Unrelated Business Income of Nonprofit Organizations: Highlights of 1995 and a Review of 1991-1995

by Margaret Riley

Nonprofit organizations that are granted Federal tax exemption based on their mission-related purposes are allowed, within certain limits, to generate income from "unrelated business activities," though the income from these activities is subject to taxation. About 3 percent of all organizations recognized as tax exempt under the Internal Revenue Code engaged in such non-mission-related activities for 1995, and they generated $6.3 billion of gross unrelated business income (UBI) [1].

Of the 36,394 nonprofit organizations that filed a Tax Year 1995 Form 990-T, *Exempt Organization Business Income Tax Return,* about half reported aggregate net income (taxable profit) totaling $0.9 billion, with the remainder reporting a combined deficit of $1.9 billion [2]. Consistent with the preceding 4 tax years, nonprofit organizations, as a group, reported total deductions for 1995 that exceeded total gross income. These deductions amounted to $7.3 billion.

The income tax on nonprofit organizations' unrelated business taxable profits for 1995 totaled $276.6 million. After adjustments for other taxes and certain credits were taken into account, these organizations incurred a total Federal income tax liability of $277.5 million [3].

Finances

Income and Deductions

Figure A , which contains selected financial data for Tax Years 1991 to 1995, shows that gross UBI increased by 17 percent between 1994 and 1995, while the number of returns filed increased by only 2 percent. Average gross income per return rose by 14 percent between these two years. The number of organizations reporting positive net income, or taxable profit, declined by 2 percent; returns without net income (zero taxable income or a deficit) increased by 7 percent. Fifty-six percent of all filers for 1995 were organizations with gross UBI above $10,000. These organizations had to fill out a complete Form 990-T, unlike smaller organizations with gross UBI of $10,000 or less, which were not required to report detailed income and expense items. The larger organizations accounted for nearly the entire amount, 99 percent, of gross UBI reported.

Within the major Form 990-T financial items shown in Figure A, the largest 5-year increase for nonprofit organizations engaged in unrelated business activities was in their income tax liability. The tax on unrelated business income rose 137 percent over the period, partly as a result of the 107-percent increase in taxable profits. These increases are analyzed in the following section on Taxes. Further analysis of organizations' net income (less deficit) is provided later in this section.

Figure B shows a distribution of Forms 990-T by size of gross UBI for 1995. A small number of organizations that reported large amounts of gross UBI were responsible for most of the total gross UBI reported for 1995. Organizations that had gross UBI of $500,000 or more were only 4 percent of the population of filers; however, together they reported 73 percent of total gross UBI (see Table 2 at the end of this article). In contrast, organizations that reported much smaller amounts of gross UBI, under $100,000, made up 82 percent of all filers but accounted for only 9 percent of all gross UBI reported.

Gross profit (less loss) from sales and services was, by far, the largest component of total gross UBI (see Table 6 at the end of this article). For 1995, this amounted to $3.2 billion, or 52 percent of total gross UBI. It is important to note that the costs associated with selling goods and performing services, which for 1995 were $1.7 billion, were subtracted from gross receipts (totaling $5.0 billion) in order to compute the amount of gross profit (less loss) included in total gross UBI. These costs, therefore, are not included in the $7.3 billion of total deductions reported on Form 990-T, but they may include many of the same types of expenses that are components of total deductions, such as salaries and wages, utilities, and depreciation.

Advertising income was the second largest income component reported, accounting for 16 percent of total gross UBI. Nonprofit "charitable" organizations, business leagues, chambers of commerce, and real estate boards together accounted for 85 percent of total advertising income [4]. These organizations often include, in their mission-related

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Figure A

Selected Financial Data from Exempt Organization Business Income Tax Returns, Tax Years 1991-1995

[Money amounts are in thousands of dollars]

Item	1991	1992	1993	1994	1995	Percentage change 1994-1995	Percentage change 1991-1995
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Number of returns, total	**32,690**	**31,122**	**32,638**	**35,657**	**36,394**	**+2.1**	**+11.3**
With net income (taxable profit)	14,384	14,690	15,067	18,588	18,157	-2.3	+26.2
Without net income (taxable profit) [1]	18,306	16,432	17,571	17,070	18,237	+6.8	-0.4
Gross unrelated business income	3,384,698	4,069,149	4,694,181	5,379,838	6,279,659	+16.7	+85.5
Total deductions	4,047,183	5,182,551	5,741,420	6,506,838	7,253,305	+11.5	+79.2
Net income (less deficit)	-662,487	-1,113,402	-1,047,239	-1,127,001	-973,648	+13.6	-47.0
Net income (taxable profit)	431,143	485,874	603,593	642,953	892,974	+38.9	+107.1
Deficit	1,093,630	1,599,276	1,650,831	1,769,954	1,866,621	+5.5	+70.7
Unrelated business income tax	116,605	132,353	180,046	191,492	276,562	+44.4	+137.2
Total income tax	116,933	132,378	181,437	195,191	277,481	+42.3	+137.3

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

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

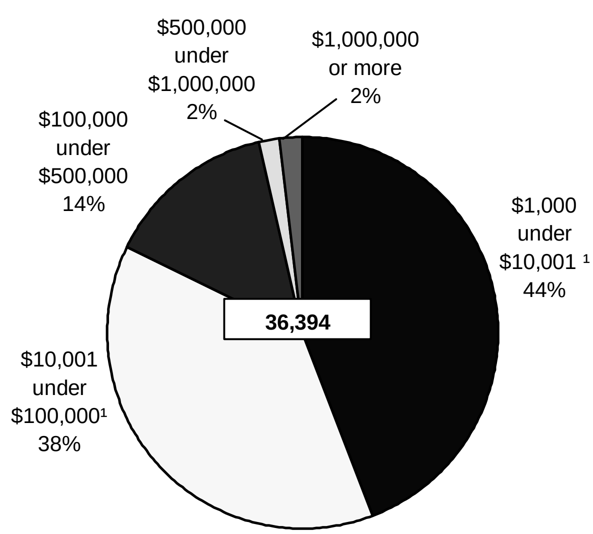
publications, paid advertisements that are considered "unrelated" and, therefore, taxed as unrelated business income.

Other than the Form 990-T item, "other deductions," which amounted to 32 percent of total deductions, the three largest deductions were for "net operating loss carryover" (21 percent), salaries and wages (13 percent), and direct advertising costs (11 percent) (see Table 7 at the end of this article) [5]. As noted earlier, nonprofit organizations reported aggregate deductions that exceeded aggregate gross income for each of the years 1991-95, so it is not surprising that the net operating loss carryover is typically a large percentage of total deductions. "Other deductions" is a catch-all category for any items not specifically required to be reported elsewhere on the tax return. It included deductions for such items as occupancy expenses; accounting, legal, and other professional fees; office supplies; equipment and other rental fees; payroll services; and travel and education costs.

Certain types of deductions are directly related to the generation of unrelated business income, while others are not. The items mentioned above, along with several others, are considered "directly connected" deductions. Four types are considered "not directly connected"; these are the "specific deduction" (generally $1,000), contributions paid, "set-asides," and "excess exempt expenses." Both categories of deductions are shown in Table 7, and definitions of the four "not directly connected" deductions, the net operating loss carryover, and "other deductions" are contained in the Explanation of Selected Terms section.

Figure B

Exempt Organization Business Income Tax Returns, by Size of Gross Unrelated Business Income (UBI), Tax Year 1995



[1] Organizations with gross UBI under $1,000 were not required to file a return. Organizations with gross UBI over $10,000 were required to fill out a more detailed tax return than other filers.

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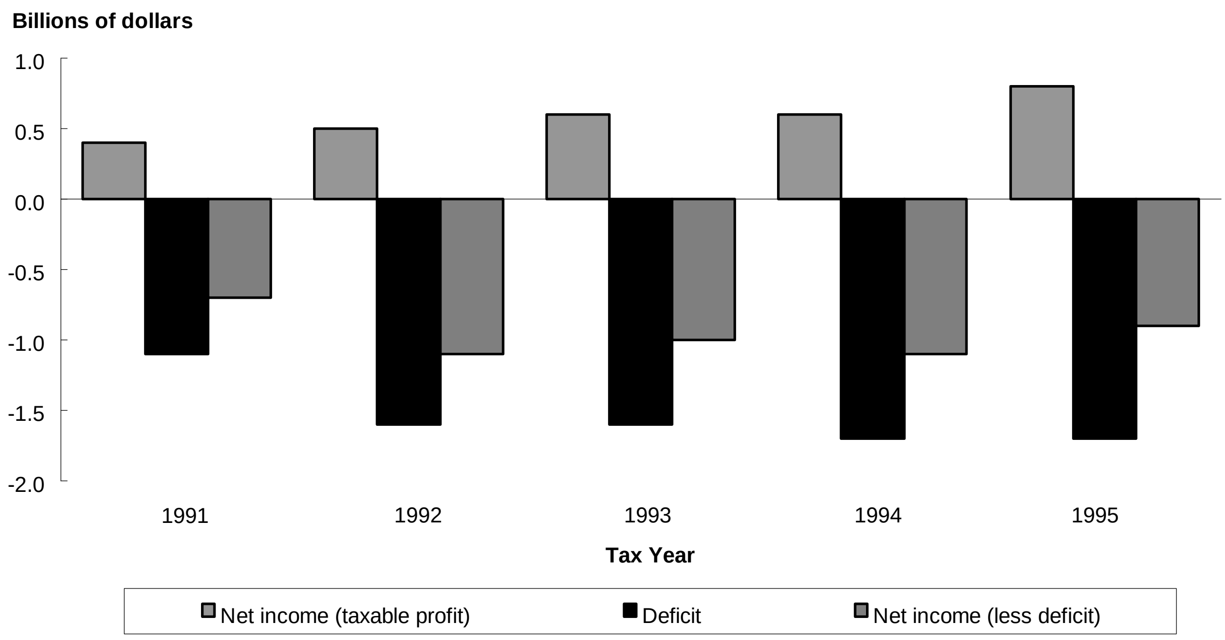
Using "net income (less deficit)" as a measure of an organization's profits, tax-exempt organizations engaging in unrelated business operations, as a whole, appear not to have been particularly profitable, sustaining aggregate losses every year during the 1991-95 period (see Figure C). While the computation of net income (less deficit) is not consistent across various forms of businesses because it is based on tax laws that are specific to each type of entity, it can, nonetheless, be used for a general comparison of each group's profits. Based on Federal tax return data collected for Tax Years 1991 to 1995, nonfarm sole proprietorships, partnerships, and corporations all reported positive amounts of aggregate net income (less deficit) each year during the period [6]. A comparison of these results with the annual aggregate unrelated business losses reported by nonprofit organizations raises questions about possible reasons for the difference and why organizations would continue to conduct business activities that incur losses year after year.

One possibility is that nonprofit organizations are primarily engaged in tax-exempt mission-related activities and have a certain amount of operational costs associated with conducting these activities, such as salaries and wages, building rents and mortgages, depreciation, utilities, equipment costs, and office expenses. When they also engage in unrelated business activities to supplement mission-related income, they often choose an enterprise that will allow them to use some, if not all, of the same resources, or "inputs," being used to carry on their mission-related activities. Within the boundaries of the tax laws, they can then shift a portion of the cost of these jointly used inputs from tax-exempt mission-related activities to taxable, unrelated activities and,

Figure C

Unrelated Business Net Income (Taxable Profit), Deficit, and Net Income (Less Deficit), in Constant Dollars, Tax Years 1991-1995 [1]



[1] Adjustments for inflation are based on the 1992 chain-type price index for Gross Domestic Product, computed and reported by the U. S. Department of Commerce, Bureau of Economic Analysis (BEA), *Survey of Current Business,* August 1998. The most recent updates of this price index can be found on BEA's Wide World Web Home Page, http://www.bea.doc.gov/bea/dn1.htm. See "Time Series Estimates," Table 3.

even though their unrelated enterprises may actually be generating a positive cash flow, their resulting unrelated business taxable income in many cases can be reduced to zero or less [7].

It is, perhaps, this cost-shifting factor that most notably distinguishes the business activities of nonprofit organizations from those of traditional profit-making entities. Some nonprofit organizations might not incur any new costs for facilities or staff required to conduct unrelated, profit-making activities and, while any real supplemental costs associated with these activities may be only marginal, the organizations are allowed to offset UBI with additional pre-existing (mission-related) expenses, which are prorated based on the ratio of unrelated business income to total income. Examples of the use of existing mission-related facilities for unrelated business activities would be a tax-exempt hospital that uses its laboratory and staff to provide testing services for non-hospital physicians or medical offices; a university that charges fees to public users (not faculty, staff, or students) of their parking lots, concert arenas, golf courses, or other facilities; and golf and country clubs that sell food and beverages to nonmembers.

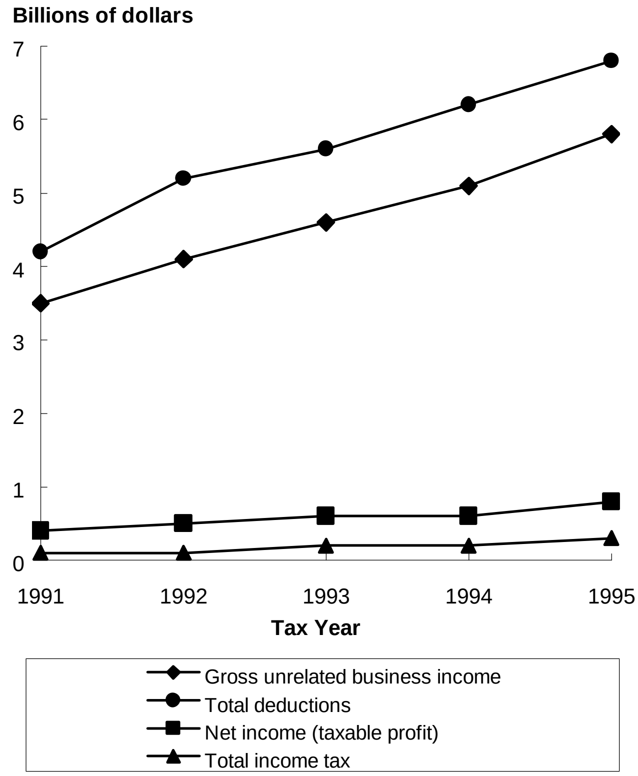
Taxes

In terms of constant dollars, Figure D shows that for Tax Years 1991 to 1995, total gross UBI and total deductions rose steadily throughout the period. Taxable profit and total income tax also rose from 1991 to 1995, but at much lower rates than income and deductions. Annual increases in total income tax were closely tied to increases in taxable profits. Changes in income tax rates for Tax Year 1993 also increased some organizations' total income tax liabilities for the latter 3 years of the period (discussed further, below). For each year in the 5-year period, aggregate total deductions ranged between 116 percent and 127 percent of aggregate total gross UBI (see Figure A for these items). Nonetheless, half of all tax-exempt organizations engaging in unrelated business activities for 1995 reported aggregate taxable profits totaling $893.0 million. These total profits were 14 percent of the aggregate gross UBI reported by all organizations for 1995.

As shown previously in Figure A, taxable profit increased 39 percent between 1994 and 1995, the largest year-to-year increase over the 1991-95 period. The associated unrelated business income tax (UBIT) rose 44 percent between 1994 and 1995. The UBIT statistics graphically presented in Figure E show that the share of total tax liability reported by tax-exempt trusts was smaller than the share reported by tax-exempt corporations for the first 2 years of the period, edged slightly higher than the corporate share for 1993, and then exceeded the corporate share for 1994 and 1995. While the tax liability of corporate entities remained fairly stable throughout the 5-year period, the trusts were principally responsible for the annual increases in total tax liability. Between Tax Years 1992 and 1993, the highest marginal tax rate for trusts increased 8.6 percentage points, while for

Figure D

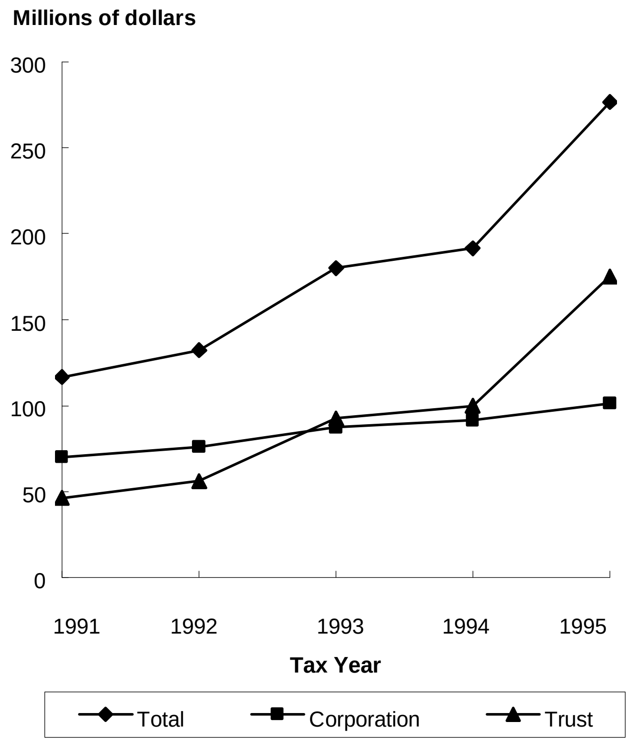
Selected Financial Data, in Constant Dollars, Tax Years 1991-1995 [1]



[1] Adjustments for inflation are based on the 1992 chain-type price index for Gross Domestic Product, computed and reported by the U. S. Department of Commerce, Bureau of Economic Analysis (BEA), *Survey of Current Business*, August 1998.   The most recent updates of this price index can be found on BEA's Wide World Web Home Page, http://www.bea.doc.gov/bea/dn1.htm. See "Time Series Estimates," Table 3.

FigureE

Unrelated Business Income Tax, by Type of Entity, Tax Years 1991-1995



corporations it increased only 1 percentage point. Furthermore, tax rate increases for 1993 affected all trusts with taxable profits over $1,500, but affected only those corporations with taxable profits over $10,000,000.

Figure F presents tabular unrelated business income tax data for the tax-exempt corporations and trusts for the same 5-year period. Of the two types of organizations, trusts consistently made up a much smaller proportion of all Form 990-T filers reporting UBIT liability, ranging from one-fifth to about one-third. For 1991, trusts comprised 20 percent of the organizations reporting UBIT and accounted for 40 percent of total UBIT. By 1995, they made up 33 percent of all organizations reporting UBIT and accounted for 63 percent of the tax reported. During the period shown, the tax liability shares of corporations and trusts contrasted sharply, when grouped by the amount of taxable profit reported. The amount of tax reported was greater, annually, for the corporate group reporting taxable profit of less than $1 million, compared to the corporate group reporting larger amounts of taxable profit. The opposite occurred for trusts. The group of trusts reporting taxable profit of $1 million or more was responsible for much higher amounts of UBIT liability than the group reporting smaller amounts of taxable profit. For both types of entities and for each year shown in Figure F, the vast majority of organizations fell within the group reporting taxable profit of less than $1 million.

This is explained by the different tax rates applied to corporations and trusts that have unrelated business taxable income (UBTI) of $1 million or more [8]. For example, for corporations with UBTI of $1,000,000 or more, there were four corporate taxable income brackets for Tax Year 1995 that had associated tax rates ranging from 34 percent to 35 percent (35 percent was the maximum rate, but there was an intermediate 38-percent rate applied to taxable income amounts between $15,000,000 and $18,333,333). For 1995, there was only one tax rate of 39.6 percent applied to trust taxable income of $1,000,000 or more.

The UBIT liability of tax-exempt trusts nearly quadrupled from 1991 to 1995. The tax-exempt corporations contributed comparatively less significantly to the 5-year rise in total UBIT liability, reporting UBIT for 1995 that was less than one-and-a-half times larger than the corporate UBIT reported for 1991. These disproportionate shares of UBIT liability can be accounted for by each type of organization's income composition and the effect of stock market performance during the 5-year period.

Corporate tax-exempt entities reported aggregate gross UBI of $5.5 billion for 1995, with the two items, advertising income and gross profit (less loss) from sales and services, accounting for 77 percent of the total. (These and other statistics for tax-exempt trusts and corporations cited in this section are based on unpublished study data.) The composition of the $0.8 billion of trust UBI was markedly different, with 87 percent of the total attributable to three items: capital gain net income, partnership income, and investment income. All three of these components of trust income are directly influenced by stock market performance, while the two corporate UBI components generally are not.

Corresponding with the peaks in the UBIT liabil-

Figure F

Returns with Unrelated Business Income Tax (UBIT) Liability: Number of Returns and UBIT, by Type of Entity and Size of Net Income (Taxable Profit), Tax Years 1991-1995

[Money amounts are in millions of dollars]

Type of enity and size of net income (taxable profit)	1991	1992	1993	1994	1995
	(1)	(2)	(3)	(4)	(5)
Total number of returns:					
All organizations	14,384	14,690	15,067	18,588	18,157
Corporations	11,539	11,718	11,835	12,084	12,210
Trusts	2,845	2,972	3,232	6,504	5,947
Total unrelated business income tax (UBIT):					
All organizations	116.6	132.4	180.0	191.5	276.6
Corporations	70.2	76.1	87.4	91.6	101.5
Trusts	46.4	56.2	92.7	99.9	175.1
UBIT of organizations with net income (taxable profit) of less than $1,000,000:					
All organizations	50.3	57.5	73.2	78.1	93.2
Corporations	37.8	43.6	51.0	55.6	61.8
Trusts	12.5	14.0	22.2	22.5	31.4
UBIT of organizations with net income (taxable profit) of $1,000,000 or more:					
All organizations	66.3	74.8	106.9	113.4	183.4
Corporations	32.4	32.5	36.3	36.0	39.6
Trusts	34.0	42.3	70.5	77.4	143.7

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

ity of tax-exempt trusts shown in Figure E for 1993 and 1995 were respective increases in rates of return on stock market investments that resulted in substantial increases in profits, especially for 1995. For that year, 89 percent of all tax-exempt trusts reported taxable profits, compared to only 41 percent of the tax-exempt corporations. An increase in the maximum tax rate applied to trust income, from the 1992 rate of 31 percent to the 1993 rate of 39.6 percent, also contributed to the increase in trusts' UBIT liability for 1993.

The effect that these organizations' contrasting primary income sources have on their respective taxation can be emphasized by comparing corporate and trust statistics for two major investment items reported on Form 990-T--"capital gain net income" and "investment income." Capital gains rose 105 percent for trusts and 123 percent for corporations between 1994 and 1995; however, capital gains comprised 32 percent of trust gross UBI, but less than 1 percent of corporate gross UBI. The situation is similar for investment income. While investment income increased 43 percent for trusts and was 34 percent of their gross income, it increased 28 percent for corporations but was only 2 percent of corporate gross UBI. The investment income disparity between corporations and trusts is primarily due to the unrelated business income tax laws. Most corporations, other than Internal Revenue Code section 501(c)(7) social and recreational clubs, generally are not taxed on investment income unless it is debt-financed. Section 501(c)(9) voluntary employees' beneficiary trusts and section 501(c)(17) supplemental unemployment benefit trusts may be taxed on all of their investment income if they are fully funded. (See the definitions of Investment Income (Less Loss) and Unrelated Debt-Financed Income in the Explanation of Selected Terms section of this article.)

The amount of deductions that each type of organization can use to offset its largest sources of income is another factor affecting taxation. The nonprofit trusts, which operate mainly as managers of investment income, are generally limited in the amount of expenses that are allowed to be deducted from investment income. As mentioned previously, nonprofit corporations' main sources of unrelated business income for 1995 were advertising and gross profit (less loss) from sales and services. Because of the more labor-intensive nature of these unrelated business operations, corporations can deduct comparatively larger amounts of directly-related expenses. For 1995, trusts filing Form 990-T accounted for 57 percent of the total of positive net income (taxable profit) reported. In addition, the average amount of taxable profit for the trusts was $85,420, compared to an average of $31,530 for the corporations.

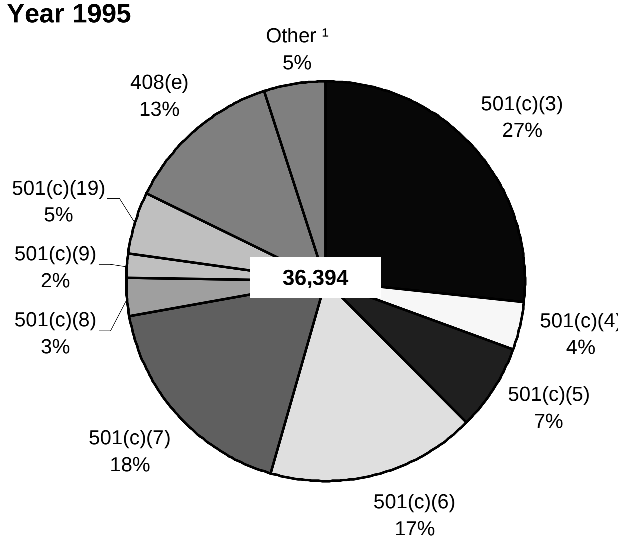
Organizations Classified by Internal Revenue Code Section

Figure G shows the distribution of returns filed, by the Internal Revenue Code section under which an organization received tax exemption. Twenty-seven percent of the filers were nonprofit charitable organizations that were tax-exempt under section 501(c)(3). Three-quarters of all returns were filed by four types of organizations: the nonprofit charitable organizations; social and recreational clubs exempt under section 501(c)(7); business leagues, chambers of commerce, and real estate boards exempt under section 501(c)(6); and fiduciary agents for Individual Retirement Arrangements (IRA's) exempt under section 408(e). (See the Appendix to this article for a description of the various types of tax-exempt organizations.)

As can be seen in Figure H, section 501(c)(3) charities accounted for 57 percent of total gross UBI for 1995, and section 501(c)(6) business leagues, chambers of commerce, and real estate boards accounted for an additional 12 percent. Together, five types of organizations, grouped by Internal Revenue Code section, reported nearly 90 percent of total gross income from unrelated business activities: the section 501(c)(3) and 501(c)(6) organizations mentioned above, plus civic leagues and social welfare organizations exempt under section 501(c)(4), social and recreational clubs exempt under section 501(c)(7), and voluntary employees' beneficiary associations exempt under section 501(c)(9). When compared to similar data compiled for 1991, the

Figure G

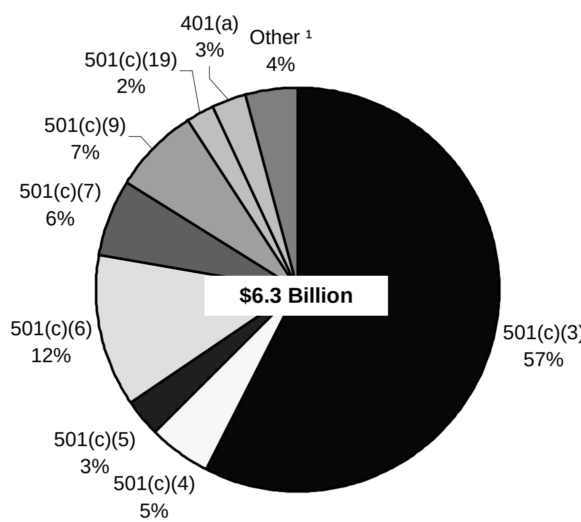
Exempt Organization Business Income Tax Returns, by Internal Revenue Code Section, Tax Year 1995



[1] Includes all organizations tax exempt under Code sections 501(c)(2)-(25) that are not shown elsewhere, as well as Code section 401(a) organizations.
NOTES: Detail may not add to 100 percent because of rounding. See the Appendix to this article for a description of the types of tax-exempt organizations.

Figure H

Gross Unrelated Business Income, by Internal Revenue Code Section, Tax Year 1995



[1] Includes all organizations tax exempt under Code sections 501(c)(2)-(25) that are not shown elsewhere, as well as Code section 408(e) organizations.
NOTES: Detail may not add to 100 percent because of rounding. See the Appendix to this article for a description of the types of tax-exempt organizations.

distribution patterns shown in Figures G and H remained practically unchanged for 1995.

Table 1 at the end of this article shows major financial data items for various types of organizations, in terms of the Internal Revenue Code section that describes them. The following discussion of these organizations uses data from Table 1, along with unpublished study data. In addition to accounting for the largest share of gross UBI reported, the charities were responsible for 64 percent of total deductions, 23 percent of positive net income (taxable profits), and 21 percent of total income tax. They comprised 17 percent of all organizations reporting taxable profits. Combined, the IRA fiduciary agents and the social and recreational clubs accounted, with nearly equal shares, for almost half of all organizations reporting taxable profits, but only 10 percent of the total amount of taxable profits and 6 percent of total income tax.

A large majority of the section 501(c)(9) voluntary employees' beneficiary associations, 92 percent, were organized as trusts. Even though these organizations made up only 2 percent of all Form 990-T filers reporting taxable profits and were responsible for only 7 percent of total gross UBI, they were liable for the largest percentage of total income tax reported by any Code section group. Along with section 401(a) pension, profit-sharing, and stock bonus plans, the two groups were liable for 58 percent of total income tax reported. The 401(a) plans represented only 6 percent of organizations reporting taxable profits and accounted for only 3 percent of total gross UBI.

One of the reasons these organizations' total income tax liability was so large for Tax Year 1995 was the extremely high rates of return earned on investments during that period. For both types of organizations, investments were their primary source of gross UBI. The positive influence of investment performance during nonprofit organizations' 1995 tax periods can be seen when comparing percentages of 1991 income tax liability to 1995 percentages. For 1991, the section 501(c)(3) organizations accounted for 35 percent of total income tax, while the section 501(c)(9) and 401(a) organizations together accounted for another 35 percent. For 1995, the tax liability shares for these organization groupings were 21 percent and 58 percent, respectively.

Usually, the section 501(c)(9) and 401(a) organizations can only offset gross UBI with comparatively small amounts of deductions, so their unrelated business taxable income is relatively high. Because their investment portfolios are typically overseen by only one or two trust managers, deductions for salaries and wages and other directly-connected expenses are quite small. In terms of contrast, the section 501(c)(3) charities had a 64-percent share of all deductions reported, as previously stated, compared to a joint 3-percent share reported by the section 501(c)(9) and 401(a) organizations.

Another reason why the voluntary employees' beneficiary associations took smaller deductions than most other types of organizations was that they were allowed to take as a deduction amounts of income that were set aside to provide for future employee benefits; but if these "set-asides" exceeded qualified asset account limits, as specified in Internal Revenue Code section 419A, then the excess was not allowed as a deduction from gross unrelated business income (see the definition of Set-Asides in the Explanation of Selected Terms section at the end of this article). In the case where a section 501(c)(9) association overfunded an employee welfare benefit plan, its investment income could not be set aside tax-free. It was taxable as unrelated business income.

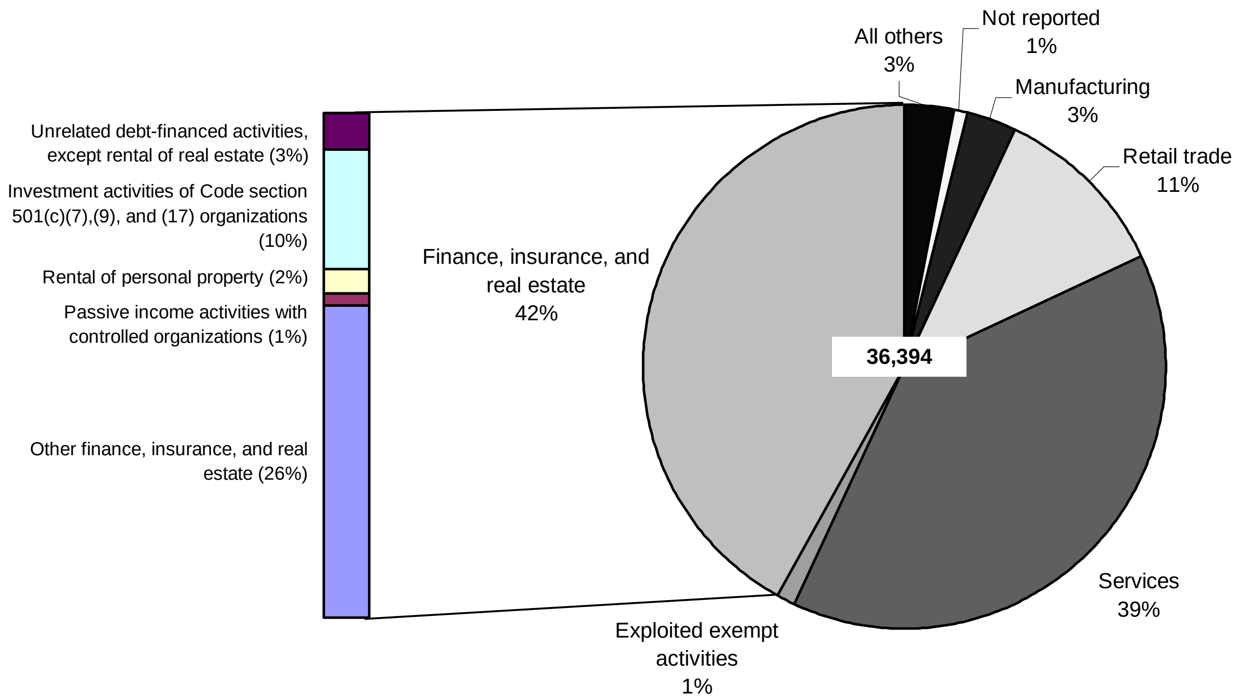
Primary Unrelated Business Activities

The discussion of unrelated business activities that follows takes into consideration only the primary (first) activity code of three possible codes reported on Form 990-T. If an organization was engaged in more than one unrelated business activity, it was instructed to list the code of the largest activity in terms of gross UBI first, and then the codes for the next two largest activities. Because it is not possible to distribute gross UBI according to each type of activity when more than one activity was reported (filers were not required to do this), the amount of gross UBI assigned to primary unrelated business activities discussed in this section is overstated for organizations that reported multiple activities.

As was the case with the distribution of organizations by the Internal Revenue Code section under which they received income tax exemption, presented in the previous section, the apportioning of organizations filing Forms 990-T by primary unrelated business activity for 1995, shown in Figure I, looks very similar to that for 1991, suggesting no

Figure I

Exempt Organization Business Income Tax Returns, by Primary Unrelated Business Activity or Industrial Grouping, Tax Year 1995



significant change over the 5-year period. The primary unrelated business activity reported on 95 percent of returns filed for 1995 fell within four major industrial groupings: services; finance, insurance, and real estate; retail trade; and manufacturing. For 1991, about 88 percent of returns filed had a primary activity within one of these four major industrial groupings [9]. For 1995, these industrial groupings were also responsible for 97 percent of total gross UBI, up 4 percentage points since 1991, with services producing $2.8 billion; finance, insurance, and real estate, $2.5 billion; retail trade, $0.6 billion; and manufacturing, $0.2 billion (see Table 5 for additional information on the major business activities or industrial classifications reported).

The industrial classifications from which Form 990-T filers were required to make a choice included 155 industry codes and 5 additional categories that were established specifically for exempt organizations engaging in unrelated business activities, to reflect particular provisions of the Internal Revenue Code [10]. These five classifications were unrelated Debt-Financed activities other than rental of real estate; investment activities of section 501(c)(7), (9), and (17) organizations; rental of personal property; passive income (generally, investment income) activities with controlled organizations; and “exploited exempt activities.” In Figure I and Table 5, the first four activities mentioned above are treated as part of the finance, insurance, and real estate division. The exploited exempt activities classification is treated separately in Figure I and Table 5 as one of the major industrial groupings [11].

Figure J shows selected primary unrelated business activities or industrial subgroups that fell within the four major industrial groupings that accounted for 97 percent of total aggregate gross UBI for 1995. The selected activities or subgroups included in the figure are those that had the largest percentages of gross UBI within their respective major industrial groupings [12].

Of the 14,305 organizations reporting various services as their primary unrelated activity, 57 percent provided business services, most of which was advertising (including printing). Income from business services contributed 42 percent to the total of

Figure J

Selected Primary Unrelated Business Activities or Industrial Subgroups Within the Four Largest Unrelated Business Income-Producing Industrial Groupings, Tax Year 1995

[Money amounts are in millions of dollars]

Major industrial grouping and selected primary unrelated business activity or industrial subgroup	Number of returns	Percentage of returns in industrial grouping	Percentage of all returns	Gross unrelated business income (UBI)	Percentage of industrial grouping gross UBI	Percentage of total gross UBI
	(1)	(2)	(3)	(4)	(5)	(6)
All activities and groupings	**36,394**	**N/A**	**100.0**	**6,279.7**	**N/A**	**100.0**
Manufacturing	**912**	**100.0**	**2.5**	**218.5**	**100.0**	**3.5**
Printing and publishing	742	81.4	2.0	210.3	96.2	3.3
All other manufacturing	170	18.6	0.5	8.2	3.8	0.1
Retail trade	**3,913**	**100.0**	**10.8**	**550.2**	**100.0**	**8.8**
Eating and drinking places	2,656	67.9	7.3	288.7	52.5	4.6
Miscellaneous retail [1]	1,131	28.9	3.1	226.8	41.2	3.6
All other retail trade [1]	128	3.3	0.4	34.7	6.3	0.6
Finance, insurance, and real estate	**15,368**	**100.0**	**42.2**	**2,461.0**	**100.0**	**39.2**
Insurance	1,402	9.1	3.9	1,052.5	42.8	16.8
Finance	10,195	66.3	28.0	991.3	40.3	15.8
Investment activities of Code section 501(c)(7),(9), and (17) organizations	3,703	24.1	10.2	568.8	23.1	9.1
Unrelated debt-financed activities other than rental of real estate	967	6.3	2.7	173.9	7.1	2.8
Holding and other investment companies, except bank holding companies	3,970	25.8	10.9	138.7	5.6	2.2
Real estate	3,772	24.5	10.4	417.1	16.9	6.6
Services	**14,305**	**100.0**	**39.3**	**2,838.9**	**100.0**	**45.2**
Business services	8,096	56.6	22.2	1,180.5	41.6	18.8
Advertising (including printing)	6,727	47.0	18.5	944.8	33.3	15.0
Health services	1,028	7.2	2.8	651.3	22.9	10.4
Medical laborabories	406	2.8	1.1	407.6	14.4	6.5
Amusement and recreation services	3,367	23.5	9.3	424.0	14.9	6.8
All other services	1,813	12.7	5.0	583.0	20.5	9.3
All other activities and groupings	**1,894**	**100.0**	**5.2**	**211.2**	**100.0**	**3.4**

[1] Miscellaneous retail is a specific subgroup of the retail trade major industrial grouping and includes mainly drugstores and proprietary stores, gift shops, book stores, and "miscellaneous retail stores." A small number of retail activities that were not part of the eating and drinking places or miscellaneous retail subgroups are included in "all other retail trade." These were mainly food stores, apparel and accessory stores, and "general merchandise" stores.

N/A - Not applicable.

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

gross UBI reported within the services industrial grouping and 19 percent to the total reported by all Form 990-T filers. The business service of advertising (including printing) was reported on more returns, overall, than any other single unrelated business activity, more than 18 percent of the total. In dollar terms, its nearly $1 billion share of total gross UBI, 15 percent, was also the largest for a single primary activity. The majority of organizations that indicated advertising as their primary unrelated business activity were business leagues and a variety of nonprofit charitable associations and societies.

The health services subgroup was responsible for 23 percent of gross UBI generated from services and 10 percent of that generated from all activities. Within this subgroup, the medical laboratory activity was reported most often and accounted for over 6 percent of total gross UBI reported by all organizations. Health services was the third most frequently reported activity, accounting for 7 percent of organizations in the services industrial grouping. Organizations reporting some type of health services as their primary unrelated business activity typically included hospitals, medical centers, and health care facilities.

Another 24 percent of the organizations within the services industrial grouping reported amusement and recreation services as their primary unrelated business activity. About 7 percent of total gross UBI was attributable to organizations classified in this subgroup. These types of activities were reported by a wide range of organizations: golf and country clubs; civic leagues; social welfare organizations; fraternal organizations; veterans' organizations; and nonprofit charitable societies, associations, and guilds. The latter group, nonprofit charitable organizations, mainly included educational institutions and athletic clubs.

Finance, insurance, and real estate enterprises were conducted as a primary unrelated business by 42 percent of the organizations filing Form 990-T for 1995. The 15,368 organizations in this major industrial grouping also accounted for 39 percent of the total gross UBI reported by all filers. Organizations engaging in insurance accounted for 43 percent of the $2.5 billion total of gross UBI reported by organizations that were part of the finance, insurance, and real estate industrial grouping, closely followed by those engaged in finance activities, accounting for 40 percent. These two groups of organizations were also responsible, respectively, for 17 percent and 16 percent of total aggregate gross UBI. Organizations involved in real estate activities accounted for another 17 percent of the finance, insurance, and real estate industrial grouping's gross UBI and 7 percent of total gross UBI reported by all organizations.

Most of the organizations that engaged in unrelated activities in the insurance industry were county farm bureaus and trade associations. Section 501(c)(3) and (c)(4) organizations administering health or life insurance plans made up less than 1 percent of the insurance subgroup, but they reported 87 percent of the gross UBI attributable to the group and 15 percent of the gross UBI reported by all Form 990-T filers.

The finance subgroup encompassed many different types of nonprofit organizations. Principally among them were the Internal Revenue Code section 501(c)(7), (9), and (17) organizations; nonprofit development corporations; trustees of pension, profit-sharing, and stock-bonus plans; trustees of Individual Retirement Arrangements; and an assortment of nonprofit charitable organizations, mainly private foundations, hospitals, medical centers, colleges, and universities. "Investment activities by section 501(c)(7), (9), and (17), organizations," a special category set up for Form 990-T filers, comprised 36 percent of returns filed and 57 percent of gross UBI reported within the finance subgroup. They also accounted for 9 percent of total aggregate gross UBI.

The majority of organizations that carried on real estate activities were nonprofit charitable organizations; however, large numbers of civic and business leagues, labor unions, real estate boards, social and recreational clubs; fraternal organizations, and trusts acting as fiduciary agents for retirement funds also reported real estate as their primary unrelated business activity.

Within retail trade, carried on by 3,913 exempt organizations, 68 percent of the primary activities reported were in the "eating and drinking places" subgroup, followed by "miscellaneous retail" activities, reported on 29 percent of the returns. Together, these two activity subgroups accounted for 94 percent of the gross UBI attributable to the retail trade industrial grouping, but only 8 percent of the total of gross UBI reported by all Form 990-T filers.

Organizations operating eating and drinking places as an unrelated activity were mainly hospitals, golf and country clubs, fraternal organizations, and veterans' organizations. The main types of retail establishments reported within the miscellaneous retail subgroup, ordered by the amount of gross UBI generated, were drugstores and proprietary stores; gift, novelty, and souvenir shops; "miscellaneous retail stores"; and book stores. Collectively, these four types of activities made up 97 percent of the primary activity classifications reported within the miscellaneous retail subgroup and produced 87 percent of the subgroup's gross UBI. A small number of primary activities were reported separately from the eating and drinking places subgroup and the miscellaneous retail subgroup and, therefore, are considered "other" retail trade in Figure J. These included food stores, apparel and accessory stores, and "general merchandise" stores.

Hospitals and medical centers were the most prevalent organizations reporting drugstores as a primary activity. Gift shops were reported as an unrelated business activity mainly by nonprofit associations, societies, museums, and performing arts centers. The operation of bookstores was the primary activity conducted by colleges, universities, and religious organizations.

There were 912 organizations that reported unrelated activities in the manufacturing division. The majority, 81 percent, could be categorized under printing and publishing. While 96 percent of the manufacturing division's total gross unrelated business income was attributable to the printing and publishing industrial subgroup, this subgroup accounted for only 3 percent of total gross UBI reported by all organizations and only 2 percent of all Form 990-T returns filed. Business leagues, real estate boards, and various types of nonprofit charitable organizations accounted for 66 percent of the printing and publishing carried on by tax-exempt organizations as their principal unrelated trade or business activity. Civic leagues, social welfare organizations, labor and agricultural organizations, and fraternal beneficiary organizations accounted for another 30 percent.

Figure K shows, for the years 1991-1995, the number of returns filed and the amount of gross UBI reported by the four major industrial groupings discussed above. The largest portion of gross UBI reported for each of the 5 years can be attributable to unrelated business activities in the services industrial grouping, followed by income generated within the major industrial grouping of finance, insurance, and real estate. Within these two classifications, nonprofits reported gross UBI for 1995 that was 84 percent of the aggregate total.

Over the 5-year period, the gross UBI of nonprofit organizations reporting finance, insurance, or real estate as their primary unrelated business activity grew by more than 116 percent, and the number of Forms 990-T they filed increased by 30 percent. The number of filers providing unrelated business services rose 19 percent, and the gross UBI attributable to them increased 88 percent. Income from manufacturing grew over 85 percent, but the number of returns filed reporting manufacturing as a primary activity dropped 39 percent. The 5-year growth of 49 percent in the gross UBI of organizations engaging primarily in retail trade activities was much smaller than that for manufacturing, but the number of returns filed with a primary activity of retail trade increased by 16 percent.

Figure K

Selected Primary Unrelated Business Activities or Industrial Groupings: Number of Returns and Gross Unrelated Business Income (UBI), Tax Years 1991-1995

[Money amounts are in millions of dollars]

Primary unrelated business activity or industrial grouping	1991		1992		1993		1994		1995		Percentage change, 1991-1995	
	Number of returns	Gross UBI	Number of returns	Gross UBI	Number of returns	Gross UBI	Number of returns	Gross UBI	Number of returns	Gross UBI	Number of returns	Gross UBI
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
All activities and groupings	**32,690**	**3,384.7**	**31,122**	**4,069.1**	**32,638**	**4,694.2**	**35,657**	**5,379.8**	**36,394**	**6,279.7**	**+11.3**	**+85.5**
Manufacturing	1,495	117.8	786	143.3	854	155.0	951	161.2	912	218.5	-39.0	+85.5
Retail trade	3,372	368.3	3,409	427.1	3,671	383.1	3,749	492.5	3,913	550.2	+16.0	+49.4
Finance, insurance, and real estate	11,862	1,136.9	12,159	1,119.9	12,191	1,505.3	12,855	1,850.0	15,368	2,461.0	+29.6	+116.5
Services	12,040	1,512.0	12,762	2,161.2	13,587	2,455.8	13,949	2,658.1	14,305	2,838.9	+18.8	+87.8
All other activities and groupings	3,921	249.8	2,006	217.7	2,335	194.9	4,153	218.1	1,896	211.2	-51.6	-15.5

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

Unrelated Business Income of Nonprofit Organizations: Highlights of 1995 and a Review of 1991-1995

Summary

Nonprofit organizations filing Form 990-T to report income from “unrelated business” activities, those that were not related to their nonprofit missions, grossed $6.3 billion of unrelated business income (UBI) for 1995. After taking deductions totaling $7.3 billion, the 36,394 organizations that filed Form 990-T reported an aggregate net income (less deficit) of $1 billion. About half of the organizations filing Form 990-T reported aggregate net income (taxable profit) of $0.9 billion, with an associated total income tax liability of $277.5 million.

Between 1991 and 1995, nonprofit organizations’ net income (taxable profit) grew by 107 percent and their total income tax liability rose 137 percent. As a group, however, these organizations sustained aggregate losses every year during the 5-year period, with total deductions exceeding total gross income each year. During that time, their gross unrelated business income and total deductions grew by 86 percent and 79 percent, respectively.

For 1995, about 27 percent of the organizations filing Form 990-T were nonprofit “charitable” organizations that were tax-exempt under Internal Revenue Code section 501(c)(3). Another 48 percent were business leagues, chambers of commerce, and real estate boards exempt under section 501(c)(6); social and recreational clubs exempt under section 501(c)(7); and fiduciary agents for Individual Retirement Arrangements (IRA’s) exempt under section 408(e). Together, the section 501(c)(3) and 501(c)(6) organizations reported nearly 70 percent of total gross UBI for 1995. The distribution of organizations by Internal Revenue Code section, in terms of the number of filers and the amount of gross UBI reported, did not change significantly from 1991 to 1995.

There also appears to be no significant change when comparing the apportioning of Forms 990-T by primary unrelated business activities reported for 1995 to that for 1991. Ninety-five percent of the primary business activities for 1995, and 88 percent for 1991, fell within four major industrial groupings--services; finance, insurance, and real estate; retail trade; and manufacturing [13]. The gross unrelated business income of organizations involved in finance, insurance, and real estate activities grew most rapidly over the 5-year period, when compared to other industrial groupings, increasing by more than 116 percent between 1991 and 1995.

Data Sources and Limitations

The statistics in this article are based on a sample of Tax Year 1995 Forms 990-T, *Exempt Organization Business Income Tax Return*. The Internal Revenue Service required organizations having accounting periods beginning in 1995 (and, therefore, ending between December 1995 and November 1996) to file a 1995 Form 990-T. The associated required filing period for Tax Year 1995 Forms 990-T generally was May 1996 to April 1997 (April 1996 to March 1997 for Internal Revenue Code section 401(a) and 408(e) trusts), but extensions of time to file beyond this period were granted to many organizations. Because the accounting periods of the organizations filing a 1995 return vary, the financial activities covered in this article span the period January 1995 through November 1996 (although the majority of activities occurred during Calendar Year 1995).

The population from which the 1995 Form 990-T sample was drawn consisted of Form 990-T records posted to the IRS Business Master File system during 1996 and 1997. The returns in the sample were stratified based on the size of gross unrelated business income (UBI). A sample of 7,278 returns was selected from a population of 36,736. After excluding returns that were selected for the sample but later rejected, the sample size was 7,231 and the estimated population size was 36,394. Rejected returns included those which had gross UBI below the $1,000 filing threshold, were filed only to claim a refund, or were filed for a part-year accounting period that began in a year other than 1995. (For example, a final return filed for the short period of January 1996 - June 1996 may have been computer-selected for the 1995 sample based on the criterion of having an ending accounting period that fit into the December 1995 to November 1996 range for a Tax Year 1995 return, but it would be rejected because, in actuality, it was a Tax Year 1996 return.)

The 1995 Form 990-T study design incorporated a special “integrated” sample to gather information on “related” (tax-exempt) and “unrelated” (taxable) income and expenses for organizations that filed both forms. Under this program, the Form 990-T sample included unrelated business income tax returns filed by any organizations whose Form 990 (*Return of Organization Exempt From Income Tax*) information returns were selected for either of two other Statistics of Income samples, one that included charities tax-exempt under section 501(c)(3), and another sample that included organizations tax-exempt under sections 501(c)(4) through 501(c)(9) [14].

Returns selected for the two Form 990 samples were a determining factor in the selection of returns that were included in the integrated portion of the Form 990-T sample. The Form 990-T sample was designed so that if a return was not initially selected, based on independent Form 990-T sampling criteria, it was subjected to further sampling based on a Forms 990/990-T matching process. Under this process, the Employer Identification Numbers (EIN's) of Form 990-T returns that were not initially selected for the Form 990-T sample were compared to the EIN's of returns selected for the two Form 990 SOI samples. When a match occurred, the Form 990-T was added to the independently selected Form 990-T sample. These specially matched returns, along with the independently selected Forms 990-T that also had counterparts in the Form 990 samples, formed the "integrated" portion of the Form 990-T sample.

Sampling rates ranged from a minimum of 2.6 percent (Form 990-T gross UBI was less than $20,000, with either no Form 990 match or a Form 990 match to a section code 501(c)(3) return with assets under $2,500,000) to a maximum of 100 percent (either Form 990-T gross UBI was $300,000 or more, or Form 990-T had any amount of gross UBI and matched to a Form 990 with assets of $10,000,000 or more) [15]. Other Forms 990/990-T matches within various ranges of gross UBI, assets, and Internal Revenue Code sections were selected at rates ranging from 4 percent to 40 percent.

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

Because the data are based on a sample, they are subject to sampling error. In order to use these statistics properly, the magnitude of the sampling error, measured by the coefficient of variation (CV), should be taken into account. Figure L 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 *SOI Bulletin*.

Figure L

Coefficients of Variation for Selected Items, Tax Year 1995

Size of gross unrelated business income	Gross unrelated business income	Total deductions	Net income (taxable profit)	Total income tax
	Coefficient of variation (percentages)			
	(1)	(2)	(3)	(4)
Total	**1.47**	**1.37**	**1.43**	**1.42**
$1,000 under $10,001 [1]	3.37	9.13	7.02	7.45
$10,001 under $100,000 [1]	1.62	4.97	5.68	6.46
$100,000 under $500,000	0.89	1.48	3.47	3.82
$500,000 or more	N/A	N/A	N/A	N/A

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

N/A - Not applicable.

Explanation of Selected Terms

Advertising Income.--Gross income realized by an 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 (each described in the Appendix to this article) 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 exempt under Internal Revenue Code sections 501(c)(7), (9), and (17)) were not taxed on net gains from the sale, exchange, or other disposition of property. However, net capital gains on sales of debt-financed property, certain gains on the cutting of timber (section 1231), and gains on sales of certain depreciable property (described in sections 1245, 1250, 1252, 1254, and 1255) were taken into account in computing capital gain net income. (See the explanation of Investment Income (Less Loss) for information regarding investment income of section 501(c)(7), (9), and (17) organizations.)

Contributions.--To the extent permissible under the Internal Revenue Code, a deduction was allowed for contributions or gifts actually paid within the tax year to, or for the use of, another entity that was a charitable or governmental organization described in Code section 170(c). Any unused contributions carried over from earlier years were also allowed. The contributions deduction was allowed whether or not directly connected with the carrying on of a trade or business.

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

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

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

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

Gross Profit (Less Loss) from Sales and Services.--This was the gross profit (less loss) from any unrelated trade or business regularly carried on that involved the sale of goods or performance of services. It did not include income from unrelated business activities that were required to be reported separately on any of the tax return 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 return schedule. Gross profit (less loss) from sales and services is computed as gross receipts from sales or services, less returns and allowances, minus cost of sales and services.

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

Income from Controlled Organizations.--When an exempt organization controls another organization (as described below), the gross annuities, interest, rents, and royalties from the controlled organization are included in the gross UBI of the controlling organization at a specified ratio, depending on whether the controlled organization is tax-exempt or not. For Tax Year 1995 "control" meant: (a) for a stock corporation, the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote, and ownership of at least 80 percent of the total number of shares of all other classes of stock of the corporation; or (b) for a nonstock organization, at least 80 percent of the directors or trustees of the organization were either representatives of, or directly or indirectly controlled by, a tax-exempt organization. The rules for debt-financed property did not apply to passive income from controlled organizations. (See the explanation of Unrelated Debt-Financed Income.)

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

Investment Income (Less Loss).--This item was reported only by organizations exempt under Internal Revenue Code sections 501(c)(7), (9), and (17) (each described in the Appendix to this article) 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 from a controlled organization (excluding dividends) 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. (Corporations were not allowed to deduct any excesses of capital losses over capital gains.) Trusts reported the net capital loss deduction on Form 990-T as a negative component of gross unrelated business income. Most of the trusts filing Form 990-T were Individual Retirement Arrangements (IRA's); employee pension, profit-sharing, or stock bonus plans; and employees' beneficiary associations providing for payment of life, sickness, health, or other benefits to members.

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

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

Net Operating Loss Carryover.--The net operating loss carryover (as described in Code section 172) was allowed as a deduction in computing unrelated business taxable income. However, the net operating loss carryback or carryover (allowed only to or from a tax year for which the organization was subject to tax on unrelated business income) was determined without taking into account any amount of exempt-function income or deductions that had been excluded from the computation of unrelated business taxable income. A "net operating loss" represented the excess of deductions over receipts for specified prior or future years for which an organization reported an overall deficit from its unrelated trade or business activities. The statistics in this article represent only the net operating loss carryover because carrybacks from future years would be reported 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 benefits fees; member support fees; commissions; returned contributions that were deducted in prior years; income from insurance activities that was not properly set aside in prior years; recoveries of bad debts; and refunds of State or local tax payments, if the payments were previously reported as a deduction.

Proxy Tax.--This was a tax on certain nondeductible lobbying and political expenditures paid or incurred after December 31, 1993, by organizations that were tax-exempt under Internal Revenue Code sections 501(c)(4), 501(c)(5), and 501(c)(6). If the organization failed to notify its members regarding their shares of dues to which nondeductible lobbying and political expenditures were allocable, or if the notice did not include the entire amount of dues that were allocable, then the proxy tax was imposed on the organization. It was computed as the aggregate amount of nondeductible lobbying expenditures that was not included in the notices sent to the organization's members, multiplied by 35 percent. The proxy tax was required to be reported on Form 990-T and was included in total income tax; however, there was no connection between the proxy tax and the taxation of income from an organization's unrelated business activities. For this reason, and because the SOI sample did not include returns with gross unrelated business income (UBI) below the $1,000 filing threshold, Forms 990-T filed solely to report the proxy tax (no UBI reported) were excluded from the SOI sample. Organizations whose returns were included in the SOI sample reported an aggregate $3.9 million of proxy tax. Based on an unpublished tabulation of data from the IRS Business Returns Transaction File, a total of $11.8 million of proxy tax was reported on 665 Forms 990-T for Tax Year 1995. It is estimated that about 60 percent of these 665 returns were filed solely to report the proxy tax and, thus, were excluded from the SOI sample.

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

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

Specific Deduction.--The specific deduction generally was a $1,000 deduction, considered "not directly connected" with gross unrelated business income, allowed to all organizations that had positive taxable income after all other types of deductions were taken. The specific deduction was $1,000 or the amount of positive taxable income, whichever was less.

Total Deductions.--Total Deductions included both deductions reported on the main part of Form 990-T and expense items reported on attached schedules. It excluded cost of sales and services ($1.7 billion for 1995), 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). Cost of sales and services was reported on Form 990-T as a lump-sum total, but may have included amounts attributable to 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 Income Tax.--Total income tax was unrelated business income tax less the foreign tax credit, general business credit, credit for prior-year minimum tax, and other allowable credits, plus the “proxy tax” on certain lobbying expenditures, the tax from recomputing certain prior-year credits (“recapture taxes”), the “alternative minimum tax,” and the “environmental tax.”

Unrelated Business Income.--This was income of a tax-exempt organization that was from a trade or business which was regularly carried on by the organization and which was not substantially related to the performance of the organization’s exempt purpose or function (other than that the organization needed the profits derived from the unrelated activity). The term “trade or business” generally comprised any activity carried on for the production of income from selling goods or performing services. Activities of producing or distributing goods or performing services from which gross income was derived did not lose their identity as trades or businesses merely because they were carried on within a larger aggregate of similar activities or within a larger complex of other endeavors that may, or may not, have been related to the exempt purposes of the organization.

Unrelated Business Income Tax.--This was the tax imposed on unrelated business net income (taxable profit). It was determined based on the regular corporate or trust income tax rates that were in effect for the 1995 Tax Year, as shown in the following schedules.

Tax Rates for Corporations

(Section 11 of the Internal Revenue Code)

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

(Section 1(e) of the Internal Revenue Code)

Amount of unrelated business taxable income is:

Over--	But not over--	Tax is:	Of the amount over--
$ 0	$1,500	15%	$0
1,500	3,700	$232.50 + 28%	1,500
3,700	5,600	834.50 + 31%	3,700
5,600	7,650	1,423.50 + 36%	5,600
7,650	--	2,161.50 + 39.6%	7,650

Unrelated Debt-Financed Income.--Gross income from investment property for which there was acquisition indebtedness outstanding at any time during the tax year was subject to the unrelated business income (UBI) tax. The percentage of investment income to be included as gross UBI was proportional to the ratio of average acquisition indebtedness to the average adjusted basis of the property. Various types of passive income (generally, investment income) were considered to be unrelated debt-financed income, but only if the income arose from property acquired or improved with borrowed funds and if the production of income was unrelated to the organization’s tax-exempt purpose. When any property held for the production of income by an organization was disposed of at a gain during the tax year, and there was acquisition indebtedness outstanding at any time during the 12-month period prior to the date of disposition, the property was considered debt-financed property, and the gain was treated as unrelated debt-financed income. Income from debt-financed property did not include rents from personal property (e.g., computers or furniture) leased with real property, certain passive income 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] This is based on a total of 1,162,960 exempt organizations reported in the *1997 Internal Revenue Service Data Book*, Publication 55B.

The total excludes Internal Revenue Code section 501(d) religious and apostolic organizations, farmers' cooperatives, and nonexempt charitable trusts treated as exempt organizations, none of which reports tax on Form 990-T. Also, the total is understated because it excludes churches, exempt under Code section 501(c)(3), which are not required to apply for recognition of tax exemption unless they desire to obtain an Internal Revenue Service (IRS) ruling. However, these churches are required to file Form 990-T if they have unrelated business income. Because of the understatement of the total number of exempt organizations, the proportion of all exempt organizations that filed Form 990-T may be lower than 3 percent.

[2] Organizations that are recognized as tax exempt under section 501(a) of the Internal Revenue Code, and described in Code sections 401(a), 408(e), and 501(c), must file a Federal income tax return (Form 990-T) if they received $1,000 or more of gross income from business activities that were considered unrelated to the purposes for which they received tax-exempt status. Code section 501(d) religious and apostolic organizations, farmers' cooperatives, and nonexempt charitable trusts treated as exempt organizations file tax forms other than Form 990-T. Returns filed by organizations with gross unrelated business income (UBI) below the $1,000 filing requirement threshold were excluded from the statistics presented in this article. Some of these returns were filed inadvertently; others were filed for a specific reason, such as to claim a refund of Form 1099 backup withholding that was withheld erroneously on interest or dividend payments because the payer did not realize that the payee was a tax-exempt organization.

[3] While the largest share of total income tax was the tax on unrelated business income, total income tax could have also included the "proxy tax" on certain lobbying expenditures, "recapture taxes" (such as from recomputation of prior-year investment or low-income housing credits), the "alternative minimum tax" (AMT), and the environmental tax (an excise tax levied on certain corporations, computed based on their "modified alternative minimum tax"). Also, the foreign tax credit, general business credit, prior-year minimum tax credit, and other credits (such as the U.S. possessions tax credit, nonconventional source fuel credit, and qualified electric vehicle credit) were subtracted from unrelated business income tax in computing total income tax. Total applied credits for 1995 were $3.4 million, and total additional taxes were $4.3 million.

The amount of additional taxes is understated because Forms 990-T filed solely to report the proxy tax (no unrelated business income was reported) were excluded from the SOI sample and, therefore, are not represented in these statistics. Based on returns in the SOI sample, the amount of the proxy tax included in total income tax was $3.9 million. This amount is attributable to organizations that had gross UBI above the $1,000 filing threshold and also reported the proxy tax. Based on an unpublished tabulation of data from the IRS Business Returns Transaction File, the total amount of proxy tax reported on all Forms 990-T filed for Tax Year 1995 was $11.8 million. This amount is attributable to 665 organizations, the majority of which filed Form 990-T only for the purpose of reporting the proxy tax. The proxy tax was required to be reported on Form 990-T and was included in total income tax; however, there was no connection between the proxy tax and the taxation of income from an organization's unrelated business activities. The proxy tax is defined in the Explanation of Selected Terms section of this article.

[4] The term "charitable" refers to tax-exempt organizations with purposes that are charitable, educational, scientific, literary, or religious in nature, and also those organizations engaged in activities which foster national or international amateur sports competition, prevent cruelty to children or animals, or test for public safety.

[5] These percentages are based on deductions reported only by organizations with gross unrelated business income (UBI) over $10,000. Organizations with UBI between $1,000 (the filing threshold) and $10,000 were required to

report only a total for their deductions (except for the specific deduction and net operating loss carryover, which all organizations reported separately). Organizations with gross UBI over $10,000 were required to report each deduction item separately, as shown in Table 7 at the end of this article. Additional deductions may be taken as "cost of sales and services," which are not included in total deductions on Form 990-T. For further information, see the definition of Total Deductions in the Explanation of Selected Terms section of this article.

[6] For historical tax return data on net income (less deficit), and other financial items, reported by nonfarm sole proprietorships, partnerships, and corporations, see *Statistics of Income Bulletin*, Spring 1998, Volume 17, Number 4, Tables 10, 11, and 13, respectively, in the "Selected Historical and Other Data" section, pp. 212-213 and 215-216.

[7] Resource allocation and other factors affecting nonprofit organizations' choices regarding involvement in unrelated business activities are thoroughly examined in Cordes, Joseph J. and Weisbrod, Burton A., "Differential Taxation of Nonprofits and the Commercialization of Nonprofit Revenues," *Journal of Policy Analysis and Management*, Spring 1998, Volume 17, Number 2, pp. 195-214.

[8] The unrelated business income tax for nonprofit corporations was determined based on the regular corporate income tax rates in effect for Tax Year 1995. Nonprofit trusts were generally taxed at the regular individual income tax rates established for estates and trusts for Tax Year 1995. 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.

[9] One factor contributing to the rise in the number of returns within these four major industrial groupings was that the number of returns in the category, "Not reported," fell from 7 percent for 1991 to 1 percent for 1995. Better research methods were employed for the 1995 study to determine a primary activity code for organizations that did not provide the information on Form 990-T. Many returns that would have been in the "Not reported" category using the 1991 study techniques were classified in one of the specific categories for 1995.

[10] The total of 160 industry classifications were combined to form the 10 major groupings shown in Table 5. See Office of Management and Budget, *Standard Industrial Classification Manual*, 1987, which lists all of the 4-digit industry codes used by Form 990-T filers for 1995, except for the five additional categories that reflected certain provisions of the Internal Revenue Code pertaining to exempt organizations.

[11] When an exempt organization commercially "exploits" the goodwill or other intangibles that are created by its exempt activities, and the commercial activities do not contribute significantly to the accomplishment of its exempt-purpose functions, the income generated by the commercial activities is considered "exploited exempt activity income" and is subject to the UBI tax. Examples of exploited exempt activities would be product endorsements and the sale of commercial advertising in a publication that is printed to promote the exempt purpose of an organization. (See the definitions of Advertising Income and Exploited Exempt Activity Income in the Explanation of Selected Terms section.)

[12] Portions of the data in this section on industry subgroups, particularly the types of organizations included in the subgroups, are from unpublished Statistics of Income tabulations.

[13] Improved research methods used to assign codes for primary activities when they were not reported on Form 990-T are partly responsible for this increase between 1991 and 1995. See footnote 9, above.

[14] For the most recent Form 990 annual data on organizations tax-exempt under Internal

Revenue Code sections 501(c)(3) (excluding private foundations and most religious organizations) through 501(c)(9), see Hilgert, Cecelia and Whitten, Melissa, "Charities and Other Tax-Exempt Organizations, 1995," *Statistics of Income Bulletin*, Winter 1998-1999, Volume 18, Number 3. Private foundations, tax exempt under Code section 501(c)(3), are required to file Form 990-PF (*Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation*), rather than Form 990. Private foundations were required to report taxable income on Form 990-T, but this type of organization was not included in the integrated sample design. "Nonexempt charitable trusts" (described in Code section 4947(a)(1)) that filed the Form 990-PF information return for 1995 were required to report taxable income on Form 1041, *U.S. Income Tax Return for Estates and Trusts*, not Form 990-T. For the most recent annual data on private foundations, see Arnsberger, Paul, "Private Foundations and Charitable Trusts, 1995," *Statistics of Income Bulletin*, Winter 1998-1999, Volume 18, Number 3. Also recently published is an article containing a 20-year review of the finances of tax-exempt organizations filing Forms 990, 990-PF, and 990-T. See Meckstroth, Alicia and Arnsberger, Paul, "A 20-Year Review of the Nonprofit Sector, 1975-1995," *Statistics of Income Bulletin*, Fall 1998, Volume 18, Number 2.

[15] 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 1999

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
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	Fiduciary agent for retirement funds
501(c)(2)	Title-holding corporations for exempt organizations	Holding title to property for exempt organizations
(3)	Religious, educational, charitable, scientific, or literary organizations; testing for public safety organizations. Also, organizations preventing cruelty to children or animals, or fostering national or international amateur sports competition	Activities of a nature implied by the description of the class of organization
(4)	Civic leagues, social welfare organizations, and local associations of employees	Promotion of community welfare and activities from which net earnings are devoted to charitable, educational, or recreational purposes
(5)	Labor, agricultural, and horticultural organizations	Educational or instructive groups whose purpose is to improve conditions of work, products, and efficiency
(6)	Business leagues, chambers of commerce, real estate boards, and like organizations	Improving conditions in one or more lines of business
(7)	Social and recreational clubs	Pleasure, recreation, and social activities
(8)	Fraternal beneficiary societies and associations	Lodge providing for payment of life, health, accident, or other 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 benefits to members
(10)	Domestic fraternal societies and associations	Lodges, societies, or associations devoting their net earnings to charitable, fraternal, and other specified purposes, without life, health, or accident benefits to members
(11)	Teachers' retirement fund associations	Fiduciary association providing for payment of retirement benefits
(12)	Benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, and like organizations	Activities of a mutually beneficial nature implied by the description of the class of organization
(13)	Cemetery companies	Arranging for burials and incidental related activities
(14)	State-chartered credit unions and mutual reserve funds	Providing loans to members

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)(15)	Mutual insurance companies or associations other than life, if written premiums for the year do not exceed $350,000	Providing insurance to members, substantially at cost
(16)	Corporations organized to finance crop operations	Financing crop operations in conjunction with activities of a marketing or purchasing association
(17)	Supplemental unemployment benefit trusts	Fiduciary agent for payment of supplemental unemployment compensation benefits
(18)	Employee-funded pension trusts (created before June 25, 1959)	Providing for payments of benefits under a pension plan funded by employees
(19)	Posts or organizations of past or present members of the armed forces	Activities implied by the nature of the organization
(21)	Black lung benefit trusts	Created by coal mine operators to satisfy their liability for disability or death due to black lung disease
(22)	Withdrawal liability payment funds	Providing funds to meet the liability of employers withdrawing from a multi-employer pension fund
(23)	Associations of past and present members of the armed forces founded before 1880	Providing insurance and other benefits to veterans or their dependents
(24)	Trusts described in section 4049 of the Employee Retirement Income Security Act of 1974	Providing funds for employee retirement income
(25)	Title-holding corporations or trusts with no more than 35 shareholders or beneficiaries and only one class of stock or beneficial interest	Acquiring real property and remitting all income earned from such property to one or more exempt organizations; pension, profit-sharing, or stock bonus plans; or governmental units

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

Table 1.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Net Income (Less Deficit), Deficit, and Total Income Tax, by Internal Revenue Code Section Describing Type of Tax-Exempt Organization, Tax Year 1995

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

Internal Revenue Code section	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income (less deficit)		Deficit	Total income tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All sections	**36,394**	**6,279,659**	**36,229**	**7,253,305**	**31,529**	**-973,648**	**-1,866,621**	**18,243**	**277,481**
401(a)	1,136	212,707	1,136	47,372	1,073	165,336	-16,287	963	61,173
408(e)	4,642	28,855	4,597	26,111	4,560	2,744	-10,819	4,390	3,882
501(c)(2)	217	42,160	217	78,400	213	-36,239	-38,731	107	679
501(c)(3)	9,903	3,583,259	9,894	4,625,367	8,539	-1,042,108	-1,244,149	3,187	59,486
501(c)(4)	1,377	307,193	1,377	356,509	1,107	-49,317	-63,711	313	3,790
501(c)(5)	2,471	203,753	2,430	291,615	1,926	-87,862	-110,614	935	5,951
501(c)(6)	6,103	741,791	6,103	900,362	4,927	-158,571	-218,693	2,190	19,279
501(c)(7)	6,553	372,862	6,502	378,348	5,765	-5,486	-76,725	4,491	13,977
501(c)(8)	1,081	58,186	1,081	86,589	1,001	-28,402	-33,714	469	867
501(c)(9)	694	466,634	685	184,125	494	282,509	-9,241	436	99,772
501(c)(10)	256	10,593	256	13,090	215	-2,497	-3,549	*108	*158
501(c)(11)	--	--	--	--	--	--	--	--	--
501(c)(12)	136	17,530	136	19,710	135	-2,180	-6,273	39	1,136
501(c)(13)	*32	*2,210	*32	*2,112	*11	*98	*-22	*4	*18
501(c)(14)	*72	*10,294	*72	*12,839	*72	*-2,545	*-2,887	*63	*60
501(c)(15)	**	**	**	**	**	**	**	**	**
501(c)(16)	--	--	--	--	--	--	--	--	--
501(c)(17)	**	**	**	**	**	**	**	**	**
501(c)(18)	--	--	--	--	--	--	--	--	--
501(c)(19)	1,667	118,205	1,656	142,631	1,438	-24,426	-30,976	499	1,302
501(c)(21) [5]	--	--	--	--	--	--	--	--	--
501(c)(22)	--	--	--	--	--	--	--	--	--
501(c)(23)	**	**	**	**	**	**	**	**	**
501(c)(24)	--	--	--	--	--	--	--	--	--
501(c)(25)	*49	*16,945	*49	*3,267	*49	*13,678	*-28	*48	*5,333

*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 $1.7 billion.

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

[3] Excludes returns with net income (less deficit) equal to zero.

[4] Total income tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus taxes from recapture of certain prior-year credits, the "alternative minimum tax," the environmental 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 income tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI, total proxy tax was $3.9 million.

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

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

Table 2.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Net Income (Less Deficit), Deficit, and Total Income Tax, by Size of Gross UBI, Tax Year 1995

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

Size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income (less deficit)		Deficit	Total income tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**36,394**	**6,279,659**	**36,229**	**7,253,305**	**31,529**	**-973,648**	**-1,866,621**	**18,243**	**277,481**
$1,000 under $10,001 [5]	15,997	62,731	15,855	97,339	13,638	-34,609	-52,249	9,203	3,326
$10,001 under $100,000 [5]	13,665	520,430	13,655	735,491	11,857	-215,061	-310,933	6,306	19,118
$100,000 under $500,000	5,029	1,083,496	5,018	1,480,745	4,520	-397,249	-517,737	2,054	33,267
$500,000 under $1,000,000	856	596,065	855	762,043	761	-165,979	-229,782	352	20,425
$1,000,000 under $5,000,000	710	1,411,338	709	1,783,679	631	-372,341	-520,975	263	51,348
$5,000,000 or more	137	2,605,599	137	2,394,009	123	211,590	-234,945	65	149,998

[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 $1.7 billion.

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

[3] Excludes returns with net income (less deficit) equal to zero.

[4] Total income tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus taxes from recapture of certain prior-year credits, the "alternative minimum tax," the environmental 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 income tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI, total proxy tax was $3.9 million.

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

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

Table 3.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Net Income (Less Deficit), Deficit, and Total Income Tax, by Size of Net Income (Taxable Profit) or Deficit, Tax Year 1995

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

Size of net income (taxable profit) or deficit	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income (less deficit)		Deficit	Total income tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**36,394**	**6,279,659**	**36,229**	**7,253,305**	**31,529**	**-973,648**	**-1,866,621**	**18,243**	**277,481**
Deficit	13,373	2,557,634	13,373	4,424,256	13,373	-1,866,621	-1,866,621	283	1,771
Zero [5]	4,864	624,534	4,864	624,534	--	--	--	72	313
$1 under $1,000	4,637	36,084	4,637	33,832	4,637	2,251	--	4,537	329
$1,000 under $10,000	8,162	228,462	8,019	198,065	8,162	30,396	--	8,046	5,272
$10,000 under $100,000	4,589	639,895	4,579	501,339	4,589	138,555	--	4,543	26,726
$100,000 under $500,000	585	384,865	575	263,792	585	121,072	--	582	40,329
$500,000 under $1,000,000	92	139,207	91	74,475	92	64,731	--	88	21,713
$1,000,000 or more	92	1,668,979	91	1,133,012	92	535,968	--	92	181,029

[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 $1.7 billion.

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

[3] Excludes returns with net income (less deficit) equal to zero.

[4] Total income tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus taxes from recapture of certain prior-year credits, the "alternative minimum tax," the environmental 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 income tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI, total proxy tax was $3.9 million.

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

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

Table 4.--Returns with Positive Net Income (Taxable Profit): Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Net Income (Taxable Profit), and Total Income Tax, by Size of Gross UBI, Tax Year 1995

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

Size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income (taxable profit)		Total income tax [3]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	**18,157**	**3,097,490**	**17,992**	**2,204,515**	**18,157**	**892,974**	**17,888**	**275,397**
$1,000 under $10,001 [4]	9,294	33,483	9,152	15,842	9,294	17,640	9,150	3,261
$10,001 under $100,000 [4]	6,175	224,199	6,166	128,326	6,175	95,872	6,085	18,306
$100,000 under $500,000	2,039	435,510	2,028	315,021	2,039	120,489	2,007	32,850
$500,000 under $1,000,000	344	238,950	343	175,146	344	63,803	342	20,311
$1,000,000 under $5,000,000	248	471,817	247	323,183	248	148,634	248	51,197
$5,000,000 or more	57	1,693,531	57	1,246,997	57	446,535	57	149,471

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For exempt organizations reporting net income (taxable profit), cost of sales and services was $675.1 million.

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

[3] Total income tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus taxes from recapture of certain prior-year credits, the "alternative minimum tax," the environmental 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 income tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting positive net income, total proxy tax was $2.2 million.

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

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

Table 5.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Net Income (Less Deficit), Deficit, and Total Income Tax, by Primary Unrelated Business Activity or Industrial Grouping, Tax Year 1995

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

Primary unrelated business activity or industrial grouping	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income (less deficit)		Deficit	Total income tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All activities and groupings	**36,394**	**6,279,659**	**36,229**	**7,253,305**	**31,529**	**-973,648**	**-1,866,621**	**18,243**	**277,481**
Agriculture, forestry, and fishing	394	21,400	394	50,432	305	-29,032	-31,606	102	728
Mining	171	9,526	171	17,571	146	-8,045	-10,325	132	495
Construction	*24	*1,484	*24	*633	*24	*851	*-3	*23	*319
Manufacturing	912	218,475	912	263,310	733	-44,835	-81,529	251	12,297
Transportation and public utilities	445	102,082	445	202,570	386	-100,488	-105,790	157	1,622
Wholesale trade	89	7,683	89	15,111	65	-7,428	-8,995	*26	*353
Retail trade	3,913	550,153	3,913	762,224	3,571	-212,072	-263,394	1,498	14,314
Finance, insurance, and real estate, total	15,368	2,460,953	15,252	2,157,240	13,832	303,713	-331,008	10,800	203,140
Unrelated debt-financed activities, except rental of real estate	967	173,875	952	139,710	923	34,165	-12,213	801	15,007
Investment activities of Code section 501(c)(7), (9), and (17) organizations	3,703	568,790	3,659	266,949	3,087	301,841	-8,550	2,908	100,885
Rental of personal property	877	46,041	877	76,765	828	-30,724	-36,041	419	1,090
Passive income activities with controlled organizations	432	29,133	431	32,180	428	-3,047	-13,361	310	1,883
Other finance, insurance, and real estate	9,389	1,643,114	9,333	1,641,636	8,566	1,478	-260,843	6,362	84,275
Services	14,305	2,838,887	14,300	3,702,516	11,857	-863,630	-1,013,570	4,920	42,157
Exploited exempt activities	328	57,132	328	69,168	221	-12,036	-16,637	125	1,101
Not allocable	444	11,883	402	12,529	389	-646	-3,764	210	957

*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 $1.7 billion.

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

[3] Excludes returns with net income (less deficit) equal to zero.

[4] Total income tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus taxes from recapture of certain prior-year credits, the "alternative minimum tax," the environmental 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 income tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI, total proxy tax was $3.9 million.

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

Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 1995

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

Size of gross unrelated business income (UBI)	Gross unrelated business income (UBI)		Sources of gross unrelated business income (UBI) [1]: Gross profit (less loss) from sales and services		Capital gain net income	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
Total	**36,394**	**6,279,659**	**14,742**	**3,238,696**	**815**	**300,420**
$1,000 under $10,001[2]	**15,997**	**62,731**	**3,663**	**13,130**	***250**	***1,126**
$10,001 or more, total[2,3]	**20,396**	**6,216,928**	**11,079**	**3,225,567**	**565**	**299,294**
$10,001 under $100,000 [2]	13,665	520,430	6,833	227,053	342	6,699
$100,000 under $500,000	5,029	1,083,496	3,203	570,245	131	15,941
$500,000 under $1,000,000	856	596,065	525	294,662	33	12,132
$1,000,000 under $5,000,000	710	1,411,338	440	720,253	40	44,687
$5,000,000 or more	137	2,605,599	78	1,413,354	19	219,834

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	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(7)	(8)	(9)	(10)	(11)	(12)
Total	**32**	**-93**	**362**	**4,780**	**5,841**	**179,627**
$1,000 under $10,001[2]	**	**	**	**	**4,714**	**13,386**
$10,001 or more, total[2,3]	**	**	**	**	**1,127**	**166,241**
$10,001 under $100,000 [2]	*9	*-25	145	1,834	854	19,904
$100,000 under $500,000	*13	*-39	94	1,648	148	9,763
$500,000 under $1,000,000	3	-9	18	500	44	6,374
$1,000,000 under $5,000,000	**	**	**	**	55	16,100
$5,000,000 or more	**	**	**	**	26	114,101

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	**3,740**	**136,591**	**2,678**	**374,780**	**5,846**	**378,702**
$1,000 under $10,001[2]	**1,181**	**4,528**	**788**	**3,078**	**2,811**	**8,801**
$10,001 or more, total[2,3]	**2,559**	**132,063**	**1,890**	**371,702**	**3,035**	**369,901**
$10,001 under $100,000 [2]	1,854	35,244	1,183	33,603	1,932	29,946
$100,000 under $500,000	545	42,874	494	63,309	888	58,507
$500,000 under $1,000,000	77	18,134	90	35,165	115	36,661
$1,000,000 under $5,000,000	70	24,440	100	90,175	81	94,688
$5,000,000 or more	13	11,372	23	149,451	19	150,099

Footnotes at end of table.

Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 1995 --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	**1,117**	**48,354**	**950**	**101,192**	**8,113**	**1,021,379**	**5,953**	**495,231**
$1,000 under $10,001 [2]	**308**	**753**	***239**	***1,073**	**3,130**	**12,901**	**1,479**	**3,990**
$10,001 or more, total [2,3]	**808**	**47,600**	**710**	**100,119**	**4,983**	**1,008,478**	**4,474**	**491,241**
$10,001 under $100,000 [2]	568	8,784	301	7,589	3,186	93,865	2,846	55,935
$100,000 under $500,000	161	10,896	280	25,964	1,308	190,277	1,210	94,112
$500,000 under $1,000,000	33	4,164	59	13,513	243	115,803	228	58,965
$1,000,000 under $5,000,000	38	16,303	62	39,980	206	242,826	160	121,814
$5,000,000 or more	8	7,453	9	13,074	40	365,708	30	160,415

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

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

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

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

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

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

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

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

Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income, Tax Year 1995

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

Size of gross unrelated business income (UBI)	All organizations: Total number of returns	All organizations: Total deductions [1,2]: Number of returns	All organizations: Total deductions [1,2]: Amount	Organizations with gross unrelated business income (UBI) of $10,000 or less [3]: Total deductions [2,4]: Number of returns	Total deductions [2,4]: Amount	Net operating loss carryover: Number of returns	Net operating loss carryover: Amount	Specific deduction: Number of returns	Specific deduction: Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**36,394**	**36,229**	**7,253,305**	**15,855**	**97,339**	**2,436**	**36,330**	**10,519**	**9,900**
$1,000 under $10,001 [3]	15,997	15,855	97,339	15,855	97,339	2,436	36,330	10,519	9,900
$10,001 under $100,000 [3]	13,665	13,655	735,491	--	--	--	--	--	--
$100,000 under $500,000	5,029	5,018	1,480,745	--	--	--	--	--	--
$500,000 under $1,000,000	856	855	762,043	--	--	--	--	--	--
$1,000,000 under $5,000,000	710	709	1,783,679	--	--	--	--	--	--
$5,000,000 or more	137	137	2,394,009	--	--	--	--	--	--

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]: Total deductions [2,5]: Number of returns	Total deductions [2,5]: Amount	Deductions directly connected with UBI: Total: Number of returns	Total: Amount	Allocable to rental income [6]: Number of returns	Allocable to rental income [6]: Amount	Allocable to unrelated debt-financed income [6]: Number of returns	Allocable to unrelated debt-financed income [6]: Amount	Allocable to investment income [6,7]: Number of returns
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Total	**20,374**	**7,155,966**	**19,108**	**6,791,319**	**1,039**	**76,194**	**1,621**	**368,986**	**933**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	13,655	735,491	12,565	701,667	711	18,280	979	33,237	448
$100,000 under $500,000	5,018	1,480,745	4,908	1,420,530	244	30,249	441	64,909	373
$500,000 under $1,000,000	855	762,043	832	716,477	40	11,401	84	33,055	66
$1,000,000 under $5,000,000	709	1,783,679	674	1,684,712	36	11,838	96	94,783	38
$5,000,000 or more	137	2,394,009	129	2,267,933	8	4,425	20	143,002	8

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]--Continued: Deductions directly connected with UBI--Continued: Allocable to investment income [6,7]--Continued: Amount	Allocable to income from controlled organizations [6]: Number of returns	Allocable to income from controlled organizations [6]: Amount	Allocable to exploited exempt activity income except advertising [6]: Number of returns	Allocable to exploited exempt activity income except advertising [6]: Amount	Direct advertising costs [6]: Number of returns	Direct advertising costs [6]: Amount	Compensation of officers, directors, and trustees: Number of returns	Compensation of officers, directors, and trustees: Amount
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Total	**41,628**	**366**	**36,883**	**619**	**88,682**	**4,609**	**784,228**	**1,792**	**41,078**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	1,477	236	6,918	258	5,044	2,932	75,573	1,000	8,588
$100,000 under $500,000	6,133	89	9,132	238	25,051	1,213	146,537	586	13,064
$500,000 under $1,000,000	3,210	18	3,197	57	10,364	233	83,487	98	4,453
$1,000,000 under $5,000,000	8,542	23	17,635	57	36,457	194	189,842	88	7,365
$5,000,000 or more	22,266			9	11,765	37	288,789	20	7,607

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]--Continued: Deductions directly connected with UBI--Continued: Salaries and wages: Number of returns	Salaries and wages: Amount	Repairs: Number of returns	Repairs: Amount	Bad debts: Number of returns	Bad debts: Amount	Interest: Number of returns	Interest: Amount
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)
Total	**9,735**	**951,606**	**7,013**	**61,718**	**786**	**24,448**	**2,475**	**52,001**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	5,751	98,043	4,415	10,939	279	238	1,246	3,747
$100,000 under $500,000	2,997	254,046	1,976	21,556	308	2,105	961	13,504
$500,000 under $1,000,000	510	124,343	316	7,642	70	1,520	118	3,926
$1,000,000 under $5,000,000	409	254,627	257	12,700	101	9,517	120	15,667
$5,000,000 or more	68	220,547	49	8,881	29	11,068	30	15,156

Footnotes at end of table.

Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income, Tax Year 1995--Continued

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

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 ³--Continued							
	Deductions directly connected with UBI--Continued							
	Taxes and licenses paid deduction		Depreciation		Depletion		Contributions to deferred compensation plans	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)
Total	**10,531**	**160,691**	**7,085**	**145,597**	**75**	**1,705**	**805**	**9,909**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	7,002	29,546	4,206	16,279	*55	*374	420	619
$100,000 under $500,000	2,752	56,867	2,142	41,609	16	208	268	1,698
$500,000 under $1,000,000	412	18,357	354	20,568			48	743
$1,000,000 under $5,000,000	298	23,300	320	36,955	4	1,123	58	2,177
$5,000,000 or more	67	32,621	63	30,186	--	--	11	4,671

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 ³--Continued							
	Deductions directly connected with UBI--Continued						Deductions not directly connected with UBI	
	Contributions to employee benefit plans		Net operating loss carryover		Other deductions		Total	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)
Total	**4,199**	**143,768**	**5,729**	**1,531,182**	**12,809**	**2,271,017**	**11,162**	**364,646**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	2,030	6,309	3,378	262,993	8,053	123,461	7,667	33,823
$100,000 under $500,000	1,501	24,600	1,692	428,829	3,561	280,435	2,610	60,215
$500,000 under $1,000,000	331	14,325	308	204,597	611	171,285	447	45,566
$1,000,000 under $5,000,000	286	35,675	296	438,290	492	494,225	358	98,966
$5,000,000 or more	51	62,858	55	196,472	93	1,201,611	81	126,076

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 ³--Continued							
	Deductions not directly connected with UBI--Continued							
	Specific deduction		Contributions		Set-asides ⁷		Excess exempt expense	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(52)	(53)	(54)	(55)	(56)	(57)	(58)	(59)
Total	**9,102**	**8,763**	**1,240**	**33,992**	**264**	**130,447**	**2,279**	**191,444**
$1,000 under $10,001 ³	--	--	--	--	--	--	--	--
$10,001 under $100,000 ³	6,434	6,136	766	5,725	116	3,669	1,379	18,292
$100,000 under $500,000	2,036	1,997	358	5,604	76	16,765	597	35,848
$500,000 under $1,000,000	336	339	49	1,425	32	15,693	148	28,109
$1,000,000 under $5,000,000	239	234	46	2,879	35	44,001	128	51,853
$5,000,000 or more	58	57	21	18,357	5	50,320	27	57,342

* 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 $1.7 billion.

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

[3] Organizations with gross UBI between $1,000 (the filing threshold) and $10,000 were required to report only totals for expenses and deductions (except for the specific deduction and net operating loss carryover, which all organizations reported separately). Organizations with gross UBI over $10,000 were required to report each expense and deduction item separately, as shown in columns 14 through 49 and 52 through 59.

[4] Excludes $36.8 million of cost of sales and services reported by organizations with gross UBI of $10,000 or less. See footnote 1 for explanation.

[5] Excludes $1.7 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.