts, and another 14 percent were regional farm bureaus.

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Another 12 percent of total tax liability is attributable to organizations that reported a primary activity of “unrelated debt-financed activities, other than rental of real estate,” one of the unrelated business industrial activities specially designated for Form 990-T filers. (See the definition of Unrelated Debt-Financed Income in the Explanation of Terms section at the end of this article.)

Adjustments for Taxpayer Misreporting of Net Operating Loss Deduction

After subtracting current-year deductions from income, filers of Form 990-T are permitted to use part or all of a net operating loss carryover from prior years as an additional deduction to offset any remaining positive income. On Form 990-T, this is called the net operating loss deduction (NOLD), as distinguished from the entire amount of the net operating loss carryover [10]. (See the definition of Net Operating Loss Deduction in the Explanation of Terms section of this article.) The NOLD amount should be less than or equal to the positive income it offsets.

During processing of the sample of returns for the Tax Year 1999 Form 990-T Statistics of Income study, it was discovered that many organizations reported an amount of NOLD that exceeded the amount of positive income it was offsetting, resulting in a net deficit amount, rather than netting the positive income amount to zero. In other cases, taxpayers were reporting an amount of NOLD even when a loss (current-year deductions were larger than income) had been reported, thus increasing the loss and resulting in a net deficit amount that was larger than it should have been. It is unclear why filers of Form 990-T are reporting the NOLD in this manner, but it is strongly speculated that this method serves as an accounting tool whereby the final net deficit shown on the current year’s return represents the total net operating loss carryover available for use with future years’ returns, making it a convenient reference for the preparer of the following year’s tax return.

Entering the entire amount of net operating loss carryover available, rather than the appropriate deduction amount, did not change an organization’s final tax liability on the current year’s return. As stated above, the erroneous reporting resulted in one of two situations: (1) what should have been a zero amount became a negative amount, or (2) an amount that was already negative became a larger negative.

In both circumstances, the outcome did not affect an organization’s liability for UBIT or total tax. However, the erroneous reporting did affect the amount of deficit reported, artificially inflating this statistic for all SOI study years prior to 1999 [11].

After discovering the NOLD reporting anomaly, an automated “fix” to the data entry system was instituted for Tax Year 1999 and all future study years. During processing of SOI study returns, when a NOLD amount is entered that is too large, based on the amount it is offsetting, the correct NOLD amount is computer-generated and replaces the incorrect amount. In cases where a NOLD amount is entered on a return with a current-year loss, the NOLD amount is changed to zero. Based on Tax Year 1999 sample estimates, there were 6,724 returns where NOLD was incorrectly reported (overstated), and the aggregate difference between the taxpayers’ entries and the adjusted entries was nearly \$2.0 billion. This represents a 93-percent decrease in the initial, erroneously reported NOLD amount.

For the years 1990-98, Figure E shows the amount of NOLD as initially reported, an adjusted (correct) NOLD amount, the difference between the two amounts, and the percentage decrease in the initially reported amount. In addition, the figure shows initially-reported and adjusted amounts of unrelated business taxable income (less deficit) for each year. The adjusted amounts take into account the corrected amounts of NOLD. In all cases, aggregate unrelated business taxable income (less deficit) changed from negative to positive. Because the NOLD reporting problem was not discovered until processing the Tax Year 1999 study returns, the data files for study years 1990-98 contain the initially reported NOLD amounts. However, as already stressed, the amounts of UBIT and total tax liability on all SOI Form 990-T study files were unaffected and, therefore, are correct.

Summary

Gross “unrelated business income” (UBI) reported on Form 990-T, *Exempt Organization Business Income Tax Returns*, increased by only 2 percent between Tax Years 1998 and 1999, and the number of organizations filing Form 990-T declined by 9 percent. Organizations with gross UBI of \$10,000 or less, the threshold for being excepted from filling out certain parts of the return, filed 20-percent fewer

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Figure E

Selected Data from Returns with Net Operating Loss Deduction (NOLD), Tax Years 1990-1999

[Money amounts are in thousands of dollars]

Tax year	Number of returns with NOLD initially reported	Number of returns with NOLD misreported	Col. (2) as a percentage of col. (1)	Total NOLD as initially reported	Total NOLD as corrected	Difference between col. (4) and col. (5)	Percentage decrease in col. (4)	Reported unrelated business taxable income (less deficit)	Adjusted unrelated business taxable income (less deficit) ¹
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1999 ²	9,177	6,724	73.3	2,106,206	152,531	1,953,675	92.8	-1,066,391	887,284
1998.....	13,328	6,756	50.7	1,842,182	144,859	1,697,323	92.1	-596,853	1,100,470
1997.....	7,765	5,670	73.0	1,731,847	140,038	1,591,809	91.9	-686,374	905,435
1996.....	9,147	7,223	79.0	1,630,832	154,547	1,476,285	90.5	-801,054	675,231
1995.....	8,165	5,640	69.1	1,567,512	101,116	1,466,396	93.5	-973,648	492,748
1994.....	8,547	5,494	64.3	1,465,135	75,637	1,389,498	94.8	-1,127,001	262,497
1993.....	6,844	5,196	75.9	1,342,759	80,333	1,262,426	94.0	-1,047,239	215,187
1992.....	6,206	5,116	82.4	1,277,914	55,693	1,222,221	95.6	-1,113,402	108,819
1991 ³	4,686	3,819	81.5	757,815	43,578	714,237	94.2	-630,448	83,789
1990 ³	4,601	3,729	81.0	673,345	43,462	629,883	93.5	-604,916	24,967

¹ Unrelated business taxable income (less deficit) was recomputed, using the corrected amount of the net operating loss deduction.

² The net operating loss deduction (NOLD) problem was discovered during processing of Tax Year 1999 study returns; therefore, the final study file for that year contains corrected data. Table 7 at the end of this article shows 4,513 returns with NOLD in columns (6) plus (46). Of the 6,724 returns shown in column (2), above, 4,664 had NOLD changed to zero and the remainder had NOLD reduced, resulting in a final count of 4,513 returns with NOLD for 1999.

³ Statistics for 1990 and 1991 include only returns filed by organizations with gross unrelated business income greater than \$10,000. Smaller organizations were not required to report the net operating loss deduction separately for those years; rather, it was included in a single total reported for all deductions.

returns and reported a 21-percent decrease in aggregate gross UBI, while those with gross UBI above \$10,000 filed 1-percent more returns and reported a 2-percent increase in aggregate gross UBI. After offsetting total gross UBI of \$7.7 billion with \$6.8 billion of deductions, the resulting unrelated business taxable income (less deficit) for 1999 was \$0.9 billion. Based on \$1.5 billion of total unrelated business taxable income, the associated unrelated business income tax was \$423.1 million.

Fifty-two percent, or \$4.0 billion, of gross UBI reported for 1999 was attributable to Internal Revenue Code section 501(c)(3) “charitable” organizations. Overall, three out of four organizations filing Form 990-T for 1999 were tax-exempt corporations, and the remainder were trusts. Exempt corporations with positive unrelated business taxable income (UBTI) accounted for 66 percent of total gross UBI and 43 percent of total tax, while exempt trusts with UBTI accounted for 34 percent and 57 percent, respectively. The top three major categories of primary unrelated business activities, in terms of gross UBI, were “professional, scientific, and technical services” (19 percent of gross UBI, reported by 16 percent of all organizations); “investment activities of section 501(c)(7), (9), and (17) organizations” (16

percent of gross UBI, reported by 9 percent of all organizations); and “healthcare and social assistance” (12 percent of gross UBI, reported by 3 percent of all organizations).

During processing of the study sample of Tax Year 1999 returns, it was discovered that many Form 990-T filers were deducting the entire amount of any previous year’s net operating loss carryover from net income (even when net income was zero or negative), rather than deducting only the part of the carryover amount needed to offset any positive net income amount. Entering the entire amount of the net operating loss carryover, as opposed to entering only the appropriate deduction amount, did not affect a filer’s unrelated business income tax liability, but it did inflate the amount of deficit reported. Adjustments to correct inaccurately reported net operating loss deduction (NOLD) amounts for 1999 resulted in a 93-percent reduction in the initially reported aggregate NOLD, from \$2.1 billion to \$152.5 million. SOI data files for 1999 and later study years will contain corrected amounts of NOLD. Figure E in the section, “Adjustments for Taxpayer Misreporting of Net Operating Loss Deduction,” shows initially reported and corrected amounts of aggregate NOLD for Tax Years 1990-1999.

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Data Sources and Limitations

The statistics in this article are based on a sample of Tax Year 1999 Forms 990-T, *Exempt Organization Business Income Tax Returns*. The Internal Revenue Service required organizations having accounting periods beginning in 1999 (and, therefore, ending between December 1999 and November 2000, for full-year return filers) to file a 1999 Form 990-T to report unrelated business income of \$1,000 (the filing threshold) or more. The associated required filing period for Tax Year 1999 Forms 990-T generally spanned May 2000 to April 2001, but extensions of time to file beyond this period were granted to many organizations. For all Internal Revenue Code section 220(e), 401(a), 408(e), 408A, and 530(a) trusts, the required accounting period was Calendar Year 1999, and the filing date was April 15, 2000. Returns filed after Calendar Year 2001 were not included in the sample. Because of the various accounting periods of the organizations filing a 1999 return, the financial activities covered in this article span the period January 1999 through November 2000 (although the majority of activities occurred during Calendar Year 1999).

The 1999 Form 990-T study design incorporated a special “integrated” sample to gather information on “related” (tax-exempt) and “unrelated” (taxable) income and expenses for organizations that filed 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. 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. This integrated sampling program ensured that the Statistics of Income sample of Forms 990-T included unrelated business income tax returns filed by all organizations whose Form 990 or Form 990-EZ information returns were selected for the sample of Internal Revenue Code section 501(c)(3) nonprofit charitable organizations. Organizations exempt under other Code sections were not subjected to the integrated sampling program.

The Form 990-T sample included returns that were initially selected, based on independent Form 990-T sampling criteria, and additional returns that were not initially selected but were subsequently matched to returns in the Forms 990/990-EZ sample. These matched returns, along with any independently

selected Forms 990-T that also had counterparts in the Forms 990/990-EZ sample, formed the “integrated” portion of the Form 990-T sample [12].

The population from which the 1999 Form 990-T sample was drawn consisted of Form 990-T records posted to the IRS Business Master File system during 2000 and 2001. The returns in the sample were stratified, based on the size of gross unrelated business income (UBI). A sample of 7,688 returns was selected from a population of 42,279. After excluding returns that were selected for the sample but later rejected, the sample size was 7,661, and the estimated population size was 42,151. Rejected returns included those which had gross UBI below the \$1,000 filing threshold; were filed only to claim a refund or report the “proxy tax”; were filed for a part-year accounting period for 1999, 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 1999. For example, a final return filed for the short period of January 2000-June 2000 may have been initially selected for the 1999 sample based on the criterion of an accounting period that ended between December 1999 and November 2000, but it was later rejected because, in actuality, it was a Tax Year 2000 return.

The designed sampling rates ranged from a minimum of 3 percent (Form 990-T gross UBI less than \$20,000, with either no Form 990/990-EZ match or a Form 990/990-EZ match to a Code section 501(c)(3) return with total assets under \$1,000,000) to a maximum of 100 percent (either Form 990-T gross UBI of \$300,000 or more, or Form 990-T with any amount of gross UBI and a match to a section 501(c)(3) Form 990 with total assets of \$30,000,000 or more). Other Forms 990/990-EZ/990-T matches within various ranges of gross UBI, assets, and Internal Revenue Code sections were selected at rates ranging from 6 percent to 45 percent. See Figure F for population counts, sample counts, designed sample rates, and achieved sample rates, by size of gross unrelated business income reported on Form 990-T and size of total assets reported on Form 990 or Form 990-EZ.

The information presented in this article was obtained from returns as originally filed with the IRS. The data were subjected to comprehensive testing and correction procedures in order to improve statistical reliability and validity. In most cases, changes

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Figure F

Population and Sample Counts, and Designed and Achieved Sample Rates, by Size of Gross Unrelated Business Income on Form 990-T and Size of Total Assets on Matching IRC Section 501(c)(3) Form 990 or Form 990-EZ, Tax Year 1999

Sample group number	Size of gross unrelated business income (UBI) on Form 990-T and size of total assets on matching IRC section 501(c)(3) Form 990 or Form 990-EZ ¹	Population counts	Sample counts	Designed sample rate	Achieved sample rate
		(1)	(2)	(3)	(4)
1	Gross UBI \$1,000 under \$20,000 and total assets under \$1,000,000, or Gross UBI \$1,000 under \$20,000 and no matching Form 990 or Form 990-EZ.....	21,942	694	0.0300	0.0316
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.....	7,509	436	0.0600	0.0581
3	Gross UBI \$1,000 under \$60,000 and total assets \$2,500,000 under \$10,000,000, or Gross UBI \$60,000 under \$150,000 and total assets under \$10,000,000, or Gross UBI \$60,000 under \$150,000 and no matching Form 990 or Form 990-EZ.....	5,357	695	0.1300	0.1297
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.....	2,884	1,276	0.4500	0.4424
5	Gross UBI \$300,000 or more, or total assets \$30,000,000 or more.....	4,587	4,587	1.0000	1.0000
	All sample groups ².....	42,279	7,688	N/A	N/A

N/A--Not applicable.

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

² After excluding returns that were originally selected for the sample but later rejected, the sample size was 7,661, and the estimated population size was 42,151.

made to the original return as a result of administrative processing, audit procedures, or a taxpayer amendment were not incorporated into the data base.

Because the data are based on a sample, they are subject to sampling error. In order to use these statistics properly, the magnitude of the sampling error, measured by the coefficient of variation (CV), should be taken into account. Figure G shows CV's for selected financial data. CV's are not shown for returns with gross UBI of \$500,000 or more because they were sampled at a 100-percent rate and, therefore, are not subject to sampling variability. A discussion of the reliability of estimates based on samples and methods for evaluating both the magnitude of sampling and nonsampling error and the precision of sample estimates can be found in the general Appendix, located near the back of this issue of the *Bulletin*.

Explanation of Selected Terms

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

Figure G

Coefficients of Variation for Selected Items, by Size of Gross Unrelated Business Income, Tax Year 1999

Size of gross unrelated business income	Number of returns	Gross unrelated business income	Total deductions	Unrelated business taxable income ¹	Total tax
		(2)	(3)	(4)	(5)
Coefficient of variation (percentages)					
	(1)	(2)	(3)	(4)	(5)
Total	42,151	0.28	0.40	0.50	0.46
\$1,000 under \$10,001 ²	17,781	3.25	6.70	6.95	7.58
\$10,001 under \$100,000 ²	16,216	1.66	2.47	5.33	6.42
\$100,000 under \$500,000....	5,925	1.73	2.03	2.72	2.95
\$500,000 or more.....	2,228	N/A	N/A	N/A	N/A

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

¹ The term "unrelated business taxable income" replaces the term "net income (taxable profit)," which was used in previously published SOI Bulletin articles on unrelated business income tax returns. Only the terminology has changed; in the case of either of the two terms used to cite data in this and all previous years' articles, the source of the data is the Form 990-T line item named "Unrelated business taxable income." See footnote 3 in this article for an explanation of this change.

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

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

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

Capital Gain Net Income.--Generally, organizations required to file Form 990-T (except organizations tax-exempt under Internal Revenue Code sections 501(c)(7), (9), and (17)) were not taxed on net gains from the sale, exchange, or other disposition of property. However, net capital gains on sales of debt-financed property, certain gains on the cutting of timber (section 1231), and gains on sales of certain depreciable property (described in sections 1245, 1250, 1252, 1254, and 1255) were taken into account in computing capital gain net income. Also, any gain or loss passed through from 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), is 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.

Deductions Directly Connected With Unrelated Business Income.--These were deductions allowed in computing net income, if they otherwise qualified as income tax deductions under the Internal Revenue Code and if they had a "proximate and primary" relationship to carrying on an unrelated trade or business. Allowable deductions included those directly connected with rental of personal property; those allocable to unrelated debt-financed income; those directly connected with investment income of Internal Revenue Code section 501(c)(7), (9), and (17) organizations; those allocable to interest, annuities, royalties, and rents received from "controlled organizations" (see definition of Income from Controlled Organizations); those allocable to "exploited exempt activity income" other than advertising; direct advertising costs; compensation of officers, directors, and trustees; salaries and wages; repairs; bad debts; interest; taxes; depreciation (unless deducted elsewhere); depletion; contributions to deferred compensation plans; contributions to employee benefit plans; the "net operating loss 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"

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(directly connected) and the “specific deduction” (not directly connected), both also defined below.

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

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

Exploited Exempt Activity Income, Except Advertising.--In some cases, exempt activities create goodwill or other intangibles that are capable of being exploited in a commercial manner. When an organization exploited such an intangible in commercial activities that did not contribute importantly to the accomplishment of an exempt purpose, the income it produced was gross income from an unrelated trade

or business. An example of this type of activity would be an exempt scientific organization with an excellent reputation in the field of biological research that exploits its reputation regularly by selling endorsements of laboratory equipment to manufacturers. Endorsing laboratory equipment would not have contributed importantly to the accomplishment of any purpose for which tax exemption was granted to the organization. Accordingly, the income from selling such endorsements is gross unrelated business income. Exploited exempt activity income from advertising was reported separately from other types of exploited exempt activity income (see the explanation of Advertising Income). Internal Revenue Code section 501(c)(7), (9), and (17) organizations reported income from exploited exempt activities as part of gross receipts from sales and services. All other organizations reported this income separately.

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

Gross Unrelated Business Income (UBI).--This was the total gross unrelated business income 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

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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.--A new definition of “controlled organization” was effective for tax years beginning after August 5, 1997. However, there was a 2-year grace period for organizations that had a written, binding contract with a controlled organization that was in effect on June 8, 1997. Organizations qualifying for the grace period reported income under the old law. Under both the old and new tax law provisions, all deductions “directly connected” with a Form 990-T filer’s gross controlled-organization income were allowed. The rules for debt-financed property did not apply to passive income (generally, investment income) from controlled organizations. (See the definition of Unrelated Debt-Financed Income.)

For organizations that had tax years beginning on or before August 5, 1997, or were covered by the 2-year grace period: When an exempt organization controls another organization, the gross annuities, interest, rents, and royalties received from the controlled organization are included in the gross UBI of the controlling organization at a specified ratio, depending on whether the controlled organization is tax-

exempt or not. “Control” meant: (a) for a stock corporation, the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote, and ownership of at least 80 percent of the total number of shares of all other classes of stock of the corporation; or (b) for a non-stock organization, at least 80 percent of the directors or trustees of the organization were either representatives of, or directly or indirectly controlled by, a tax-exempt organization.

For organizations that had tax years beginning after August 5, 1997, and were not covered by the 2-year grace period: When an exempt organization controls another organization, the entire amount of gross annuities, interest, rents, and royalties (termed “specified payments” under the new law) received from the controlled organization are included in the gross UBI of the controlling organization, to the extent that the specified payments were claimed as a deduction from the controlling 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.

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

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profit-sharing plan) or section 501(c)(3), and exempt from tax under section 501(a).

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

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

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

Net 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 deductions over receipts, 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 tax payments, if the payments were previously reported as a deduction.

Proxy Tax.--This was a tax on certain nondeductible lobbying and political expenditures paid or incurred after December 31, 1993, by organizations that were tax-exempt under Internal Revenue Code sections 501(c)(4), 501(c)(5), and 501(c)(6). If the organization failed to notify its members regarding their shares of dues to which nondeductible lobbying and political expenditures were allocable, or if the notice did not include the entire amount of dues that was allocable, then the proxy tax was imposed on the organization. It was computed as 35 percent of the aggregate amount of nondeductible lobbying expendi-

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tures 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. 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 sec-

tion 419A qualified asset account is any account consisting of assets set aside to provide for the payment of disability benefits, medical benefits, severance pay benefits, or life insurance benefits.

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

Total Deductions.--Total deductions included both deductions reported on the main part of Form 990-T and expense items reported on any of six supporting schedules, which were also part of the tax form. It excluded cost of sales and services (\$2.2 billion for 1999), which was subtracted from gross receipts from sales and services in computing gross profit (less loss) from sales and services. Gross profit (less loss) from sales and services was a component of gross unrelated business income (UBI). Because Form 990-T filing requirements are based on gross UBI, and cost of sales and services is factored into the computation of gross income, the deduction for cost of sales and services is reported in the gross income section of Form 990-T, not the deductions section. Cost of sales and services was reported as a lump-sum total, but may have included depreciation, salaries and wages, and certain other types of deductible items. For this reason, the total amount shown for some of the separately reported components of total deductions, such as "salaries and wages," may be understated.

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

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

Unrelated Business Income Tax.--This was the tax imposed on unrelated business taxable income. It was determined, based on the regular corporate or

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trust income tax rates that were in effect for the 1999 Tax Year, as shown in the following schedules.

Tax Rates for Corporations

Amount of unrelated business taxable income is:

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

Tax Rates for Trusts

Amount of unrelated business taxable income is:

Over—	But not over—	Tax is:	Of the amount over—
\$ 0	\$1,750	15%	\$0
1,750	4,050	\$262.50 + 28%	1,750
4,050	6,200	906.50 + 31%	4,050
6,200	8,450	1,573.00 + 36%	6,200
8,450	—	2,383.00 + 39.6%	8,450

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

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

Notes and References

- [1] A business activity is considered unrelated if it does not contribute importantly (other than the production of funds) to accomplishing an organization's charitable, educational, or other purpose that is the basis for the organization's tax exemption. In determining whether activities contribute importantly to the accomplishment of an exempt purpose, the size and extent of the activities involved must be considered in relation to the nature and extent of the exempt function that they intend to serve. To the extent an activity is conducted on a scale larger than is reasonably necessary to perform an exempt purpose, it does not contribute importantly to the

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accomplishment of the exempt purpose. The part of the activity that is more than needed to accomplish the exempt purpose is an unrelated trade or business. Whether an activity contributes importantly depends in each case on the facts involved. See IRS Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*, for additional information on unrelated business income and tax.

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

- [2] The unrelated business income tax (UBIT) for nonprofit corporations was determined based on the regular corporate income tax rates in effect for Tax Year 1999. Nonprofit trusts were generally taxed at the regular individual (single status) income tax rates established for estates and trusts for Tax Year 1999. Trusts that were eligible for the maximum 28-percent tax rate on capital gain net income figured their tax based on Schedule D of Form 1041, *U.S. Income Tax Return for Estates and Trusts*. The corporate and trust tax-rate schedules are included in the definition of Unrelated Business Income Tax, found in the Explanation of Selected Terms section of this article.

- [3] The term "net income (less deficit)," which appeared in previously published *SOI Bulletin* articles on unrelated business income tax returns, is being replaced with the term "unrelated business taxable income (less deficit)" to distinguish the concept of net profit, which is based on standard accounting practices, from taxable profit, which is based on legal tax definitions. Similarly, the term "net income (taxable profit)" is being replaced with "unrelated business taxable income." Only the terminology has changed; in the case of any of the four terms used to cite data in this and all previous years' articles, the source of the data is the Form 990-T line item named "Unrelated business taxable income." See the definition of Unrelated Business Taxable Income (Less Deficit) in the Explanation of Selected Terms section of this article.
- [4] The amount of total tax liability originally reported on Forms 990-T, as stated in these statistics, may not necessarily be the amount ultimately paid to the Internal Revenue Service (IRS). Changes in tax liability assessments can be made after the original return is filed, either by the taxpayer on an amended return, by the IRS after examination, or by rulings of the U.S. tax courts after litigation.
- [5] An organization that was tax-exempt under Internal Revenue Code sections 501(c)(4), 501(c)(5), or 501(c)(6) was liable for the proxy tax on certain nondeductible lobbying and political expenditures if the organization failed to notify its members regarding their shares of dues to which nondeductible lobbying and political expenditures were allocable, or if the notice did not include the entire amount of dues that was allocable.
- [6] Organizations with unrelated business income tax liability may have been liable for the alternative minimum tax (AMT) on certain adjustments and tax preference items. In addition to reporting AMT on Form 990-T, tax-exempt trusts with AMT were required to attach Form 1041, Schedule I, *Alternative Minimum Tax*, and

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tax-exempt corporations with AMT were required to attach Form 4626 (*Alternative Minimum Tax--Corporations*).

- [7] Tax credits reported on Form 990-T may include the foreign tax credit, the general business credit, credit for prior-year minimum tax, and “other” credits, such as the possessions tax credit, nonconventional source fuel credit, and qualified electric vehicle credit.
- [8] The term “charitable” refers to tax-exempt organizations with purposes that are charitable, educational, scientific, literary, or religious in nature, or organizations that test for public safety or prevent cruelty to children or animals. The term also covers organizations that otherwise qualified for tax-exempt status under the Income Tax Regulations issued for Internal Revenue Code section 501(c)(3).
- [9] Industrial activities and groupings are compiled, based on the 1997 U.S. version of the North American Industrial Classification System (NAICS), which consists of 20 major industrial sectors, with 1,170 industries in the United States. See Executive Office of the President, Office

of Management and Budget, *North American Industry Classification System: United States, 1997*, Berman Press, Lanham, MD, 1998.

- [10] Prior to this issue of the *SOI Bulletin*, articles on unrelated business income tax returns contained the term “net operating loss carryover” in column headings in Table 7, included at the end of each article. To be more precise and to emphasize that the amount cited is only the deductible part of the carryover, this and future articles will contain the term “net operating loss deduction.”
- [11] Once this reporting anomaly was detected for the 1999 study, a check of SOI study data files for Tax Years 1991-1998 showed a similar reporting pattern.
- [12] For additional information on the Form 990 and Form 990-T integrated sample design, see Harte, James M. and Hilgert, Cecelia H., “Enriching One Sample While Improving Another: Linking Differently Stratified Samples of Documents Filed by Exempt Organizations,” *Statistics of Income: Turning Administrative Systems Into Information Systems*, 1993.

SOURCE: IRS, Statistics of Income Bulletin, Spring 2003, Publication 1136 (Revised 6-03).

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Appendix

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

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

Unrelated Business Income Tax Returns, 1999

Appendix

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

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

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

Unrelated Business Income Tax Returns, 1999

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 1999

[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 ³	Total tax ⁵	
			Number of returns	Amount	Number of returns ⁴	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All sections.....	42,151	7,722,135	41,927	6,834,850	33,532	887,284	1,484,921	20,438	421,746
220(e).....	--	--	--	--	--	--	--	--	--
401(a).....	699	302,100	681	69,629	650	232,472	234,510	613	61,291
408(e).....	8,708	64,230	8,676	34,270	7,609	29,959	33,944	5,906	10,159
408A.....	**	**	**	**	**	**	**	**	**
501(c)(2).....	327	73,056	327	76,991	244	-3,935	10,373	121	3,286
501(c)(3).....	11,614	4,002,204	11,510	4,052,661	9,136	-50,457	388,899	4,340	119,273
501(c)(4).....	1,574	285,507	1,573	287,279	1,114	-1,772	12,302	489	3,080
501(c)(5).....	2,342	228,689	2,341	221,259	1,784	7,431	24,826	870	6,604
501(c)(6).....	6,157	854,766	6,157	828,190	4,247	26,576	72,745	2,012	22,531
501(c)(7).....	6,655	530,949	6,592	449,175	5,692	81,774	112,779	4,396	26,322
501(c)(8).....	768	80,731	768	78,965	622	1,766	6,327	308	1,300
501(c)(9).....	666	1,063,153	663	507,618	393	555,535	564,208	318	162,695
501(c)(10).....	265	16,076	265	17,373	214	-1,297	403	*56	*71
501(c)(11).....	--	--	--	--	--	--	--	--	--
501(c)(12).....	215	36,877	215	35,263	155	1,614	5,883	77	1,329
501(c)(13).....	*52	*2,871	*52	*2,612	*52	*259	*306	*44	*51
501(c)(14).....	109	17,945	109	20,574	77	-2,628	1,391	46	348
501(c)(15).....	**	**	**	**	**	**	**	**	**
501(c)(16).....	--	--	--	--	--	--	--	--	--
501(c)(17).....	**	**	**	**	**	**	**	**	**
501(c)(18).....	**	**	**	**	**	**	**	**	**
501(c)(19).....	1,942	155,055	1,942	151,721	1,534	3,334	9,374	834	1,557
501(c)(21) ⁶	--	--	--	--	--	--	--	--	--
501(c)(22).....	**	**	**	**	**	**	**	**	**
501(c)(23).....	--	--	--	--	--	--	--	--	--
501(c)(24).....	**	**	**	**	**	**	**	**	**
501(c)(25).....	*17	*400	*17	*400	--	--	--	--	--
529(a).....	--	--	--	--	--	--	--	--	--
530(a).....	--	--	--	--	--	--	--	--	--

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

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

¹ Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was \$2.2 billion.

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

³ The terms "unrelated business taxable income (less deficit)" and "unrelated business taxable income" replace the terms "net income (less deficit)" and "net income (taxable profit)," respectively, which were used in previously published *SOI Bulletin* articles on unrelated business income tax returns. Only the terminology has changed; in the case of any of the four terms used to cite data in this and all previous years' articles, the source of the data is the Form 990-T line item named "Unrelated business taxable income." See footnote 3 in this article for an explanation of this change.

⁴ Excludes returns with unrelated business taxable income (less deficit) equal to zero.

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 any taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000-filing threshold, total proxy tax was \$3.4 million.

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

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

Unrelated Business Income Tax Returns, 1999

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 1999

[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 ¹²		Unrelated business taxable income (less deficit) ³		Unrelated business taxable income ³	Total tax ⁵	
			Number of returns	Amount	Number of returns ⁴	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total.....	42,151	7,722,135	41,927	6,834,850	33,532	887,284	1,484,921	20,438	421,746
\$1,000 under \$10,001 ⁶	17,781	69,478	17,591	68,064	13,941	1,414	20,351	9,813	3,571
\$10,001 under \$100,000 ⁶	16,216	591,297	16,211	583,126	13,017	8,171	108,587	7,182	20,788
\$100,000 under \$500,000.....	5,925	1,320,828	5,901	1,292,024	4,841	28,805	177,701	2,510	49,967
\$500,000 under \$1,000,000.....	1,080	750,986	1,078	714,819	837	36,168	97,017	458	29,938
\$1,000,000 under \$5,000,000.....	922	1,936,990	920	1,748,789	726	188,201	332,186	376	106,256
\$5,000,000 or more.....	226	3,052,554	226	2,428,028	170	624,526	749,080	99	211,226

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 \$2.2 billion.

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

³ The terms "unrelated business taxable income (less deficit)" and "unrelated business taxable income" replace the terms "net income (less deficit)" and "net income (taxable profit)," respectively, which were used in previously published *SOI Bulletin*: articles on unrelated business income tax returns. Only the terminology has changed; in the case of any of the four terms used to cite data in this and all previous years' articles, the source of the data is the Form 990-T line item named "Unrelated business taxable income." See footnote 3 in this article for an explanation of this change.

⁴ Excludes returns with unrelated business taxable income (less deficit) equal to zero.

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 any taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000-filing threshold, total proxy tax was \$3.4 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 (only a "partial" return was required) and all other Form 990-T filers (a more detailed "complete" return was required). Organizations with gross UBI below \$1,000 were not required to file Form 990-T.

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

Unrelated Business Income Tax Returns, 1999

Table 3.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Unrelated Business Taxable Income or Deficit, Tax Year 1999

[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) ³		Total tax ⁴	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total.....	42,151	7,722,135	41,927	6,834,850	33,532	887,284	20,438	421,746
Deficit.....	12,814	2,724,797	12,814	3,322,434	12,814	-597,637	39	578
Zero ⁵	8,619	1,568,081	8,619	1,568,081	--	--	166	986
\$1 under \$1,000.....	4,989	39,087	4,989	36,950	4,989	2,137	4,731	392
\$1,000 under \$10,000.....	9,319	264,559	9,128	225,681	9,319	38,878	9,167	6,511
\$10,000 under \$100,000.....	5,190	749,883	5,185	591,259	5,190	158,624	5,123	29,786
\$100,000 under \$500,000.....	914	636,026	890	444,732	914	191,294	907	61,558
\$500,000 under \$1,000,000.....	126	225,953	124	140,238	126	85,715	125	28,593
\$1,000,000 or more.....	180	1,513,748	178	505,475	180	1,008,273	179	293,342

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 \$2.2 billion.

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

³ The term "unrelated business taxable income (less deficit)" replaces the term "net income (less deficit)," which was used in previously published *SOI Bulletin* articles on unrelated business income tax returns. Only the terminology has changed; in the case of either of the two terms used to cite data in this and all previous years' articles, the source of the data is the Form 990-T line item named "Unrelated business taxable income." See footnote 3 in this article for an explanation of this change.

⁴ Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus any taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000 filing threshold, total proxy tax was \$3.4 million.

⁵ Includes "breakeven" returns with equal amounts of gross unrelated business income and total deductions.

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

Unrelated Business Income Tax Returns, 1999

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 1999

[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 ³	Total tax ⁴	
			Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ALL ENTITIES							
Total ⁵	20,718	3,429,257	20,494	1,944,335	1,484,921	20,233	420,182
\$1,000 under \$10,001..... ⁵	10,067	35,848	9,876	15,497	20,351	9,749	3,543
\$10,001 under \$100,000..... ⁵	7,207	239,650	7,202	131,063	108,587	7,119	20,353
\$100,000 under \$500,000.....	2,543	581,314	2,520	403,613	177,701	2,478	49,652
\$500,000 under \$1,000,000.....	451	313,093	449	216,076	97,017	442	29,733
\$1,000,000 under \$5,000,000.....	365	781,451	363	449,265	332,186	359	105,994
\$5,000,000 or more.....	85	1,477,900	85	728,820	749,080	85	210,906
TAX-EXEMPT CORPORATIONS							
Total	13,395	2,251,682	13,226	1,618,352	633,330	13,215	181,082
\$1,000 under \$10,001..... ⁵	3,988	18,410	3,829	7,346	11,064	3,955	1,695
\$10,001 under \$100,000..... ⁵	6,362	213,515	6,357	125,736	87,779	6,292	13,623
\$100,000 under \$500,000.....	2,308	527,381	2,306	397,085	130,297	2,245	33,039
\$500,000 under \$1,000,000.....	396	274,126	394	209,961	64,165	387	18,955
\$1,000,000 under \$5,000,000.....	288	611,214	287	428,256	182,958	282	60,210
\$5,000,000 or more.....	54	607,036	54	449,969	157,067	54	53,561
TAX-EXEMPT TRUSTS							
Total	7,322	1,177,574	7,268	325,984	851,591	7,018	239,100
\$1,000 under \$10,001..... ⁵	6,079	17,439	6,047	8,151	9,287	5,794	1,848
\$10,001 under \$100,000..... ⁵	845	26,135	845	5,328	20,807	828	6,730
\$100,000 under \$500,000.....	236	53,933	214	6,529	47,404	234	16,613
\$500,000 under \$1,000,000.....	55	38,967	55	6,115	32,852	55	10,779
\$1,000,000 under \$5,000,000.....	77	170,236	76	21,009	149,228	77	45,784
\$5,000,000 or more.....	31	870,864	31	278,852	592,013	31	157,345

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 unrelated business taxable income, cost of sales and services was \$810.6 million, of which \$805.8 million were attributable to tax-exempt corporations.

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

³ The term "unrelated business taxable income" replaces the term "net income (taxable profit)," which was used in previously published *SOI Bulletin* articles on unrelated business income tax returns. Only the terminology has changed; in the case of either of the two terms used to cite data in this and all previous years' articles, the source of the data is the Form 990-T line item named "Unrelated business taxable income." See footnote 3 in this article for an explanation of this change.

⁴ Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus any taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting positive unrelated business taxable income, total proxy tax was \$2.4 million, all of which was attributable to tax-exempt corporations.

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

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

Unrelated Business Income Tax Returns, 1999

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 1999

[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 ¹²		Unrelated business taxable income (less deficit) ³		Unrelated business taxable income ³	Total tax ⁵	
			Number of returns	Amount	Number of returns ⁴	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All activities and groupings.....	42,151	7,722,135	41,927	6,834,850	33,532	887,284	1,484,921	20,438	421,746
Agriculture, forestry, hunting, and fishing.....	333	21,618	333	23,174	238	-1,556	1,995	178	522
Mining.....	186	19,460	186	9,428	177	10,031	10,045	142	2,987
Utilities.....	53	29,563	53	25,231	43	4,332	6,197	*8	*2,020
Construction.....	65	6,255	65	3,782	*59	*2,474	*2,492	*57	*858
Manufacturing.....	291	53,351	287	55,568	208	-2,217	10,615	132	3,386
Wholesale trade.....	124	8,403	124	3,921	122	4,481	4,926	79	1,343
Retail trade.....	1,487	357,745	1,454	382,499	1,243	-24,754	16,831	496	4,381
Transportation and warehousing.....	110	7,253	110	7,312	102	-59	1,980	*48	*502
Information.....	2,840	428,752	2,840	424,800	2,125	3,952	36,174	558	11,178
Finance and insurance, total.....	14,406	2,165,854	14,242	1,180,705	11,934	985,148	1,032,910	10,261	291,225
Unrelated debt-financed activities, other than rental of real estate.....	1,869	257,381	1,804	94,887	1,774	162,493	171,007	1,638	51,951
Investment activities of Code section 501(c)(7), (9), and (17) organizations.....	3,742	1,227,957	3,708	627,605	2,980	600,352	609,698	2,770	172,088
Passive income activities with controlled organizations.....	459	136,466	458	117,942	392	18,524	33,282	333	8,794
Other finance and insurance.....	8,336	544,050	8,273	340,270	6,787	203,779	218,922	5,520	58,393
Real estate and rental and leasing, total.....	4,882	618,548	4,872	599,592	3,941	18,956	80,525	1,998	22,239
Rental of personal property.....	559	59,713	559	58,160	416	1,553	7,576	246	1,804
Other real estate and rental and leasing.....	4,324	558,834	4,314	541,432	3,524	17,403	72,949	1,752	20,435
Professional, scientific, and technical services..	6,790	1,458,404	6,788	1,471,810	4,539	-13,406	93,573	2,002	28,584
Management of companies and enterprises.....	32	40,478	32	3,987	29	36,492	36,518	26	12,637
Administrative and support and waste management and remediation services.....	689	187,806	689	194,260	524	-6,455	11,929	232	3,357
Educational services.....	223	141,548	223	155,295	168	-13,747	5,050	49	1,605
Healthcare and social assistance.....	1,223	964,298	1,212	1,063,152	1,045	-98,854	34,240	477	10,431
Arts, entertainment, and recreation.....	4,250	590,973	4,250	592,483	3,452	-1,510	39,160	2,005	8,163
Accommodation and food services.....	3,113	420,411	3,113	442,921	2,664	-22,510	35,799	1,088	9,333
Other services.....	575	109,018	574	111,191	504	-2,173	8,983	319	2,481
Exploited exempt activities.....	257	75,869	257	71,932	196	3,937	9,367	120	2,900
Not allocable.....	222	16,528	222	11,805	219	4,722	5,612	161	1,613

* 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 \$2.2 billion.

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

³ The terms "unrelated business taxable income (less deficit)" and "unrelated business taxable income" replace the terms "net income (less deficit)" and "net income (taxable profit)," respectively, which were used in previously published *SOI Bulletin* articles on unrelated business income tax returns. Only the terminology has changed; in the case of any of the four terms used to cite data in this and all previous years' articles, the source of the data is the Form 990-T line item named "Unrelated business taxable income." See footnote 3 in this article for an explanation of this change.

⁴ Excludes returns with unrelated business taxable income (less deficit) equal to zero.

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 any taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000-filing threshold, total proxy tax was \$3.4 million.

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

Unrelated Business Income Tax Returns, 1999

Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 1999

[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	42,151	7,722,135	15,874	3,439,282	1,043	680,956
\$1,000 under \$10,001 ²	17,781	69,478	2,785	10,611	255	629
\$10,001 or more, total ²³	24,369	7,652,656	13,089	3,428,671	788	680,327
\$10,001 under \$100,000.....	16,216	591,297	7,934	258,768	411	21,524
\$100,000 under \$500,000.....	5,925	1,320,828	3,733	706,879	187	30,730
\$500,000 under \$1,000,000.....	1,080	750,986	694	391,122	66	29,539
\$1,000,000 under \$5,000,000.....	922	1,936,990	589	936,475	88	125,820
\$5,000,000 or more.....	226	3,052,554	138	1,135,426	37	472,714

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	67	263	462	3,409	9,328	316,092
\$1,000 under \$10,001 ²	--	--	*180	*40	7,261	21,879
\$10,001 or more, total ²³	67	263	282	3,369	2,067	294,213
\$10,001 under \$100,000.....	*34	*71	165	877	1,377	26,557
\$100,000 under \$500,000.....	22	162	73	-823	360	40,411
\$500,000 under \$1,000,000.....	5	13	19	-58	100	18,947
\$1,000,000 under \$5,000,000.....	6	18	15	400	168	87,870
\$5,000,000 or more.....	--	--	10	2,973	62	120,429

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	4,855	197,601	3,225	339,503	6,056	841,455
\$1,000 under \$10,001 ²	1,959	8,352	816	2,150	2,435	8,415
\$10,001 or more, total ²³	2,897	189,249	2,408	337,353	3,622	833,040
\$10,001 under \$100,000.....	2,088	44,210	1,577	43,265	2,239	38,617
\$100,000 under \$500,000.....	594	51,996	614	82,910	1,045	71,961
\$500,000 under \$1,000,000.....	103	22,058	81	31,570	196	53,472
\$1,000,000 under \$5,000,000.....	93	43,419	110	108,614	110	130,066
\$5,000,000 or more.....	18	27,567	26	70,994	32	538,925

Footnotes at end of table.

Unrelated Business Income Tax Returns, 1999

Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 1999
--Continued

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

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) ¹ --Continued							
	Income from controlled organizations ⁷		Exploited exempt activity income, except advertising		Advertising income		Other income (less loss)	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)
Total	1,336	109,392	803	124,623	8,020	1,268,401	5,067	401,685
\$1,000 under \$10,001 ²	265	1,621	*73	*391	2,821	12,606	948	2,785
\$10,001 or more, total ^{2,3}	1,071	107,771	730	124,232	5,199	1,255,795	4,119	398,900
\$10,001 under \$100,000.....	656	9,908	368	8,053	3,225	95,068	2,657	44,522
\$100,000 under \$500,000.....	273	20,069	224	25,866	1,402	213,446	1,046	77,546
\$500,000 under \$1,000,000.....	49	6,200	64	18,559	269	139,158	191	40,432
\$1,000,000 under \$5,000,000.....	73	32,332	58	47,754	239	289,335	190	134,923
\$5,000,000 or more.....	20	39,262	17	23,999	64	518,788	35	101,476

*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 or more, total" reflect the different filing requirements for organizations with gross UBI of \$10,000 or less (only a "partial" return was required) and all other Form 990-T filers (a more detailed "complete" return was required). Organizations with gross UBI below \$1,000 were not required to file Form 990-T.

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

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

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

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

⁷ Annuities, interest, rents, and royalties.

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

Unrelated Business Income Tax Returns, 1999

Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income (UBI), Tax Year 1999

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

Size of gross unrelated business income (UBI)	All organizations			Organizations with gross unrelated business income (UBI) of \$1,000 under \$10,001 ³					
	Total number of returns	Total deductions ^{1,2}		Total deductions ^{2,4}		Net operating loss deduction		Specific deduction	
		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)
Total	42,151	41,927	6,834,850	17,591	68,064	1,241	2,194	11,779	11,036
\$1,000 under \$10,001 ³	17,781	17,591	68,064	17,591	68,064	1,241	2,194	11,779	11,036
\$10,001 under \$100,000 ³	16,216	16,211	583,126	--	--	--	--	--	--
\$100,000 under \$500,000.....	5,925	5,901	1,292,024	--	--	--	--	--	--
\$500,000 under \$1,000,000.....	1,080	1,078	714,819	--	--	--	--	--	--
\$1,000,000 under \$5,000,000.....	922	920	1,748,789	--	--	--	--	--	--
\$5,000,000 or more.....	226	226	2,428,028	--	--	--	--	--	--

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more ³								
	Total deductions ^{2,5}		Deductions directly connected with UBI						
	Number of returns	Amount	Total		Allocable to rental income ⁶		Allocable to unrelated debt-financed income ⁶		Allocable to investment income ^{6,7}
Number of returns			Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Total	24,336	6,766,786	22,570	5,982,298	1,353	111,699	2,195	304,983	1,152
\$1,000 under \$10,001 ³	--	--	--	--	--	--	--	--	--
\$10,001 under \$100,000 ³	16,211	583,126	14,789	548,234	981	25,096	1,444	45,903	573
\$100,000 under \$500,000.....	5,901	1,292,024	5,654	1,211,616	262	31,041	548	75,102	405
\$500,000 under \$1,000,000.....	1,078	714,819	1,032	643,465	44	11,999	75	26,340	94
\$1,000,000 under \$5,000,000.....	920	1,748,789	877	1,620,334	57	33,655	103	90,869	63
\$5,000,000 or more.....	226	2,428,028	218	1,958,648	10	9,909	24	66,769	17

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more ³ --Continued								
	Deductions directly connected with UBI--Continued								
	Allocable to investment income ^{6,7} --Continued	Allocable to income from controlled organizations ⁶		Allocable to exploited exempt activity income, except advertising ⁶		Direct advertising costs ⁶		Compensation of officers, directors, and trustees	
Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Total	55,355	435	60,052	653	110,689	4,795	907,964	1,964	43,388
\$1,000 under \$10,001 ³	--	--	--	--	--	--	--	--	--
\$10,001 under \$100,000 ³	5,405	214	4,524	317	6,309	2,949	75,641	1,013	9,596
\$100,000 under \$500,000.....	4,685	149	12,089	207	23,490	1,304	158,000	698	16,513
\$500,000 under \$1,000,000.....	2,757	23	3,865	61	16,911	259	98,700	123	4,822
\$1,000,000 under \$5,000,000.....	6,806	37	21,944	54	45,593	221	202,814	102	6,589
\$5,000,000 or more.....	35,702	12	17,631	14	18,386	62	372,810	28	5,868

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more ³ --Continued								
	Deductions directly connected with UBI--Continued								
	Salaries and wages		Repairs and maintenance		Bad debts		Interest		
Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount		
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	
Total	10,806	1,267,314	7,346	84,286	760	38,178	3,169	84,752	
\$1,000 under \$10,001 ³	--	--	--	--	--	--	--	--	
\$10,001 under \$100,000 ³	6,177	114,864	4,208	12,567	207	702	1,729	14,157	
\$100,000 under \$500,000.....	3,367	334,612	2,285	28,990	325	1,399	1,047	17,005	
\$500,000 under \$1,000,000.....	606	160,621	413	12,699	84	1,980	180	7,623	
\$1,000,000 under \$5,000,000.....	537	352,218	357	17,389	105	11,987	174	22,290	
\$5,000,000 or more.....	118	304,999	83	12,640	39	22,110	39	23,676	

Footnotes at end of table.

Unrelated Business Income Tax Returns, 1999

**Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income (UBI), Tax Year 1999
--Continued**

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

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more ³ --Continued							
	Deductions directly connected with UBI--Continued							
	Taxes and licenses paid deduction		Depreciation		Depletion		Contributions to deferred compensation plans	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)
Total	11,198	169,904	7,743	177,028	65	2,001	1,030	10,190
\$1,000 under \$10,001 ³	--	--	--	--	--	--	--	--
\$10,001 under \$100,000 ³	6,934	25,450	4,482	19,270	*45	*451	545	1,323
\$100,000 under \$500,000.....	3,270	70,219	2,314	51,277	*14	*231	320	1,538
\$500,000 under \$1,000,000.....	491	23,884	436	24,021	} *5	*1,320 {	80	936
\$1,000,000 under \$5,000,000.....	403	30,045	415	46,977			70	2,783
\$5,000,000 or more.....	100	20,306	96	35,483			14	3,610

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more ³ --Continued							
	Deductions directly connected with UBI--Continued							Deductions not directly connected with UBI
	Contributions to employee benefit programs		Net operating loss deduction		Other deductions		Total	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount		Number of returns
	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)
Total	4,913	158,160	3,272	150,336	14,873	2,246,020	13,503	784,487
\$1,000 under \$10,001 ³	--	--	--	--	--	--	--	--
\$10,001 under \$100,000 ³	2,248	11,566	2,035	13,813	9,154	161,599	9,080	34,891
\$100,000 under \$500,000.....	1,760	26,214	822	27,515	4,120	331,698	3,219	80,408
\$500,000 under \$1,000,000.....	414	18,232	187	19,849	774	208,061	595	71,354
\$1,000,000 under \$5,000,000.....	399	52,649	172	45,234	659	629,881	485	128,455
\$5,000,000 or more.....	93	49,499	55	43,925	166	914,782	124	469,380

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more ³ --Continued							
	Deductions not directly connected with UBI--Continued							
	Specific deduction		Contributions		Set-asides ⁷		Excess exempt expenses	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(52)	(53)	(54)	(55)	(56)	(57)	(58)	(59)
Total	11,184	10,775	1,677	40,104	460	447,373	2,452	286,235
\$1,000 under \$10,001 ³	--	--	--	--	--	--	--	--
\$10,001 under \$100,000 ³	7,711	7,380	1,066	4,539	248	4,875	1,367	18,098
\$100,000 under \$500,000.....	2,586	2,518	403	7,078	115	23,130	722	47,682
\$500,000 under \$1,000,000.....	449	442	86	12,544	50	26,503	160	31,865
\$1,000,000 under \$5,000,000.....	355	352	88	5,698	34	51,841	155	70,563
\$5,000,000 or more.....	83	83	34	10,245	13	341,025	48	118,027

* 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 \$2.2 billion.

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

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

⁴ Excludes \$37.1 million of cost of sales and services reported by organizations with gross UBI of \$10,000 or less. See footnote 1 for explanation.

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

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

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

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