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The *Statistics of Income (SOI) Bulletin* is issued quarterly, in March, June, September, and December, by the Statistics of Income Division of the Internal Revenue Service. The report provides the earliest published annual financial statistics obtained from the various types of tax and information returns filed, as well as information from periodic or special analytical studies of particular interest to students of the U.S. tax system, tax policymakers, and tax administrators. Selected historical and other data tables, previously published in every issue of the *SOI Bulletin*, now are published only in the spring issue of the *Bulletin*. These tables are also available on SOI's pages of the IRS Web site (www.irs.gov/taxstats).

Information on the availability of supplemental data on the topics included in this issue, special tabulations undertaken on a reimbursable basis, or other SOI subjects, may be obtained by telephoning the SOI's Statistical Information Services (202-874-0410), or by writing to the Director, Statistics of Income Division RAS:S, Internal Revenue Service, P.O. Box 2608, Washington, D.C. 20013-2608.

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by Kyle Mudry and Justin Bryan

For Tax Year 2005, taxpayers filed 134.4 million returns, of which 90.6 million, or 67.4 percent, were classified as taxable returns. A taxable return is a return that has total income tax greater than zero dollars. This represents an increase of 1.7 percent in the number of taxable returns from 2004. Adjusted gross income (AGI) on these taxable returns rose 9.4 percent to $6,857 billion for 2005, while total income tax rose 12.4 percent to $935 billion. The average tax rate for taxable returns rose, increasing approximately 0.4 percentage points to 13.6 percent for 2005. Taxpayers with an AGI of at least $364,657, the top 1 percent of taxpayers, accounted for 21.2 percent of AGI for 2005. This represents an increase in income share of 2.2 percentage points from the previous year. These taxpayers accounted for 39.4 percent of the total income tax reported, an increase from 36.9 percent in 2004. The top 5 percent of taxpayers accounted for 35.7 percent of AGI and 59.7 percent of total income tax. To be included in the top 5 percent, a taxpayer must have reported an AGI of at least $145,283. In 2004, the cutoff for this group was $137,056.

Split-Interest Trusts, Filing Year 2006

by Lisa Schreiber

The Split-Interest Trust Information Return (Form 5227) is filed by entities with both charitable and noncharitable beneficiaries. Overall, split-interest trust filing statistics stabilized between Filing Years 2005 and 2006. The number of Forms 5227 filed in 2006, some 124,036, was only 0.2 percent less than the number filed in 2005. End-of-year book value of assets increased by 1.6 percent, and investments increased by 3.1 percent. In 2006, the reported end-of-year book value of liabilities was 4.7 percent larger than the amount reported in 2005. In many ways, these are the most stable Forms 5227 filing statistics in recent years. Between Filing Years 2004 and 2005, total net income reported increased by 67.4 percent, and end-of-year book value of assets increased by 5.7 percent. The lack of striking change between Filing Years 2005 and 2006 may be attributed, in part, to an absence of new tax law revisions affecting split-interest trusts.

Unrelated Business Income Tax Returns, 2004

by Margaret Riley

Between Tax Years 2003 and 2004, the "unrelated business" income tax (UBIT) liability of charitable and other types of tax-exempt organizations rose 66 percent, totaling $364.6 million. These organizations filed 38,040 Forms 990-T, *Exempt Organization Business Income Tax Returns*, for Tax Year 2004 (Filing Years 2005 and 2006), and they reported gross unrelated business income (UBI) of $9.5 billion. Close to half of these filers reported positive unrelated business taxable income (UBTI) totaling $1.3 billion, a 65-percent increase over 2003, and the associated unrelated business income tax (UBIT) was $364.6 million. After adjusting UBIT with certain credits and other taxes, the resulting total tax reported on Form 990-T was $367.7 million.

The types and range of unrelated business activities in which organizations engage affect the amount of UBTI reported each year on Form 990-T. Tax-exempt organizations that rely primarily on investments for income usually have higher UBTI-to-gross-UBI (UBTI-to-GUBI) ratios than organizations with more diverse income sources. For example, Internal Revenue Code section 408(e) traditional Individual Retirement Arrangements (IRAs), which report income from investment activities as their main source of UBI, had a UBTI-to-GUBI ratio of 75 percent for 2004. Section 501(c)(3) nonprofit charitable organizations, which produce gross UBI from a mix of sources, but mainly from engaging in activities of a commercial nature had a UBTI-to-GUBI ratio of 12 percent. Section 501(c)(19) veterans' organizations engage in unrelated business activities that primarily involve providing services to nonmembers, and they generate very little UBI from investments. Their UBTI-to-GUBI ratio for 2004 was 5 percent.

Based on the National Taxonomy of Exempt Entities (NTEE), which classifies organizations by institutional purpose and major programs and activities, the categories of health, education, and human services ranked first, second, and third, respectively, in terms of total revenue reported by all charitable organizations, and in terms of total revenue, total gross UBI, UBTI, and total tax reported by charitable organizations that filed both Forms 990/990-EZ and 990-T. The shares of total revenue produced from gross UBI by organizations within each of these three program categories were 2 percent or less.

A History of the Tax-Exempt Sector: An SOI Perspective

by Paul Arnsberger, Melissa Ludlum, Margaret Riley, and Mark Stanton

Charitable, other "voluntary," and member-serving organizations have flourished in the United States since the Nation began. From the beginning, Government has recognized the importance of the charitable and voluntary sector and supported its organizations in the form of an exemption from income and certain other taxes. Tax legislation enacted between 1917 and 1969 is the cornerstone of tax exemption in the United States. More recently, Congress has updated the Tax Code to reflect the growth and evolution of the tax-exempt sector, and Statistics of Income datasets have been a vital tool for policymakers and researchers to measure growth and examine emerging trends throughout the sector, as well as assess the role and impact of the Nation's tax-exempt organizations. This article explores the legislative history of tax exemption and presents historical data that highlight recent financial trends among tax-exempt organizations.

The finances of tax-exempt, charitable organizations grew substantially in the 20-year period from Tax Years 1985 through 2004. The aggregate book value of assets, as reported by public charities and private foundations that filed IRS information returns, increased, in real terms, by 222 percent over this period, amounting to $2.5 trillion for Tax Year 2004. Total charitable expenditures reported by these organizations grew at a real annual rate of 6 percent for Tax Years 1985 through 2004, surpassing GDP growth during the period. Public charities represented the majority of tax-exempt organizations and accounted for most of their financial activity. While exempt from income tax, public charities, private foundations, and other tax-exempt organizations were required to pay taxes on a variety of activities. For Tax Year 2004, tax-exempt organizations reported $364.6 million in taxes on unrelated business income. Private foundations were subject to additional taxes and sanctions. The largest of these, the excise tax on net investment income, totaled $468.7 million for Tax Year 2004.

Ninety Years of Individual Income and Tax Statistics, 1916-2005

by Scott Hollenbeck and Maureen Keenan Kahr

This article focuses on the regular annual SOI individual income tax return program and the data that have been published over the past 90 years. During the first 4 years of the modern income tax, introduced in 1913, the number of individual tax returns filed ranged from approximately 330 thousand to 440 thousand. As a result of tax law changes in 1916 and 1917, the number of returns filed rose to nearly 3.5 million in 1917. Over the following 22 years, the number of returns ranged from approximately 4.1 million to 7.7 million. In the 92 years since 1913, total income has climbed to more than $7.5 trillion for 2005, the most recent year for which SOI has statistics. For most years, total income reported in current dollars has grown. As expected, total income declined for a few years in a row, 1929-1932, due to the Great Depression that began in the United States with the stock market crash of 1929. However, in the 73-year period since 1932, total income has grown in all but 4 years, 1938, 1949, 2001, and 2002. For the 2 most recent years during which total income fell, 2001 and 2002, the decline was mainly due to large declines in net capital gain (less loss).

In the Next Issue

The following articles or data releases are tentatively planned for inclusion in the spring 2008 issue of the *Statistics of Income Bulletin*, scheduled to be published in May 2008:

- High-Income Tax Returns for 2005;
- Accumulation and Distribution of Individual Retirement Arrangements, 2003-2004;
- S Corporation Returns, 2005;
- The Development of Taxable REIT Subsidiaries, 2001-2005;
- Federal Estate Tax Returns Filed for 2004 Decedents;
- Projections, 2008-2014;
- Individual Noncash Contributions, 2005;
- Form 8895, One-Time Received Dividend Deduction; and
- Individual Income Tax Returns, Preliminary Data, 2006.

SOI Paper Series Now Available

The Statistics of Income (SOI) Division has introduced a new series of papers that will replace Publication 1299, *Special Studies in Federal Tax Statistics*.

The SOI Paper Series includes papers previously presented by SOI staff and other researchers at professional conferences, including the Joint Statistical Meeting of the American Statistical Association and the National Tax Association's annual conference on taxation, among others. Papers presented in 2007 are now available on the Tax Stats Web site (www.irs.gov/taxstats) under "Products, Publications & Papers."

For a copy of a paper included in the SOI Paper Series, contact SOI's Statistical Information Services (SIS) by phone at (202) 874-0410, by fax at (202) 874-0964, or by e-mail at sis@irs.gov.

SOI as a World-Class Organization

by James Dalton

To conclude our 90th anniversary celebrations, we will focus on the achievements of our seventh and eighth Directors, Dan Skelly and Tom Petska, who have made the Statistics of Income Division the world-class organization it is today.

Dan Skelly, a former economics instructor and pension fund manager, combined both academic and corporate experience when he came to SOI in 1983. He had supervised the Foreign Statistics Branch, now known as the Special Studies Branch, for 10 years and left his mark on international, estate, nonprofit, and excise tax studies before taking the SOI helm in 1993. He believed in the mantra that "people are the organization" and invested in a Divisionwide recruitment effort to attract and hire the best and the brightest. But, as much as a good resume impressed Skelly, he also knew that team spirit moves an organization, and so he picked candidates who could work well together.

Skelly hired many of SOI's present staff members and conducted many of the interviews himself. He emphasized training in order to keep SOI competitive with other statistical organizations, and he measured success not only in the number of annual studies conducted (60) but also in developing human capital. "The quality of statistics," he liked to say, "depends on the quality of those you hire." Toward that end, his recruitment tours and speaking engagements at local colleges and universities were well-known.

Skelly finetuned a number of SOI initiatives on his watch, bolstered the estate and gift audit selection program through estate and gift studies, and facilitated a separate audit program for exempt organizations through nonprofit studies. Perhaps his most tangible human capital achievement, Skelly was instrumental in seeking and filling new senior technical positions throughout SOI, because he strongly believed that many SOI staff perform at a high level. He is remembered for his people skills and the bright optimism he encouraged throughout the Division, as well as for leading SOI into the Internet Age and the 21st Century. The Skelly Era (1993-2001) set the stage for our present Director.

Tom Petska, a former BEA and SSA economist and Chief of SOI's Special Studies Branch, became Director in 2001. From the beginning, he used his influence to increase SOI standing in the statistical community. He led the way in maintaining high visibility as a world-class organization by encouraging staff to present papers at major conferences: the American Accounting Association (AAA), the American Economic Association (AEA), the American Statistical Association (ASA), and the National Tax Association (NTA). He himself presented papers on tax-exempt organizations, tax shelters, business organizational choice, individual income distributions, interagency data sharing, and the greater use of Master File data, and he was inducted as an American Statistical Association Fellow in 2004.

Petska does not believe that SOI should operate in a Federal statistical vacuum, and he re-established the SOI Advisory Panel Meeting as a semiannual event in 2001. Now in its 22nd year, this meeting provides Government economists and statisticians with much needed outside perspectives and views from academia, nonprofit think tanks, and accounting firms. Under Petska's leadership, we now report on 130 projects and functions in semiannual reports to Treasury's Office of Tax Analysis (OTA) and the Congressional Joint Committee on Taxation (JCT). We have finished virtually every one on or ahead of schedule with some of the highest quality levels we have ever achieved.

Petska also advocates the effective management of "white space," those often overlooked places where areas of expertise intersect and where, as in economic terms, common ground becomes a public good. To share best practices across branches, he commissioned an inhouse team for Web modernization and subject-matter experts for publications improvement. A Johnny Unitas fan, his management philosophy comes straight from the gridiron, "Find out where statistics are going, and get us moving in those directions."

Petska, who went as a Federal consultant to the Republic of South Africa to help its government

James Dalton is a writer-editor with the Special Studies Statistical Data Section. This article was prepared under the direction of Martha Eller Gangi, Chief.

restructure their revenue agency, is now shaping SOI beyond his own tenure. He is leading efforts to develop a strategic vision, SOI 2016, and is working with RAS Director Mark Mazur, former Treasury Deputy Assistant Secretary Bob Carroll, and OTA Director Don Kiefer to get us there. He has spared no effort to think and act "SOI-global" in our move to Graphical User Interface (GUI) systems, in our deployment of split-screen editing technologies, and in our successful contributions to the Modernized e-File (MeF) initiatives. When asked where we stop in building bridges to the statistical community and our many customers throughout the world, the Petska answer has always been, "Why stop?"

Petska believes that SOI's future lies in having more, not fewer, leaders and that when we join the ranks of SOI's "highest performers"—our "All-Pros"—our starting lineup will be "All Stars" in every sense of the word, and our continued success is thereby assured.

Individual Income Tax Rates and Shares, 2005

by Kyle Mudry and Justin Bryan

Taxpayers filed 134.4 million returns for Tax Year 2005, of which 90.6 million (or 67.4 percent) were classified as taxable returns. A taxable return is a return that has total income tax greater than $0. This represents an increase of 1.7 percent in the number of taxable returns from 2004. Adjusted gross income (AGI) on these taxable returns rose 9.4 percent to $6,857 billion for 2005, while total income tax rose 12.4 percent to $935 billion. The average tax rate for taxable returns rose, increasing approximately 0.4 percentage points to 13.6 percent for 2005.

Taxpayers with an AGI of at least $364,657, the top 1 percent of taxpayers, accounted for 21.2 percent of AGI for 2005. This represents an increase in income share of 2.2 percentage points from the previous year. These taxpayers accounted for 39.4 percent of the total income tax reported, an increase from 36.9 percent in 2004. The top 5 percent of taxpayers accounted for 35.7 percent of AGI and 59.7 percent of total income tax. To be included in the top 5 percent, a taxpayer must have reported an AGI of at least $145,283, whereas, in 2004, the cutoff for this group was $137,056.

This article discusses the individual income tax rates and tax shares and the computation of "total income tax" for 2005. To put this discussion into perspective, it also provides explanations of selected terms used in the article and describes the income tax structure, certain tax law changes, income and tax concepts (the "1979 Income Tax Concept," "modified" taxable income, and marginal tax rates), the computation of "alternative minimum taxable income," and the data sources and limitations.

Income Tax Rates

Discussions of income tax rates generally center on measuring two distinct tax rates: average tax rates and marginal tax rates. Average tax rates are calculated by dividing some measure of tax by some measure of income. For the statistics in this article, the average tax rate is "total income tax" (see *Explanation of Selected Terms*) divided by AGI reported on returns showing some income tax liability.

Measures of marginal tax rates, on the other hand, focus on determining the tax rate imposed on the last (or next) dollar of income received by a taxpayer. For this article, the marginal tax rate is the statutory rate at which the last dollar of taxable income is taxed. (See *Income and Tax Concepts* for a more detailed explanation of marginal tax rates.) The following sections describe the measurement of the average and marginal tax rates in more detail, and discuss the statistics based on these rates for 2005.

Average Tax Rates

Figure A presents statistics for 1986 through 2005 on income (based on each year's definition of AGI and on the common 1979 Income Concept) and taxes reported. (See *Income and Tax Concepts* for a more detailed explanation of the 1979 Income Concept.) These tax years can be partitioned into seven distinct periods:

1) Tax Year 1986 was the last year under the Economic Recovery Tax Act of 1981 (ERTA81). The tax bracket boundaries, personal exemptions, and standard deductions were indexed for inflation, and the maximum tax rate was 50 percent.

2) Tax Year 1987 was the first year under the Tax Reform Act of 1986 (TRA86). For 1987, a 1-year, transitional, five-rate tax bracket structure was established with a partial phase-in of new provisions that broadened the definition of AGI. The maximum tax rate was 38.5 percent.

3) During Tax Years 1988 through 1990, there was effectively a three-rate tax bracket structure.[1] The phase-in of the provisions of TRA86 continued with a maximum tax rate of 33 percent.

Kyle Mudry and Justin Bryan are economists with the Individual Returns Analysis Section. This article was prepared under the direction of Jeff Hartzok, Chief.

[1] For Tax Years 1988 through 1990, the tax rate schedules provided only two basic rates: 15 percent and 28 percent. However, taxable income over certain levels was subject to a 33-percent tax rate to phase out the benefit of the 15-percent tax bracket (as compared to the 28-percent rate) and the deduction for personal exemptions. At the taxable income level where these benefits were completely phased out, the tax rate returned to 28 percent.

Figure A

Adjusted Gross Income, Total Income Tax, Average Tax Rate, and Average Total Income Tax, Tax Years 1986-2005

[Money amounts are in billions of dollars, except where indicated]

Tax year	Total number of returns	Taxable returns								
							Average per return (whole dollars) [3]			
							Current dollars		Constant dollars [4]	
		Number of returns	As a percentage of total returns [1]	Adjusted gross income (less deficit)	Total income tax	Average tax rate (percent) [2], [3]	Adjusted gross income (less deficit)	Total income tax	Adjusted gross income (less deficit)	Total income tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Using each tax year's adjusted gross income									
1986	103,045,170	83,967,413	81.5	2,440	367	15.1	29,062	4,374	26,516	3,991
1987	106,996,270	86,723,796	81.1	2,701	369	13.7	31,142	4,257	27,414	3,747
1988	109,708,280	87,135,332	79.4	2,990	413	13.8	34,313	4,738	29,005	4,005
1989	112,135,673	89,178,355	79.5	3,158	433	13.7	35,415	4,855	28,560	3,915
1990	113,717,138	89,862,434	79.0	3,299	447	13.6	36,711	4,976	28,088	3,807
1991	114,730,123	88,733,587	77.3	3,337	448	13.4	37,603	5,054	27,609	3,711
1992	113,604,503	86,731,946	76.3	3,484	476	13.7	40,168	5,491	28,630	3,914
1993	114,601,819	86,435,367	75.4	3,564	503	14.1	41,233	5,817	28,535	4,026
1994	115,943,131	87,619,446	75.6	3,737	535	14.3	42,646	6,104	28,776	4,119
1995	118,218,327	89,252,989	75.5	4,008	588	14.7	44,901	6,593	29,463	4,326
1996	120,351,208	90,929,350	75.6	4,342	658	15.2	47,750	7,239	30,433	4,614
1997	122,421,991	93,471,200	76.4	4,765	731	15.3	50,980	7,824	31,763	4,875
1998	124,770,662	93,047,898	74.6	5,160	789	15.3	55,458	8,475	33,836	5,171
1999	127,075,145	94,546,080	74.4	5,581	877	15.7	59,028	9,280	35,431	5,570
2000	129,373,500	96,817,603	74.8	6,083	981	16.1	62,832	10,129	36,488	5,882
2001	130,255,237	94,763,530	72.8	5,847	888	15.2	61,702	9,370	34,840	5,291
2002	130,076,443	90,963,896	69.9	5,641	797	14.1	62,015	8,762	34,472	4,870
2003	130,423,626	88,921,904	68.2	5,747	748	13.0	64,625	8,412	35,122	4,572
2004	132,226,042	89,101,934	67.4	6,266	832	13.3	70,318	9,337	37,225	4,943
2005	134,372,678	90,593,081	67.4	6,857	935	13.6	75,687	10,319	38,754	5,284
	Using 1979 Income Concept [5]									
1986	103,045,170	83,967,413	81.5	2,703	367	13.6	32,194	4,374	29,374	3,991
1987	106,996,270	86,723,796	81.1	2,736	369	13.5	31,551	4,257	27,774	3,747
1988	109,708,280	87,135,332	79.4	3,011	413	13.7	34,556	4,738	29,210	4,005
1989	112,135,673	89,178,355	79.5	3,188	433	13.6	35,752	4,855	28,832	3,915
1990	113,717,138	89,862,434	79.0	3,335	447	13.4	37,108	4,976	28,392	3,807
1991	114,730,123	88,733,587	77.3	3,387	448	13.2	38,169	5,054	28,024	3,711
1992	113,604,503	86,731,946	76.3	3,553	476	13.4	40,964	5,491	29,198	3,914
1993	114,601,819	86,435,367	75.4	3,625	503	13.9	41,938	5,817	29,023	4,026
1994	115,943,131	87,619,446	75.6	3,796	535	14.1	43,322	6,104	29,232	4,119
1995	118,218,327	89,252,989	75.5	4,075	588	14.4	45,655	6,593	29,957	4,326
1996	120,351,208	90,929,350	75.6	4,418	658	14.9	48,582	7,239	30,964	4,614
1997	122,421,991	93,471,200	76.4	4,849	731	15.1	51,875	7,824	32,321	4,875
1998	124,770,662	93,047,898	74.6	5,299	789	14.9	56,947	8,475	34,745	5,171
1999	127,075,145	94,546,080	74.4	5,736	877	15.3	60,666	9,280	36,414	5,570
2000	129,373,500	96,817,603	74.8	6,294	981	15.6	65,012	10,129	37,754	5,882
2001	130,255,237	94,763,530	72.8	5,943	888	14.9	62,716	9,370	35,413	5,291
2002	130,076,443	90,963,896	69.9	5,758	797	13.8	63,297	8,762	35,184	4,870
2003	130,423,626	88,921,904	68.2	5,849	748	12.8	65,777	8,412	35,749	4,572
2004	132,226,042	89,101,934	67.4	6,399	832	13.0	71,817	9,337	38,019	4,943
2005	134,372,678	90,593,081	67.4	7,016	935	13.3	77,448	10,319	39,656	5,284

[1] Number of taxable returns (column 2) divided by total number of returns (column 1).
[2] Average tax rate is "total income tax" (column 5) divided by "adjusted gross income less deficit (AGI)" (column 4).
[3] The average adjusted gross income (less deficit), average total income tax, and average tax rate were calculated from unrounded data.
[4] Constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). For 2005, the CPI-U = 195.3.
[5] These statistics are based on adjusted gross income less deficit (AGI) recomputed to reflect the 1979 Income Concept, thus enabling more valid comparisons to be made of the average tax rates among years. Changes in the definition of AGI among years render direct comparison of the unadjusted figures misleading. For additional information, see Statistics of Income-Individual Income Tax Returns, for 1986-2005. See Figure G for components of the 1979 Income Concept.

4) Tax Years 1991 and 1992 brought a three-rate tax bracket structure (with a maximum tax rate of 31 percent), a limitation on some itemized deductions, and a phaseout of personal exemptions for some upper income taxpayers.

5) Tax Years 1993 through 1996 had a five-rate tax bracket structure (with a maximum statutory tax rate of 39.6 percent), a limitation on some itemized deductions, and a phaseout of personal exemptions for some upper income taxpayers.

6) Tax Years 1997 through 2000 were subject to the Taxpayer Relief Act of 1997 which added three new capital gain tax rates to the previous rate structure to form a new eight-rate tax bracket structure (with a maximum statutory tax rate of 39.6 percent). See *Income and Tax Concepts* for a more detailed description of the capital gain rates.

7) Tax Years 2001 through 2005 were affected by two new laws, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). EGTRRA included a new 10-percent tax rate bracket, as well as reductions in tax rates for brackets higher than 15 percent of one-half percentage point for 2001 and 1 percentage point for 2002. It also included increases in the child tax credit and an increase in alternative minimum tax exemptions. Tax Year 2003, under JGTRRA, saw additional rate reductions in ordinary marginal tax rates higher than the 15-percent rate, as well as expansions to particular income thresholds in the rates from 15 percent and below. Also, the rate for most long-term capital gains was reduced from 20 percent to 15 percent. Further, qualified dividends were taxed at this same 15-percent rate. These changes are detailed in the previously published article, "*Individual Income Tax Rates and Shares, 2003"* in Appendix C (under *Tax Rate Reduction*). Beginning in 2004, the Working Families Tax Relief Act increased the additional child tax credit refundability rate from 10 percent to 15 percent.

About 90.6 million, or 67.4 percent, of the 134.4 million individual returns filed for 2005 were classified as taxable returns. This was a 1.7-percent increase in the number of taxable returns from 2004. Total AGI reported on taxable returns increased 9.4 percent to $6,857 billion. Total income on taxable returns rose using the 1979 Income Concept as well, increasing 9.6 percent to $7,016 billion for 2005. Total income tax rose by almost $103 billion (12.4 percent) to $935 billion for 2005. Average AGI for taxable returns rose to $75,687 for 2005, a 7.6-percent increase from 2004. Average income tax also rose for 2005 by 10.5 percent to $10,319.

In order to analyze the average tax rate over time, it is necessary to use a more consistent measure of income than AGI because some tax law changes resulted in the definition of AGI changing from year to year. The 1979 Income Concept controls for much of this variation in tax law, and its use provides a more consistent estimate of the average tax rate across years. Under the 1979 Concept, the average tax rate for 2005 rose to 13.3 percent from 13.0 percent for the previous year.

As shown in Figure B, the average tax rate on all taxable returns as a percentage of AGI was 13.6 percent for 2005. The average tax rate for the AGI-size classes ranged from 2.5 percent for the "$1 under $10,000" AGI-size class to 23.9 percent for the "$500,000 under $1,000,000" AGI-size class. This latter rate was higher than the 23.0-percent average paid by those taxpayers in the "$1,000,000 or more" class. This was partially due to taxpayers in the "$1,000,000 or more" class receiving almost double the percentage of AGI in the form of capital gains and qualified dividends taxed at preferential tax rates than those in the "$500,000 under $1,000,000" AGI-size class. Taxpayers in the "$1,000,000 or more" class received 38.7 percent of their AGI through these capital gains and qualified dividends compared to 20.3 percent for the "$500,000 under $1,000,000" AGI-size class.

The average tax rate of 13.6 percent for 2005 for all income classes combined was an increase of approximately 0.4 percentage points from the 13.3 percent for 2004. The average tax rate for taxable returns fell or stayed the same in every AGI-size class except for the $1 under $10,000 class, which increased less than 0.1 percentage point from 2004 to 2.5 percent. The overall average rate increased despite this decline in each AGI class because individuals tended to move to higher income classes

Figure B

Taxable Returns: Number of Returns, Adjusted Gross Income, Capital Gain plus Dividends Subject to Reduced Rate, and Total Income Tax, by Size of Adjusted Gross Income, Tax Years 2004 and 2005
[Number of returns is in thousands—money amounts are in millions of dollars]

Tax year, item	Total	Size of adjusted gross income									
		Under $1 [1]	$1 under $10,000	$10,000 under $20,000	$20,000 under $30,000	$30,000 under $50,000	$50,000 under $100,000	$100,000 under $200,000	$200,000 under $500,000	$500,000 under $1,000,000	$1,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Tax Year 2005:											
Number of taxable returns	90,593	5	4,524	11,741	11,745	20,432	27,821	10,767	2,732	523	303
Adjusted gross income (less deficit)	6,856,723	-6,680	30,448	176,775	293,474	804,970	1,967,468	1,425,108	787,269	354,471	1,023,421
Capital gain plus dividends subject to reduced rate as a percentage of adjusted gross income (less deficit)	10.4	[3]	5.0	1.9	1.6	1.5	2.2	5.2	13.2	20.3	38.7
Total income tax	934,836	133	746	7,386	18,371	60,162	178,811	189,468	159,395	84,700	235,664
Average tax rate (percent) [2]	13.6	[3]	2.5	4.2	6.3	7.5	9.1	13.3	20.2	23.9	23.0
Tax Year 2004:											
Number of taxable returns	89,102	5	4,637	11,817	11,783	20,751	27,372	9,718	2,346	433	240
Adjusted gross income (less deficit)	6,265,500	-6,536	31,922	178,453	294,228	816,924	1,932,778	1,286,115	676,147	293,123	762,347
Capital gain plus dividends subject to reduced rate as a percentage of adjusted gross income (less deficit)	8.5	[3]	3.9	1.8	1.6	1.3	2.0	4.6	11.3	18.3	37.2
Total income tax	831,976	86	768	7,710	18,570	62,129	178,513	175,206	139,227	71,339	178,429
Average tax rate (percent) [2]	13.3	[3]	2.4	4.3	6.3	7.6	9.2	13.6	20.6	24.3	23.4
Change in:											
Number of taxable returns	1,491	[4]	-114	-75	-39	-319	449	1,049	386	91	63
Percent	1.7	0.2	-2.5	-0.6	-0.3	-1.5	1.6	10.8	16.5	20.9	26.3
Adjusted gross income (less deficit)	591,223	-144	-1,474	-1,677	-754	-11,954	34,689	138,993	111,122	61,348	261,074
Percent	9.4	2.2	-4.6	-0.9	-0.3	-1.5	1.8	10.8	16.4	20.9	34.2
Capital gain plus dividends subject to reduced rate as a percentage of adjusted gross income (less deficit):											
Percentage point change	1.9	[3]	1.1	0.1	0.0	0.2	0.2	0.6	1.9	2.0	1.5
Total income tax	102,860	47	-22	-324	-200	-1,967	298	14,263	20,168	13,361	57,235
Percent	12.4	55.0	-2.8	-4.2	-1.1	-3.2	[6]	8.1	14.5	18.7	32.1
Average tax rate:											
Percentage point change	0.4	[5]	0.0	-0.1	-0.1	-0.1	-0.1	-0.3	-0.3	-0.4	-0.4

[1] Includes returns with adjusted gross deficit. Tax in these returns represents some combination of alternative minimum tax, Form 4972 tax on lump-sum distributions from qualified retirement plans, and Form 8814 tax on a child's interest and dividends not reflected in adjusted gross income or taxable income.
[2] Average tax rate is "total income tax" as a percentage of "adjusted gross income less deficit (AGI)." The average tax rate was calculated from unrounded data.
[3] Percentage not computed.
[4] Less than 500.
[5] Increase not computed.
[6] Less than 0.05 percent.
NOTE: Detail may not add to totals because of rounding.

which, in turn, faced higher tax rates. For example, in 2005, the number of taxable returns in every positive AGI class under $50,000 or less decreased, while the number of taxable returns reporting an AGI of $1 million or more increased by 26.3 percent from 2004. For 2001 and 2002, many of the higher income tax returns had shifted to lower income brackets partially due to reductions in realized capital gain (less loss). This trend began to reverse for 2003 and continued through 2005.

Marginal Tax Rate Classifications

A return's marginal tax rate is the highest statutory tax rate bracket applicable to that tax return. Marginal tax rate statistics are presented in Figure C and Table 1. These statistics are based on individual income tax returns showing a positive taxable income amount based on "tax generated" and items of income that were subject to the regular income tax, generally those included in AGI.[2] *Income and Tax Concepts* explains the determination of the marginal tax rate bracket into which a return is assumed to fall.

[2] Nontaxable (i.e., tax-exempt) forms of income, such as interest on State and local government obligations, were not included in AGI and generally did not affect the marginal tax rate. However, in some situations, the receipt of some forms of tax-exempt income, such as tax-exempt interest, could have influenced the taxability of other income, in particular Social Security benefits. When this situation occurred, the income made taxable by the receipt of other forms of nontaxable income was included in AGI.

Figure C

Returns with Modified Taxable Income: Tax Generated at All Rates on Returns with the Indicated Marginal Tax Rate, Tax Year 2005

[Money amounts are in thousands of dollars]

Marginal tax rate classes	Number of returns		Modified taxable income		Tax generated	
	Number	Percent of total	Amount	Percent of total	Amount	Percent of total
	(1)	(2)	(3)	(4)	(5)	(6)
Total	**104,321,332**	**100.0**	**5,136,900,575**	**100.0**	**972,712,962**	**100.0**
5 percent	1,186,478	1.1	8,366,689	0.2	418,410	[1]
8 percent	* 651	*[1]	* 100	*[1]	* 8	*[1]
10 percent	25,486,770	24.4	130,863,770	2.5	12,611,894	1.3
10 percent (capital gains)	8,510	[1]	94,974	[1]	9,328	[1]
10 percent (Form 8814) [2]	13,542	[1]	7,421	[1]	748	[1]
15 percent	40,828,626	39.1	1,028,305,402	20.0	132,330,144	13.6
15 percent (capital gains) [3]	8,492,769	8.1	494,814,177	9.6	64,396,265	6.6
20 percent	2,960	[1]	264,683	[1]	42,933	[1]
25 percent	21,625,799	20.7	1,411,063,695	27.5	237,515,000	24.4
25 percent (capital gains)	371,017	0.4	70,819,356	1.4	11,787,533	1.2
28 percent	3,703,217	3.5	503,828,147	9.8	104,491,346	10.7
28 percent (capital gains)	26,785	[1]	4,603,788	0.1	881,324	0.1
33 percent	1,479,592	1.4	387,519,395	7.5	92,351,980	9.5
35 percent	953,005	0.9	1,094,229,516	21.3	315,443,028	32.4
Form 8615 [4]	141,612	0.1	2,119,463	[1]	433,021	[1]

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

[1] Less than 0.05 percent.

[2] Form 8814 was filed for a dependent child under age 14 for whom the parents made an election to report the child's investment income (if it was from interest, dividends, or capital gains totaling between $800 and $8,000) on the parents' income tax return. This rate classification is comprised of those returns with a tax liability only from the dependent's income.

[3] The 15 percent capital gains rate also includes qualified dividends.

[4] Form 8615 was filed for a child under age 14 to report the child's investment income in excess of $1,600. The returns in this rate classification are not distributed by tax rate.

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

Table 2 contains additional data based on ordinary tax rates and presents statistics on the income and tax generated at each ordinary tax rate by size of AGI.

For 2005, the number of individual returns with modified taxable income rose 1.6 percent to 104.3 million. The amount of modified taxable income reported on these returns increased 10.0 percent to $5,136.9 billion.[3] The tax generated on taxable returns rose by 11.6 percent to $972.7 billion. Figure C presents the amounts and percentages of modified taxable income and income tax generated (before reduction by tax credits, including the earned income credit) by the marginal tax rate categories (defined in *Income and Tax Concepts*).

Returns with modified taxable income in the "15-percent" (ordinary income) marginal tax rate bracket contained the largest share of returns for 2005, at 39.1 percent. These returns reported 20.0 percent of modified taxable income for 2005 and 13.6 percent of income tax generated. Conversely, taxpayers in the "35-percent" (ordinary income) marginal rate, the least represented bracket, accounted for only 0.9 percent of returns, but reported 21.3 percent of modified taxable income and 32.4 percent of tax generated (the largest of any tax bracket). The "10-percent" (ordinary income) marginal rate bracket reported the second largest share of returns at 24.4 percent. However, it only accounted for 2.5 percent of modified income and 1.3 percent of tax generated. With a 20.7-percent share of returns, making it the third largest, the "25-percent" (ordinary income) marginal rate bracket reported 27.5 percent of modified taxable income and 24.4 percent of tax generated. Returns in the "28-percent" (ordinary income) marginal rate bracket represented 3.5 percent of the total share of returns and accounted for 9.8 percent of modified taxable income and 10.7 percent of tax generated. Returns in the "33-percent" (ordinary income) mar-

[3] The 2004 data are from Mudry, Kyle and Justin Bryan, "Individual Income Tax Rates and Shares, 2004," *Statistics of Income Bulletin,* Winter 2006-2007, Volume 26, Number 3, p. 21-60.

ginal rate bracket represented the second smallest share of ordinary tax rate returns at 1.4 percent. It also accounted for 7.5 percent of modified taxable income, as well as 9.5 percent of tax generated. Returns in the capital gain and dividends, 10-percent, 15-percent, 25-percent, and 28-percent tax brackets represented 8.5 percent of returns (with modified taxable income), and reported a total of 11.1 percent of modified taxable income and 7.9 percent of tax generated.

As shown in Table 2, the total tax generated for 2005 at the 15-percent rate was more than at any other rate. The 33.5 percent of income taxed at this rate was reported by 73.9 percent of returns with modified taxable income, producing 26.5 percent of tax generated. The 35-percent rate generated the next largest amount of income tax liability. Tax in that bracket was reported on only 0.9 percent of returns. However, 11.0 percent of all income was taxed at this rate, producing 20.3 percent of tax generated. The 25-percent rate had the third largest amount of income. Tax in that bracket was reported on 26.9 percent of returns with 14.0 percent of all income taxed at this rate, producing 18.5 percent of tax generated.

Figure D

Derivation of Tax Years 2004 and 2005 Total Income Tax as Shown in Statistics of Income

[Money amounts are in billions of dollars]

Item	2004	2005	Percentage change
	(1)	(2)	(3)
Tax generated from tax rate schedules or tax table	**871.2**	**972.7**	**11.6**
PLUS:			
Tax on lump-sum distributions from qualified retirement plans	0.1	[3]	-72.3
Alternative minimum tax	13.0	17.4	33.7
EQUALS:			
Income tax before credits	**884.3**	**990.2**	**12.0**
LESS: Tax credits, total [1]	52.4	55.3	5.6
Child-care credit	3.3	3.5	3.7
Child tax credit [1]	32.3	32.0	-0.8
Education credit	6.0	6.1	1.7
Foreign tax credit	6.8	9.4	38.5
General business credit	0.6	0.9	38.2
Earned income credit (limited to the amount needed to reduce total income tax to zero)	0.8	0.7	-2.9
Credit for prior-year minimum tax	0.9	1.1	19.9
Retirement savings contribution credit	1.0	0.9	-6.6
Other credits [2]	0.6	0.7	6.1
EQUALS:			
Income tax after credits	**832.0**	**934.8**	**12.4**
PLUS: Trusts accumulation distribution	[3]	[3]	-15.0
EQUALS:			
Total income tax	**832.0**	**934.8**	**12.4**

[1] Does not include the additional child tax credit that for 2005 was $15.50 billion which was refunded to taxpayers and not included in total income tax.
[2] Includes the elderly or disabled credit, empowerment zone and community renewal employment credit, mortgage interest credit, adoption credit, DC first time home buyer's credit, nonconventional source fuel credit, and other credits.
[3] Less than $0.05 billion.
NOTE: Detail may not add to totals because of rounding.

Components of Total Income Tax

Regular Tax

Regular tax is generally tax determined from a taxpayer's taxable income based on statutory tax rates. It does not include the "alternative minimum tax" (AMT) nor does it exclude allowable tax credits. Figure D illustrates the derivation of the aggregate tax generated for 2005 returns. Table 1 includes two tax amounts: "tax generated" and "income tax after credits." Tables 5 through 8 and Figures A and B include an additional measure of tax, "total income tax," which also includes distributed tax on trust accumulations.

As shown (Figure D and column 5 of Table 1), the tax generated by applying statutory ordinary income and capital gain tax rates to modified taxable income was $972.7 billion, an 11.6-percent increase from 2004.[4] For most taxpayers, tax generated was equal to income tax before credits. However, for some taxpayers, income tax before credits included the alternative minimum tax (AMT) and/or special taxes on lump-sum distributions from qualified retirement plans (when a 10-year averaging method was used).[5] The AMT increased sharply by 33.7 percent to $17.4 billion for 2005. Income tax before credits was $990.2 billion for 2005, up from $884.3 billion, representing a 12.0-percent increase from 2004. Taxpayers used $55.3 billion of tax credits to reduce their income tax before credits. The earned income credit (EIC) is included in this computation to the extent that its application did not reduce income tax before credits below zero. Any portion of the EIC that is refundable to the taxpayer because it

[4] Tax generated does not include certain other taxes reported on the individual income tax return, such as self-employment tax (the Social Security and Medicare tax on income from self-employment), the Social Security tax on certain tip income, household employment taxes, tax from the recapture of prior-year investment, low-income housing, or other credits, penalty tax applicable to early withdrawals from an Individual Retirement Arrangement (IRA) or other qualified retirement plans, and tax on trusts, accumulation, and distributions. The statistics for "total tax liability," shown in Marcia, Sean and Justin Bryan, "Individual Income Tax Returns: 2005," *Statistics of Income Bulletin*, Fall 2007, Volume 27, Number 2, include these taxes.

[5] The income amounts on which these special computations for lump-sum distributions were based were not reflected in current-year AGI or current-year taxable income.

exceeds the taxpayer's liability and any portion of the EIC used to reduce taxes other than income taxes are excluded from the computation of income tax after credits.[6] Income tax after credits (Figure D) totaled $934.8 billion as did total income tax (the sum of income tax after credits and tax on trust accumulation distributions). These taxes both represented a 12.4-percent increase from 2004.

Table 4 provides estimates of income tax before credits by the type of tax computation for returns with modified taxable income. For 2005, the number of returns with the Schedule D and qualified dividend tax computation increased 6.4 percent from 20.4 million to 21.7 million. Along with this was an increase in the income tax before credits and tax generated at these lower rates. These taxpayers paid $91.7 billion (column 8) less in tentative taxes than they would have if they had not received the benefits of the lower capital gain and qualified dividend tax rates. This was up from the $65.6 billion in savings from using these rates for 2004 (column 4). The average tax savings for those who had these capital gains rose from $3,219 per return for 2004 to $4,228 for 2005. Tax Year 2005 saw an increase of only 83.7 thousand returns that calculated taxes with a regular tax computation only. For 2005, the number of returns filed by children under age 14 with Form 8615 for reporting investment income over $1,600 increased 26.9 percent to a little under 142 thousand. Using Form 8615 to compute their tax (as if their incomes were treated as the marginal incomes of their parents or guardians), these children generated just over $419.4 million (column 7) of tax revenue which is $24.4 million (column 8) less than the $443.8 million (column 6) of tax that would have been generated using ordinary tax computations. In previous years, this provision in the tax law caused these taxpayer's to pay additional taxes in comparison to the regular tax rate, such as the $3.8 million for Tax Year 2004. However, this anomaly probably occurred for 2005 because the higher rates on Form 8615 were offset by the preferential rates given to investment income for these children's long-term capital gains and qualified dividends.

Alternative Minimum Tax

The Revenue Act of 1978 established the alternative minimum tax to ensure that a minimum amount of income tax was paid by taxpayers who might otherwise be able to legally reduce, or totally eliminate, their tax burdens. The AMT provisions may recapture some of the tax reductions under the ordinary income tax. Form 6251, *Alternative Minimum Tax—Individuals*, is used to calculate AMT. (See *Computation of Alternative Minimum Taxable Income* for an explanation of the computation of income for AMT purposes.)

Figure E presents statistics, by size of AGI, on the AMT reported by taxpayers filing Form 6251 with their returns. Some taxpayers included Form 6251 even though their tax liability was not increased due to the AMT. The tabulations in Figure E include such forms. For 2005, AMT liability rose 33.7 percent to $17.4 billion from $13.0 billion in 2004. This rise in AMT coincided with a large increase in the number of returns that were subject to paying the AMT. The number of returns subject to paying the AMT increased 29.3 percent from 2004 to 4.0 million returns for 2005, and the Alternative Minimum Taxable Income (AMTI) increased 27.0 percent from 2004. In addition, limiting certain business tax credits, the AMT increases the tax liability for some taxpayers who do not have any AMT liability.

Figure F shows the number of taxpayers with AMT liability and the amount of that liability for each of the years 1986 through 2005. Much of the variation in the number of taxpayers affected by the AMT and in the amount of AMT liability during the mid-to-late 1980s and early 1990s was attributable to tax law changes such as TRA86, RRA90 (Revenue Reconciliation Act of 1990), and OBRA93, which altered the AMT. Since then, the impact of the AMT has increased partially because the AMT exemptions have not been automatically indexed annually for the effects of inflation, whereas various parameters of the ordinary income tax (such as tax brackets, exemptions, etc.) have been indexed annually for inflation. In both EGTRRA in 2001 and JGTRRA in 2003, AMT exemptions were increased, while ordinary

[6] For 2004, the total earned income credit was $42.4 billion. This amount includes the amount used to reduce the income tax ($0.7 billion), the amount used to reduce other taxes reported on individual income tax returns ($4.2 billion), and the amount refunded to taxpayers ($37.5 billion). Table 4 in Marcia, Sean and Justin Bryan, "Individual Income Tax Returns: 2005," *Statistics of Income Bulletin*, Fall 2007, Volume 27, Number 2, shows these amounts

Figure E

Returns with Alternative Minimum Tax Computation Reported on Form 6251: Total Adjustments and Preferences, and Alternative Minimum Taxable Income and Tax, by Size of Adjusted Gross Income, Tax Years 2004 and 2005
[Money amounts are in thousands of dollars]

Size of adjusted gross income	Total adjustments and preferences [1]		Alternative minimum taxable income [1]		Alternative minimum tax	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
	Tax Year 2005					
All returns	**7,433,534**	**174,509,523**	**8,270,156**	**1,922,027,257**	**4,004,756**	**17,421,071**
Under $1 [2]	96,769	1,473,947	131,785	-8,129,282	6,152	137,419
$1 under $10,000	115,963	279,577	314,427	1,023,238	2,739	10,585
$10,000 under $20,000	180,647	417,569	301,303	3,231,288	924	2,075
$20,000 under $30,000	174,965	576,229	266,899	5,261,458	3,989	8,236
$30,000 under $40,000	193,244	807,603	245,302	6,877,303	2,806	9,267
$40,000 under $50,000	230,223	1,428,357	273,595	10,617,629	20,439	29,940
$50,000 under $75,000	707,022	6,165,540	822,719	44,814,981	127,175	128,416
$75,000 under $100,000	687,090	7,946,629	730,989	55,644,816	180,455	266,632
$100,000 under $200,000	2,364,847	40,373,226	2,434,996	316,140,733	1,453,782	2,661,737
$200,000 under $500,000	2,152,921	54,598,446	2,202,913	586,897,315	1,934,237	8,842,035
$500,000 under $1,000,000	337,485	17,779,102	347,968	215,844,422	201,570	2,333,727
$1,000,000 or more	192,359	42,663,296	197,259	683,803,357	70,487	2,991,005
	Tax Year 2004					
All returns	**6,305,794**	**139,132,813**	**7,079,558**	**1,513,426,013**	**3,096,299**	**13,029,239**
Under $1 [2]	89,295	1,339,925	124,398	-8,913,784	4,714	88,495
$1 under $10,000	130,464	210,994	321,011	923,530	*83	*932
$10,000 under $20,000	165,151	520,143	263,404	2,887,139	4,754	5,168
$20,000 under $30,000	167,635	459,514	240,592	4,875,664	*2,311	*2,708
$30,000 under $40,000	168,727	693,861	239,797	6,980,973	1,664	448
$40,000 under $50,000	220,623	1,309,171	279,567	10,768,555	11,818	19,019
$50,000 under $75,000	645,355	5,217,887	742,108	40,686,106	89,396	116,192
$75,000 under $100,000	637,994	7,577,811	702,786	54,000,442	155,065	224,349
$100,000 under $200,000	1,909,206	32,232,673	1,947,203	256,536,024	1,095,242	2,058,479
$200,000 under $500,000	1,755,113	45,602,027	1,791,349	480,002,963	1,529,159	6,831,014
$500,000 under $1,000,000	267,596	13,587,916	274,871	170,439,189	149,042	1,645,295
$1,000,000 or more	148,635	30,380,890	152,473	494,239,207	53,052	2,037,141

* Estimate should be used with caution due to the small number of sample returns on which it is based.
[1] See Figures I and J for the calculation of alternative minimum taxable income and the list of alternative minimum tax adjustments and preferences.
[2] Includes returns with adjusted gross deficit.
NOTE: Detail may not add to totals because of rounding.

tax rates declined. For 2003, 2004, and 2005, AMT levels rose to $9.5 billion, $13.0 billion, and $17.4 billion, respectively. The amount in 2005 set the all-time high paid by individual taxpayers, surpassing the previous high set last year. This marks the fourth year in a row of increases in AMT levels. Since 2001, the AMT liability has increased a total of 157.8 percent. Also, during this same time, the number of returns paying AMT has more than tripled from 1.1 million to 4.0 million.

Income and Tax Shares

Historical statistics from 1986 through 2005 on income and tax by cumulative percentiles (based on numbers of returns) are presented in Tables 5 through 8. Distributions of AGI, as defined for each year and tax or income item, by descending and ascending cumulative percentiles of returns, are presented in Tables 5 and 6. These tables can be used to make comparisons across cumulative percentile classes within each year, among years within the ERTA81 period (i.e., Tax Years 1982 through 1986), and among years within the post-TRA86 period (i.e., Tax Years 1987 through 2005). Since TRA86 redefined AGI, Tables 5 and 6 are not as useful for comparisons between pre- and post-TRA86 years. Thus, Tables 7 and 8, which are based on a consistent definition of income (i.e., the 1979 Income Concept), are included to facilitate such comparisons.

Tables 5 and 7 are based on percentiles of returns cumulated downward from the highest income returns. The data in Tables 5 and 7 are shown for the top 1 percent, 5 percent, 10 percent, 25 percent, and 50 percent of returns. Tables 6 and 8 are based on

Figure F

Alternative Minimum Tax, Tax Years 1986-2005

[Tax rates are percentages—money amounts are in thousands of dollars]

Tax year	Highest statutory alternative minimum tax rate	Alternative minimum tax	
		Number of returns	Amount
	(1)	(2)	(3)
1986	20	608,907	6,713,149
1987	21	139,779	1,674,898
1988	21	113,562	1,027,884
1989	21	117,483	831,012
1990	21	132,103	830,313
1991	24	243,672	1,213,426
1992	24	287,183	1,357,063
1993	28	334,615	2,052,790
1994	28	368,964	2,212,094
1995	28	414,106	2,290,576
1996	28	477,898	2,812,746
1997	28 [1]	618,072	4,005,101
1998	28 [1]	853,433	5,014,549
1999	28 [1]	1,018,063	6,477,697
2000	28 [1]	1,304,197	9,600,840
2001	28 [1]	1,120,047	6,756,705
2002	28 [1]	1,910,789	6,853,901
2003	28 [1]	2,357,975	9,469,803
2004	28 [1]	3,096,299	13,029,239
2005	28 [1]	4,004,756	17,421,071

[1] Top rate on most long-term capital gains was 20%, for 2003-05, 15%.

returns cumulated upward from the lowest income returns. Data are shown for the bottom 50 percent, 75 percent, 90 percent, 95 percent, and 99 percent of all returns.

Consider, for example, the data in Table 5 for the 132.6 million returns filed for 2005 with positive AGI.[7] The average tax rate for these returns was 12.4 percent, a 0.3-percentage point increase from 2004. (A sizable portion of returns with positive AGI are nontaxable, accounting for the difference in the computation of this particular average tax rate versus the 13.6-percent average tax rate for taxable returns only—Figure A.) The average tax rate increased for second year in a row after having fallen for 3 previous years, bottoming out at 11.9 percent in 2003. Despite the overall increase, the average tax rate on the top 1 percent decreased, while the rates paid by the top 5 percent, 10 percent, 25 percent, and 50 percent all increased from 2004. The top 1 percent, 5 percent, 10 percent, 25 percent, and 50 percent all also recorded a larger share of the income tax burden than their respective shares of AGI. For 2005, the returns in the top 1 percent reported 21.2 percent of total AGI and 39.4 percent of income tax. The amount of AGI needed for inclusion in this percentile group (i.e., the AGI floor) was $364,657. For 2004, the returns in this percentile group (i.e., those with at least $328,049 in AGI) reported 19.0 percent of total AGI and 36.9 percent of total income tax.

For 2005, the returns in the top 5-percent group (returns reporting AGI of $145,283 or more) reported 35.7 percent of total AGI and 59.7 percent of income tax, compared to 33.5 percent and 57.1 percent, respectively, for 2004 (when the AGI floor was $137,056). For 2005, returns in the top 10-percent group (returns with AGI of at least $103,912) earned 46.4 percent of AGI and paid 70.3 percent of income tax. For 2004, the returns in this percentile group (with AGI of $99,112 or more) reported 44.4 percent of total AGI and 68.2 percent of income tax. The top 50-percent group (earning $30,881 or more) accounted for 87.2 percent of income and paid almost all (96.9 percent) of the income tax for 2005.

The statistics by percentile in Tables 5 and 6 for years prior to 1991 and in Tables 7 and 8 for years prior to 1994 were estimated, using a mathematical technique called "osculatory interpolation," applied to aggregated data tabulated by income-size classes, in order to distribute the tax returns within each class.[8] For 1991 and later years, the statistics by percentiles in Tables 5 and 6, and Tables 7 and 8 for 1994 through 2005 were computed based on an actual ranking of the returns in the statistical sample that served as the basis for Individual Statistics of Income estimates. The differences under the two methods were judged to be minor enough so that the pre-1991 and post-1990 data are believed to be comparable.

Explanation of Selected Terms

This appendix provides brief explanations of the major tax concepts discussed. For more extensive definitions, see *Individual Income Tax Returns 2005*, Statistics of Income Division, Internal Revenue Service, Publication 1304.

Adjusted Gross Income—Adjusted gross income is "total income," as defined by the Tax Code, less "statutory adjustments" (primarily business, investment, or certain other deductions, such as payments

[7] The percentile groupings of tax filers exclude returns with zero or negative AGI.

[8] For an explanation of the osculatory interpolation technique, see Oh, H. Lock, "Osculatory Interpolation with a Monotonicity Constraint," *1977 Proceedings of the American Statistical Association, Section on Statistical Computing,* 1978.

to a Keogh self-employed retirement plan, certain deductible contributions to an Individual Retirement Arrangement (IRA), self-employed health insurance deductions, and one-half of Social Security taxes for the self-employed). Total income includes, for example, salaries and wages, taxable interest, dividends, alimony, and net amounts from such sources as business income, rents and royalties, and sales of capital assets.

Difference Due to Special Tax Computation—For this article, the tax difference is the amount of tax resulting from using provisions of one of the special tax computations (Form 8615 or Schedule D and qualified dividends) less the amount of tax that would have resulted from not having used any of these provisions (regular tax computation).

Dividends—Ordinary dividend income consisted of distributions of money, stock, or other property received by taxpayers from domestic and foreign corporations, either directly or passed through estates, trusts, partnerships, or regulated investment companies. Ordinary dividends also included distributions from money market mutual funds.

Ordinary dividends did not include nontaxable distributions of stock or stock rights, returns of capital, capital gains, or liquidation distributions. Taxpayers were also instructed to exclude amounts paid on deposits or withdrawable accounts in banks, mutual savings banks, cooperative banks, savings and loan associations, and credit unions, which were treated as interest income.

Qualified dividends are the ordinary dividends received in tax years beginning after 2002 that met certain conditions. These conditions include: the dividend must have been paid by a U.S. corporation or a “qualified” foreign corporation; the stock ownership must have met certain holding period requirements; the dividends were not from certain institutions, such as mutual savings banks, cooperative banks, credit unions, tax-exempt organizations, or farmer cooperatives; and the dividends were not for any share of stock which was part of an employee stock ownership plan (ESOP). The maximum tax rate for qualified dividends was 15 percent generally (or 5 percent for amounts that would otherwise have been taxed at the 10-percent or 15-percent regular income rate).

Form 8615 Tax Computation—Form 8615 was used to compute the tax on investment income of children under age 14 who had investment income of more than $1,600. Generally, such income was taxed as the marginal income of the parents.

Income Tax Before Credits—This amount consisted of the tax liability on taxable income, computed by using the tax tables, tax rate schedules, Schedule D Tax worksheet, Schedule J, or Form 8615, plus Form (s) 8814, any additional taxes from Form 4972, and the alternative minimum tax.

Income Tax Before Credits (Regular Tax Computation)—This amount consisted of the tax liability on ordinary income, computed by using the tax table or applying the rates from one of the four tax rate schedules, plus any additional tax (tax on lump-sum distributions from qualified retirement plans). When Form 8615 tax was payable on investment income of children, for this concept, all the income was taxed at the child’s rate rather than at the rate of the parents. When the Schedule D tax was payable on net long-term capital gains, the tax was based on the regular tax rates rather than the 5-percent, 8-percent, 10-percent, 15-percent, 25-percent, or 28-percent tax rate for capital gains. When a tax was payable on a qualified dividend, the tax was based on regular tax rates instead of the maximum tax rate for qualified dividends, 15 percent (5 percent for amounts that would otherwise have been taxed in the 10-percent and 15-percent tax brackets). This is in contrast to the computation of Income Tax Before Credits (see above) in which special tax computations, such as those involved on Form 8615, Schedule D, and qualified dividends, are taken into account. See Table 4.

Marginal Tax Rate—See *Income and Tax Concepts.*

Modified Taxable Income—See *Income and Tax Concepts.*

Regular Tax Computation—Depending on marital status and size of taxable income, the taxpayer used one of the four tax rate schedules (or an approximation from the tax table) to determine tax. Returns of taxpayers who had taxes computed by the Internal Revenue Service were classified under the regular tax computation method.

Schedule D and Qualified Dividend Tax Computation—Schedule D was used to compute the 5-percent, 8-percent, 10-percent, 15-percent, 25-percent, and 28-percent taxes on net long-term capital gains (in excess of net short-term capital losses) if such computations were beneficial to the taxpayer. Any investment interest allocated to long-term capital gains (on Form 4952) was excluded from this computation. Qualified dividends were taxed at a maximum tax rate of 15 percent (5 percent for amounts that would otherwise have been taxed in the 10-percent and 15-percent brackets).

Taxable Income—Taxable income is AGI less the sum of personal exemption amounts and either the standard deduction for nonitemizers or total itemized deductions. The amounts for personal exemptions and total itemized deductions are net of any reductions because of taxpayers' incomes exceeding certain income thresholds.

Taxable Returns—A return is classified as "taxable" based on the presence of "total income tax." The following additional taxes were not taken into account for this purpose: self-employment, household employment, Social Security, Railroad Retirement Tax Act (RRTA) taxes, tax from recomputing prior-year investment, low-income housing, and a few other business credits, penalty taxes on Individual Retirement Arrangements, section 72 penalty taxes, advance earned income credit payments, or "golden parachute" payments (made to key employees as compensation under certain circumstances).

Tax Generated—This is the amount of tax computed on modified taxable income either from the tax rate schedules or the tax table. Tax generated does not take into account the alternative minimum tax or the effect of tax credits. For most returns (those without the special tax on lump-sum distributions from qualified retirement plans or alternative minimum tax), tax generated equals "income tax before credits."

Total Income Tax—This is the sum of income tax after credits and tax on accumulated trust distribution from Form 4970, less the portion of EIC used to offset other taxes as well as the refundable portion of EIC (with tax limited to zero).

Income Tax Structure

Taxpayers must file an income tax return if they meet certain minimum filing requirements. The filing requirements for 2005 generally were based on the amount of "gross income," filing status, age, dependency, and blindness.[9] Generally, the minimum level of income for which a return was required to be filed equaled the sum of the standard deduction for the particular filing status and the amount of the personal exemption deduction allowed for the taxpayer or taxpayers (but not for any dependents). In addition to the general filing requirements, individuals were required to file a return for Tax Year 2005 if they had net earnings from self-employment of at least $400; liability for Social Security or Medicare tax on unreported tip income; Social Security, Medicare, or Railroad Retirement tax on reported tip income or group-term life insurance; "alternative minimum tax"; tax on qualified retirement plan distributions, including an Individual Retirement Arrangement (IRA) or a Medical Savings Account (MSA); tax on the recapture of investment credit, low-income housing credit, or a few other business credits; recapture tax on the disposition of a home purchased with a Federally-subsidized mortgage; any advance earned income credit payments; or wages of $108.28 or more from a church or qualified church-controlled organization that was exempt from Social Security taxes.

Gross income includes all income received as money, goods, property, or services that was not expressly exempt from tax.[10] Adjusted gross income (AGI) is equal to gross income less deductions for certain expenses.[11] "Taxable income," the base on which income tax before credits is computed, equals AGI less the amount for personal exemptions and less either total allowable itemized deductions for taxpayers who itemize deductions, or the standard deduction (including the additional amounts for age and blindness) for all other taxpayers.

[9] Taxpayers fall into one of five filing statuses: single; married filing jointly; married filing separately; head of household; or surviving spouse. Being age 65 or older or being legally blind affects the amount of the standard deduction and, hence, the filing requirements. Taxpayers who are (or could be) dependents of other taxpayers have different filing requirements. For more information on the general filing requirements, see Marcia, Sean and Justin Bryan, "Individual Income Tax Returns: 2005," *Statistics of Income Bulletin*, Fall 2007, Volume 27, Number 2.

[10] As defined under section 61 of the Internal Revenue Code, gross income includes amounts from wages and salaries, interest and dividends, alimony, bartering income, canceled debt income, gambling winnings, rents and royalties, and gains from property sales or exchanges, as well as gross income from sole proprietorships and farming, income from partnerships and S corporations, and distributions from estates and trusts. This definition of gross income is slightly different from the Form 1040, *U.S. Individual Income Tax Return*, concept of "total income," which is a component of the adjusted gross income (AGI) calculation on Form 1040. Total income includes net amounts rather than gross amounts (income prior to deductions) from such items as business income and rents and royalties.

[11] As defined under Internal Revenue Code section 62, deductible expenses are those incurred in the course of a trade or business or in connection with rents and royalties; losses from property sales or exchanges; and certain statutory adjustments, such as deductible contributions to an IRA or Keogh plan, moving expenses, the healthinsurance deduction for certain self-employed taxpayers, or one-half of self-employment tax.

Income tax before credits is calculated from taxable income using: tax tables or tax rate schedules, both of which vary with taxpayer filing status (single, married filing jointly, surviving spouse, married filing separately, and head of household); Form 8615 or Form 8814 for children's investment income; Schedule J for farmers and fishermen to income-average; Schedule D and Qualified Dividends worksheet for net long-term capital gains and qualified dividends; or some combination of the above. For 2005, the tax rates for each filing status were 5 percent, 10 percent, 15 percent, 25 percent, 26 percent, 28 percent, 33 percent, and 35 percent. The tax rates of 5 percent, 8 percent, 10 percent, 15 percent, and 20 percent were used for net long-term capital gains (in excess of net short-term capital losses).[12] The 26-percent tax rate was only for the alternative minimum tax. Income tax before credits includes any alternative minimum tax.[13]

To calculate their Federal income tax liability for 2005, taxpayers used either the tax table or the tax rate schedules. Taxpayers with taxable income less than $100,000 were required to use the tax table, while those with taxable income of $100,000 or more were required to use the tax rate schedules. The tax table was based on income tax "brackets" up to $50 wide.[14] The tax within each bracket was based on the tax calculated at the midpoint of the bracket and then rounded to the nearest whole dollar. As a result, the tax tables and the tax rate schedules could produce different amounts of tax for the same amount of taxable income. Use of the tax tables could have produced either a slightly higher or lower amount of tax than that produced by the tax rate schedules. For taxpayers using the tax tables with taxable income that was subject to the 33-percent marginal rate, the maximum difference in tax between the tax rate schedules and the tax table was $8.25.[15] However, for most taxpayers, the actual difference in tax was smaller.

Changes in Law for 2005

Additional child tax credits—Modifications were made to the additional child tax credit for 2005. In Tax Year 2004, the credit limit based on earned income was 15 percent of a taxpayer's earned income that exceeded $10,750. For 2005, the limit was 15 percent of a taxpayer's earned income that exceeded $11,000.

Alternative Minimum Tax (AMT)—For Tax Year 2005, the minimum exemption amount for a child under age 14 increased to $5,850 from $5,750 for 2004. Also, beginning in 2005, the 90-percent limit on using the AMT foreign tax credit to reduce the taxpayer's precredit tentative minimum tax.

Domestic production activities—New for 2005, this deduction equaled 3 percent of the lesser of: (a) qualified production activities income; or (b) taxable income for the taxable year. However, the deduction for a taxable year was limited to 50 percent of the W-2 wages paid by the taxpayer during that calendar year. Qualified production activities include domestic manufacturing, producing, growing, and extracting tangible personal property, computer software, and sound recordings, and the construction and substantial renovation of real property including infrastructure.

Earned Income Credit—The maximum amount of the earned income credit increased, as did the amounts of earned income and investment income an individual could have and still claim the credit. The maximum amount of investment income (interest, dividends, and capital gain income) a taxpayer could have and still claim the credit increased to $2,700 from $2,650. The maximum credit for taxpayers with no qualifying children increased to $399 from $390. For these taxpayers, earned income and AGI had to be less than $11,750 ($13,750 if married filing jointly) to get any EIC. For taxpayers with one qualifying child, the maximum credit increased $58 to $2,662, and, for taxpayers with two or more qualifying children, the maximum credit increased to $4,400 from $4,300. To be eligible for the credit, a taxpayer's earned income and AGI had to be less than $31,030 ($33,030 for married filing jointly) for one qualifying child, or less than $35,263 ($37,263 for married filing jointly) for two or more qualifying children.

[12] The capital gain rates of 8 percent, 10 percent, and 20 percent were only for prior-year returns.

[13] Income tax before credits includes tax on lump-sum distributions from qualified retirement plans.

[14] For taxable income between $0 and $5 and between $5 and $25, the tax brackets were $5 and $10 wide, respectively. For taxable income between $25 and $3,000, the brackets were $25 wide. For taxable income above $3,000, the brackets were $50 wide.

[15] For example, assume a taxpayer filing as "married filing separately" reported taxable income of $98,000. Using the tax table, the tax would be $22,644, but, using the tax rate schedules, the tax would be $22,635.75, a difference of $8.25

Health savings account deduction—The deduction was limited to the annual deductible on the qualifying high deductible health plan, but not more than $2,650 ($5,250 if family coverage), an increase from $2,600 ($5,150 if family coverage) in 2004. These limits were $600 higher if the taxpayer was age 55 or older ($1,200 if both spouses were 55 or older). For 2004, these limits were $500 and $1,000, respectively.

Indexing—The following items increased due to indexing for inflation: personal exemption amounts, the basic standard deduction amounts, the tax bracket boundaries, and the beginning income amounts for limiting certain itemized deductions and for the phaseout of personal exemptions. The maximum amount of earnings subject to self-employment Social Security tax increased based on the percentage change in average covered earnings.

Individual retirement arrangement deduction—For 2005, a taxpayer (both taxpayers for taxpayers filing jointly) was able to take an IRA deduction up to $4,000 ($4,500 if age 50 or older) if not covered by a retirement plan, or if covered by a retirement plan but his or her modified AGI was less than $60,000 ($80,000 if married filing jointly or qualifying widow(er)). This was up from $55,000 ($75,000 if married filing jointly or qualifying widow(er)) for 2004.

Katrina Emergency Tax Relief Act of 2005 and Gulf Opportunity Zone Act of 2005—The Katrina Emergency Tax Relief Act of 2005 and the Gulf Opportunity Zone Act of 2005 contained many tax relief provisions for individuals in the Hurricane Katrina, Rita, and Wilma disaster areas. The Katrina Emergency Tax Relief Act of 2005 provided an additional exemption of $500 in years 2005 or 2006 for each Hurricane Katrina-displaced individual claimed by the taxpayer. The total additional exemption claimed for all years could not exceed: $2,000 for married taxpayers filing jointly, $1,000 for married taxpayers filing separately, and $2,000 for all other taxpayers. A Hurricane Katrina-displaced individual was defined as a person (1) whose main home on August 28, 2005, was in the Hurricane Katrina disaster area, (2) who was displaced from his or her home, and (3) who was provided housing free of charge in a taxpayer’s main home for a period of 60 consecutive days which ended in the taxable year in which the exemption was claimed. The additional exemption was not subject to the income-based phaseouts applicable to personal exemptions, and was allowed as a deduction in computing alternative minimum taxable income. Other tax benefits for all taxpayers affected by Hurricanes Katrina, Rita, and Wilma (the Gulf Opportunity Zone) included:

1) Suspended limits for certain personal casualty losses and cash charitable contributions. Casualty loss claims in the affected disaster area after August 24, 2005, no longer had to be larger than $100, and the combined amount did not have to exceed 10 percent of AGI. All cash contributions paid after August 27, 2005, were no longer limited to 50 percent of AGI and were also not subject to the overall limitation on itemized deductions;

2) Election to use 2004 earned income to figure 2005 EIC and additional child tax credits;

3) An increased charitable standard mileage rate for using vehicles for volunteer work related to Hurricane Katrina;

4) Special rules for charitable deductions of food inventory by taxpayers engaged in a trade or business;

5) Special rules for withdrawals and loans from IRAs and other qualified retirement plans; and

6) Expanded education credits for students attending an eligible education institution in the Gulf Opportunity Zone. The Hope credit was increased to 100 percent of the first $2,000 and 50 percent of the next $2,000, and the Lifetime Learning credit was expanded to 40 percent of the first $10,000.

Qualifying child definition—The definition for a qualifying child changed slightly for several tax benefits in Tax Year 2005. While the definition was primarily the same for most benefits, the most notable change was for the Child Tax Credit. Certain taxpayers, who could not claim children as a dependent exemption, could still claim them on the credit, using Form 8901 (for 2005, approximately 13,200 extra child tax credit exemptions were reported due to this provision).

Income and Tax Concepts

As discussed in *Income Tax Structure*, gross income is all income received that is not specifically excluded. Total income is the net amount of gross income after certain expenses (i.e., business or rent and royalty expenses) have been deducted. Adjusted gross income (AGI) is total income less statutory adjustments to income (i.e., deductible contributions to an IRA or Keogh plan).

1979 Income Concept

To analyze changes in income and taxes over a period of years, a consistent definition of income should be used. Because the components of AGI may vary from year to year as the law changes, the "1979 Income Concept" was developed to provide a more uniform measure of income across tax years. By including the same income and deduction items in each year's income calculation and using only items available on Federal individual income tax returns, the definition of the 1979 Income Concept is consistent throughout the base years and can be used for future years to compare income by including only income components common to all years. Tax Years 1979 through 1986 were used as base years in identifying the income and deduction items included in this concept. The 1979 Income Concept applied to 2005 includes many income and deduction items that are also components of AGI (Figure G). However, unlike AGI, the 1979 Income Concept also includes some nontaxable (i.e., tax-exempt) amounts of income reported on individual income tax returns and disallowed passive loss deductions. In addition, only straight-line deductions for depreciation are included in the 1979 Income Concept.[16]

Modified Taxable Income

This concept is relevant only for "prior-year returns" (about 4.3 million returns) or certain farm sole proprietor returns using income-averaging on Schedule J (about 56 thousand returns). For all other returns, modified taxable income is identical to taxable income.

This is the term used in the statistics to describe "income subject to tax," the actual base on which tax is computed. Each year, a small number of returns for prior tax years are filed during the same calendar year in which the tax returns for the current tax year are being selected for the Statistics of Income sample. Some of these returns are selected for the sample and act as proxies for returns for the current tax year that will be filed during a later calendar year. The tax on these returns is based on a previous year's tax law (which may reflect different tax rates and income concepts). For the statistics in this article, the taxable incomes reported on these prior-year returns and those filed with a Schedule J are modified to equal an amount necessary to generate the tax actually shown on these returns using current-year rates.

Figure G

Components of the 1979 Income Concept, Tax Year 2005

Income or Loss:

- Salaries and wages [1]
- Interest [1]
- Dividends [1]
- Taxable refunds [1]
- Alimony received [1]
- Capital gain distributions not reported on Schedule D [1]
- Capital gains reported on Schedule D minus allowable losses [1]
- Other gains and losses (Form 4797) [1]
- Business net income or loss [1]
- Farm net income or loss [1]
- Rent net income or loss [1]
- Royalty net income or loss [1]
- Partnership net income or loss [1]
- S Corporation net income or loss [1]
- Farm rental net income or loss [1]
- Estate or trust net income or loss [1]
- Unemployment compensation [1]
- Depreciation in excess of straight-line depreciation [2]
- Total pension income [3], [4]
- Other net income or loss [5]
- Net operating loss [1]

Deductions:

- Disallowed passive losses (Form 8582) [6]
- Moving expenses [1]
- Alimony paid [1]
- Unreimbursed business expenses [6]

[1] Included in adjusted gross income (less deficit) (AGI) for Tax Year 2005.
[2] Adjustment to add back excess depreciation (accelerated over straight-line depreciation) deducted in the course of a trade or business and included in net income (loss) amounts shown above.
[3] Includes taxable and tax-exempt pension and retirement distributions, including IRA distributions.
[4] Not fully included in AGI for Tax Year 2005.
[5] Includes an adjustment to add back amounts reported for the "foreign-earned income exclusion."
[6] Not included in AGI for Tax Year 2005.

Marginal Tax Rates

Under the progressive U.S. income tax rate structure, different portions of taxable income are taxed

[16] For more details on the income computation under the 1979 Income Concept for 2005, see *Individual Income Tax Returns 2005*, Statistics of Income Division, Internal Revenue Service, Publication 1304.

at different rates. Figure H illustrates how income tax is determined for a single taxpayer with AGI of $402,000 who used the standard deduction. As shown in the example, six different tax rates were applied to the taxable income to arrive at total tax. The first $7,300 of taxable income were taxed at the 10-percent rate; the next $22,400 of taxable income were taxed at the 15-percent rate; the next $42,250 were taxed at the 25-percent rate; the next $78,200 were taxed at the 28-percent rate; the next $176,300 were taxed at the 33-percent rate; and the remaining $70,550 were taxed at the 35-percent rate. For purposes of this article, the tax rate applied to the last dollar of income (given certain assumptions about which source of income provided the last dollar of income subject to tax) is the marginal tax rate for that return. In the example, the marginal tax rate is 35 percent.

Since the individual income tax structure includes various types of income, deductions, exclusions, credits, and taxes which are not subject to the same treatment under tax laws, the marginal tax rate is not always apparent. For instance, investment income of a dependent under age 14 in excess of a specific amount is treated differently than salaries and wages of the same dependent. The investment income in excess of $1,600 was taxed at the marginal tax rate of the parents, whereas the salaries and wages were taxed at the dependent's own rate.

Calculating marginal tax rates for a specific individual income tax return generally depends both on the types and amounts of income reported and the assumptions made about the order in which the income is taxed, in particular, which type of income is assumed to be received "last." Additional complexity is added by the presence of such items as the alternative minimum tax and various tax credits.

For this article, it is assumed that the income taxed at the marginal (highest) rate was the "last" income received. The alternative minimum tax and income tax credits, such as the earned income credit, are excluded in determining the marginal tax rates. The marginal tax rate is defined as follows:

1) If a return showed taxable income, the marginal tax rate of the return was the highest rate at which any amount of taxable income reported on the return was taxed.

2) If the return had no taxable income except for net long-term capital gains or qualified dividends and that amount was less than or equal to the 15-percent tax bracket limit, the return was defined as having a "5-percent, 8-percent, or 10-percent rate" marginal tax rate. If the return had taxable income (from other than net long-term capital gains) to which only the 15-percent tax rate applied, as well as net long-term capital gains to which the 20-percent or 25-percent rate on the net gain applied, the return was defined as having a marginal tax rate equal to the maximum rate at which the net gains were taxed. If the return had taxable income (from other than net long-term capital gains) to which the 25-percent tax rate applied as the highest rate, as well as net long-term capital gains to which the maximum 28-percent rate on net gain applied, the return was defined as having a "28-percent" marginal tax rate. However, if the return had taxable income (from other than net long-term capital gains) above the maximum amount to which the 25-percent applied, as well as net long-term capital gains to which the 28-percent rate on the net gain applied, the return was classified as having the highest rate at which any amount of taxable income reported on the return was taxed.

3) For returns of dependents with a Form 8615 attached when the use of this form resulted in the taxation of some of the dependent's income as if

Figure H

Income Tax Calculation for a Single Taxpayer With One Exemption Who Used the Standard Deduction, Tax Year 2005
[Money amounts are in whole dollars]

Item	Amount
Adjusted gross income	402,000
Less: Exemption	[1] 0
Standard deduction	5,000
Equals: Taxable income	397,000
Tax based on tax rates for single taxpayers:	
First $7,300 taxed at 10 percent	730
Next $22,400 taxed at 15 percent	3,360
Next $42,250 taxed at 25 percent	10,563
Next $78,200 taxed at 28 percent	21,896
Next $176,300 taxed at 33 percent	58,179
Next $70,550 taxed at 35 percent	24,693
Total tax from tax rate schedule	119,421

[1] The exemption amount was phased out completely because AGI exceeded $268,450.

it were that of the parents, the return was classified as having a "Form 8615" marginal tax rate (the returns in the Form 8615 classification are not distributed by tax rate).

4) For returns of parents choosing to report interest, dividend, and capital gain distribution income of their dependents under age 14 on their own (i.e., the parents') return using Form 8814, when the dependent's income generated the only tax liability on the parent's return, the return was classified with a "Form 8814" marginal tax rate of 10 percent.

The classification of returns into marginal tax rate categories for Statistics of Income purposes was essentially a function of filing status, size of taxable income, presence of net long-term capital gains (in excess of net short-term capital losses) and/or qualified dividends, and presence of Form 8615 or Form 8814. Returns were classified into one of the following fifteen mutually exclusive marginal tax rate categories: (1) 5-percent rate (capital gains); (2) 8-percent rate (capital gains); (3) 10-percent rate; (4) 10-percent (capital gains); (5) Form 8814 (10-percent rate with no tax liability other than that generated by the dependent's income); (6) 15-percent rate; (7) 15-percent (capital gains); (8) 20-percent rate; (9) 25-percent rate; (10) 25-percent (capital gains); (11) 28-percent rate; (12) 28-percent (capital gains); (13) 33-percent rate; (14) 35-percent rate; and (15) Form 8615 (with income taxed at any rate).[17]

Table 1 presents statistics by marginal tax rate classification and filing status for returns with modified taxable income. For each marginal rate classification, modified taxable income and "income tax generated" were computed "at all rates" and "at marginal rate." The "at all rates" computations (columns 3 and 5) show the total amount of modified taxable income or tax generated, tabulated by the marginal tax rate specified; each tax rate classification is mutually exclusive. The "at marginal rate" computations (columns 4 and 6) report the specific amounts of modified taxable income taxed and the tax generated at the marginal tax rate shown, for all returns in each of the marginal rate classifications. The alternative minimum tax was not included in the statistics by marginal tax rate.

For example, consider returns in the "joint returns and returns of surviving spouses" filing status that were included in the "35-percent" marginal tax rate classification. The total modified taxable income for the estimated 811,228 returns in this classification "at all rates" was $916.5 billion (column 3), and the total tax generated was $264.1 billion (column 5). Approximately $471.1 billion (column 4) of the modified taxable income were subject to tax at the marginal tax rate of 35 percent. This modified taxable income generated $164.9 billion (column 6) in tax at the 35-percent tax rate with the remainder generated at some or all of the lower eight tax rates.

Table 2 provides statistics on the tax generated, in total and at each tax rate bracket, for returns with modified taxable income. Returns in this table are classified by size of AGI. The tax generated at each tax rate was computed based on the modified taxable income for each individual return.

For example, the 2.7 million returns included in the "$200,000 under $500,000" income-size classification showed total modified taxable income of $657.1 billion and generated total tax of $152.6 billion. Of this $657.1 billion of modified taxable income, $36.1 billion were taxed at the 10-percent (ordinary tax) rate; $108.4 billion were taxed at the 15-percent (ordinary tax) rate; $142.4 billion were taxed at the 25-percent (ordinary tax) rate; $134.0 billion were taxed at the 28-percent (ordinary tax) rate; $117.9 billion were taxed at the 33-percent rate; and $16.2 billion were taxed at the 35-percent rate. Approximately $5.9 billion were taxed at the 5-percent rate; $92.4 billion were taxed at the 15-percent capital gain and qualified dividend rate; $0.01 billion were taxed at the 20-percent rate; $3.2 billion were taxed at the 25-percent capital gain rate; and $0.2 billion were taxed at the 28-percent capital gain rate, with the remainder from tax related to special capital gain tax rates and Forms 8814 and 8615.

Table 3 presents statistics on the income and tax generated at each tax rate, by filing status, for returns with modified taxable income. Over 0.8 million of the 45.0 million returns with modified taxable income filed jointly (including surviving spouses) had

[17] For some taxpayers, the statutory marginal tax rate may differ from the effective marginal tax rate. For example, extra income received by certain taxpayers may result in the phaseout of their personal exemptions as well as some of their itemized deductions. Therefore, an extra $1 of income could add more than $1 of taxable income. While this taxpayer could face a statutory marginal tax rate of 35 percent, the effective marginal rate faced by the taxpayer would be somewhat higher.

some income taxed at the 35-percent tax rate. For these returns, the taxable income subject to this rate was $471.1 billion, and the tax generated was $164.9 billion.

Computation of Alternative Minimum Taxable Income (AMTI)

AMTI was computed by adding certain “tax preferences” (i.e., deduction or exclusion amounts identified as potential sources of tax savings disallowed for AMT purposes) and “adjustments” (i.e., regular tax deduction amounts recomputed or excluded for AMT purposes) to taxable income before any deductions were taken for personal exemptions (Figures I and J). Although itemized deductions for some taxpayers were limited for regular tax purposes, the full amounts of such itemized deductions were included as adjustments. (To compensate for this, the overall limitation on itemized deductions was then subtracted from taxable income for AMT purposes.) The “net operating loss deduction” was recomputed to allow for the exclusion of the “tax preference items” and “adjustments” used to reduce regular tax liability. The recomputed net operating loss deduction, termed the “alternative net operating loss deduction,” was limited to 90 percent of AMTI (with certain minor exceptions for 2005).

AMTI was reduced by an exemption amount which depended on the filing status of the individual and which was subject to phaseout at higher AMTI levels. The AMTI exemption for single filers (and heads of households) for 2005 was $40,250; for joint filers and surviving spouses, $58,000; and for married persons filing separately, $29,000. The exemption was reduced (but not below zero) by 25 percent of the amount by which the AMTI exceeded threshold levels of $112,500 for single filers and heads of households, $150,000 for joint filers, and $75,000 for married persons filing separately. The exemption was phased out completely for individuals whose filing status was single or head of household, married filing jointly, and married filing separately, at $273,500, $382,000, and $191,000, of AMTI, respectively.

After reduction by the exemption, the first $175,000 ($87,500 if married filing separately) of the remaining AMTI was subject to tax at a 26-percent rate, with any excess taxed at a 28-percent rate. However, capital gains and qualified dividends (recalculated for AMT purposes) that were taxed at lower rates (5 percent, 8 percent, 10 percent, 15 percent, 20 percent, and 25 percent) were taxed at these same rates for the AMT, with the rest of AMTI being taxed at the rates mentioned above (26 percent or 28 percent). The resulting tax was reduced by the “alternative minimum tax foreign tax credit,” which produced a “tentative minimum tax.” Tentative minimum tax was further reduced by the individual’s regular tax before credits (excluding tax on lump-sum distributions from qualified retirement plans) less the foreign tax credit (for regular tax purposes) to yield the alternative minimum tax.

Dependents under the age of 14 with investment income over a certain amount who filed their own returns were subject to special rules for AMT purposes. These rules required that the dependents pay the same amount of AMT as their parents would have paid if the parents included the dependents’ incomes on their own tax returns. (Dependents filing their own returns were limited to an AMT exemption of $5,850 plus their “earned incomes.” The dependent’s AMT could be reduced if the parents had regular tax greater than the child’s own tentative minimum tax, or if any other dependent under age 14 of the same parents had regular tax greater than this dependent’s own tentative minimum tax.)

Figure I

Calculation of Alternative Minimum Taxable Income (AMTI), Tax Year 2005

	Taxable income before deduction for personal exemptions
PLUS:	Adjustments and preferences (see Figure J)
PLUS:	Net operating loss deduction
MINUS:	Overall itemized deductions limitation
MINUS:	Alternative tax net operating loss deduction [1]
EQUALS:	Alternative minimum taxable income

[1] Limited to 90 percent of AMTI, except when depletion is present on Form 6251. In this case, AMTI is recalculated, and the alternative tax net operating loss deduction is limited to 90 percent of the recalculated amount.

Figure J

Alternative Minimum Tax Adjustments and Preferences, Tax Year 2005

- Medical and dental expenses from Schedule A (the lesser of deductible medical and dental expenses or 2.5 percent of AGI)
- Deductions for State and local income, sales, real estate, personal property, and foreign taxes
- Mortgage interest adjustment from line 6 of the worksheet on page 2 of the Form 6251 instructions
- Miscellaneous itemized deductions subject to the 2-percent-of-AGI limitation
- Refunds of State and local income, sales, real estate, personal property, and foreign taxes previously deducted (negative)
- Investment interest expense (the result could be negative)
- Excess of percentage depletion deduction for sections 611 and 613 property over the adjusted basis (the result could be negative)
- Tax-exempt interest from private activity bonds issued after August 7, 1986
- Excluded gain, under the section 1202 gain on qualified small business stock held more than 5 years, multiplied by 7% if sold after May 5, 2003, otherwise multiplied by 42 percent
- Incentive stock options which were exercised after 1987 (the amount by which the value of the option when exercised exceeded the price paid by the taxpayer; the result could be negative)
- Difference between income distributions to beneficiaries of estates and trusts for regular tax purposes and the amounts refigured for AMT purposes (the result could be negative)
- Electing large partnerships, enter the amount from Schedule K-1 (Form 1065-B), box 6.
- Adjustment of gain or loss on property, the basis of which was affected by accelerated depreciation or rapid amortization and which was reduced for AMT purposes (the result could be negative)
- Excess of depreciation on property placed in service after 1986 over less liberal methods allowed for alternative minimum tax (AMT) purposes (straight-line or 150-percent declining balance method, depending on the type of property; the result could be negative)
- Passive activity gains and losses allowed for regular tax purposes for activities acquired before October 23, 1986, taking into account AMT adjustments and preference items and any AMT prior-year unallowed losses (the result could be negative)
- Adjustment for refigured loss from activities in which allowable losses from partnerships or S Corporations were limited by "at-risk" and other rules, taking into account AMT adjustments and preference items (the result could be negative)
- Excess of circulation expenditures paid or incurred after 1986 over allowable amortization if the expenditures were capitalized (the result could be negative)
- Deferred income from long-term contracts entered into after February 28, 1986, with certain exceptions and limitations (the result could be negative)
- Excess of mining exploration and development costs paid or incurred after 1986 over allowable amortization if the expenditures were capitalized (the result could be negative)
- Excess of research and experimental expenditures paid or incurred after 1986 over allowable amortization if the expenditures were capitalized (the result could be negative)
- Adjustment from disallowing the installment sales method of accounting for sales of inventory and stock in trade after March 1, 1986, with certain exceptions (the result is negative)
- Amount by which excess intangible drilling costs deducted currently over allowable amortization (if these costs were capitalized) was more than 65 percent of the taxpayer's "net income" from oil, gas, and geothermal wells, with exceptions for independent oil producers and royalty owners
- Excess of accelerated depreciation on property placed in service using pre-1987 rules over straight-line depreciation as refigured for AMT purposes
- Adjustment for taxable distributions received from a cooperative (total AMT patronage dividend and per-unit retain allocation adjustment)
- Excess of rapid amortization of pollution control facilities placed in service after 1986 over otherwise allowable depreciation (the result could be negative)
- Adjustment for charitable contributions of certain property for which section 170(e) of the Internal Revenue Code applies
- Adjustment for Alcohol Fuel Credit included in taxable income (the amount is included as a negative)
- Adjustment for refigured tax shelter farm losses, taking into account AMT adjustments and preference items (the result could be negative)
- Related adjustments, refigured for AMT purposes, including section 179 expense deduction, expenses for business or rental use of the home, conservation expenses, taxable IRA distributions, self-employed health insurance deduction, Keogh retirement plan or self-employed SEP deduction, and IRA deductions (the result could be negative)

Figure K

Coefficients of Variation for Selected Items, by Size of Adjusted Gross Income, Tax Year 2005

[Coefficients of variation are percentages]

Size of adjusted gross income	Modified taxable income		Tax generated	Income tax after credits	Total income tax
	Number of returns	Amount			
	(1)	(2)	(3)	(4)	(5)
Total	**0.12**	**0.11**	**0.14**	**0.15**	**0.15**
Under $2,000 [1]	5.09	6.26	6.61	16.70	16.70
$2,000 under $4,000	4.85	5.71	6.45	14.05	14.05
$4,000 under $6,000	3.12	4.57	5.20	5.12	5.12
$6,000 under $8,000	2.91	3.15	3.27	3.32	3.32
$8,000 under $10,000	1.95	2.62	2.64	2.98	2.98
$10,000 under $12,000	1.87	2.13	2.16	2.32	2.32
$12,000 under $14,000	1.87	2.02	2.05	2.20	2.20
$14,000 under $16,000	1.74	1.93	1.96	2.16	2.16
$16,000 under $18,000	1.65	1.86	1.89	2.12	2.12
$18,000 under $20,000	1.58	1.82	1.87	2.18	2.18
$20,000 under $25,000	0.97	1.10	1.15	1.36	1.36
$25,000 under $30,000	1.00	1.11	1.15	1.36	1.36
$30,000 under $40,000	0.76	0.83	0.86	0.97	0.97
$40,000 under $50,000	0.78	0.82	0.87	0.98	0.98
$50,000 under $75,000	0.52	0.55	0.59	0.65	0.65
$75,000 under $100,000	0.69	0.71	0.75	0.80	0.80
$100,000 under $200,000	0.63	0.61	0.63	0.63	0.63
$200,000 under $500,000	0.73	0.68	0.70	0.69	0.69
$500,000 under $1,000,000	0.98	0.87	0.90	0.91	0.91
$1,000,000 under $1,500,000	1.21	1.15	1.21	1.21	1.21
$1,500,000 under $2,000,000	0.92	0.94	0.99	0.98	0.98
$2,000,000 under $5,000,000	0.51	0.44	0.48	0.48	0.48
$5,000,000 under $10,000,000	0.55	0.46	0.49	0.49	0.49
$10,000,000 or more	0.02	0.01	0.01	0.01	0.01

[1] Includes returns with adjusted gross deficit.

Data Sources and Limitations

These statistics are based on a sample of individual income tax returns (Forms 1040, 1040A, and 1040EZ, including electronically filed returns) filed during Calendar Year 2006. Returns in the sample were stratified based on: (1) the larger of positive income or negative income; (2) the size of business and farm receipts; (3) the presence or absence of specific forms or schedules; and (4) the usefulness of returns for tax policy modeling purposes.[18] Returns were then selected at rates ranging from 0.10 percent to 100 percent. The 2005 data are based on a sample of 292,966 returns and an estimated final population of 134,494,440 returns. The corresponding sample and population for the 2004 data were 200,778 and 133,189,982 returns, respectively.

Since the data presented here are estimates based on a sample of returns filed, they are subject to sampling error. To properly use the statistical data provided, the magnitude of the potential sampling error must be known; coefficients of variation (CVs) are used to measure that magnitude. Figure K shows estimated CVs for the numbers of returns and money amounts for selected income items. The reliability of estimates based on samples, and the use of coefficients of variation for evaluating the precision of estimates based on samples, are discussed in the appendix to this issue of the *Bulletin*.

[18] Returns in the sample were stratified based on the presence or absence of one or more of the following forms or schedules: Form 2555, *Foreign Earned Income*; Form 1116, *Foreign Tax Credit (Individual, Fiduciary, or Nonresident Alien Individual)*; Schedule C, *Profit or Loss from Business (Sole Proprietorship)*; and Schedule F, *Profit or Loss From Farming.*

Table 1. Returns with Modified Taxable Income: Tax Classified by Marginal Tax Rate, Tax Year 2005

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

Tax rate classes	Classified by the highest marginal rate at which tax was computed								
	Number of returns	Adjusted gross income less deficit	Modified taxable income		Tax generated		Income tax after credits		
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percentage of: Adjusted gross income less deficit	As a percentage of: Modified taxable income
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All returns									
All tax rates	**104,321,332**	**7,243,017,707**	**5,136,900,575**	**1,829,827,969**	**972,712,962**	**425,379,487**	**934,409,943**	**12.9**	**18.2**
5 percent	1,186,478	27,292,174	8,366,689	8,366,151	418,410	418,308	403,858	1.5	4.8
8 percent	* 651	* 5,922	* 100	* 100	* 8	* 8	* 8	* 0.1	* 8.0
10 percent	25,486,770	501,607,677	130,863,770	107,060,866	12,611,894	10,706,087	6,716,498	1.3	5.1
10 percent (capital gains)	8,510	233,955	94,974	43,875	9,328	4,388	5,355	2.3	5.6
10 percent (Form 8814) [1]	13,542	-119,914	7,421	7,421	748	748	751	[4]	10.1
15 percent	40,828,626	1,734,480,254	1,028,305,402	589,968,709	132,330,144	88,495,306	106,483,937	6.1	10.4
15 percent (capital gains) [2]	8,492,769	712,422,995	494,814,177	192,438,330	64,396,265	28,865,750	62,147,890	8.7	12.6
20 percent	2,960	319,784	264,683	116,280	42,933	23,256	42,993	13.4	16.2
25 percent	21,625,799	1,891,267,772	1,411,063,695	241,641,320	237,515,000	60,410,330	231,580,832	12.2	16.4
25 percent (capital gains)	371,017	82,326,646	70,819,356	6,600,279	11,787,533	1,650,070	12,301,776	14.9	17.4
28 percent	3,703,217	624,139,487	503,828,147	36,359,970	104,491,346	10,180,792	107,142,800	17.2	21.3
28 percent (capital gains)	26,785	5,609,027	4,603,788	832,520	881,324	233,106	902,279	16.1	19.6
33 percent	1,479,592	453,258,305	387,519,395	79,066,568	92,351,980	26,091,967	96,058,654	21.2	24.8
35 percent	953,005	1,207,912,323	1,094,229,516	565,391,974	315,443,028	197,887,191	310,204,650	25.7	28.3
Form 8615 [3]	141,612	2,261,298	2,119,463	1,933,607	433,021	412,180	417,662	18.5	19.7
Joint returns and returns of surviving spouses									
All tax rates	**45,007,708**	**4,891,752,548**	**3,551,237,350**	**1,216,824,612**	**696,862,149**	**301,015,458**	**671,351,329**	**13.7**	**18.9**
5 percent	337,555	15,593,888	4,641,531	4,641,039	232,115	232,052	217,500	1.4	4.7
8 percent	0	0	0	0	0	0	0	[4]	[4]
10 percent	7,461,675	233,071,784	58,906,005	43,502,147	5,600,412	4,350,215	2,787,483	1.2	4.7
10 percent (capital gains)	* 4,213	* 160,171	* 77,716	* 42,117	* 7,719	* 4,212	* 3,955	* 2.5	* 5.1
10 percent (Form 8814) [1]	8,353	-138,525	5,539	5,539	558	558	486	[4]	8.8
15 percent	16,709,755	1,016,954,164	596,232,724	352,266,290	77,237,085	52,839,944	59,722,954	5.9	10.0
15 percent (capital gains) [2]	5,529,189	533,899,738	367,124,356	130,867,940	47,725,496	19,630,191	45,336,826	8.5	12.3
20 percent	310	100,236	84,540	23,450	13,020	4,690	13,071	13.0	15.5
25 percent	10,625,520	1,223,905,148	900,834,689	128,754,297	150,094,705	32,188,574	145,089,787	11.9	16.1
25 percent (capital gains)	231,589	61,242,311	52,745,132	4,876,938	8,752,405	1,219,235	9,176,448	15.0	17.4
28 percent	2,143,229	428,592,377	342,510,762	19,098,089	69,815,561	5,347,465	72,015,394	16.8	21.0
28 percent (capital gains)	13,897	3,763,113	3,027,542	588,695	567,498	164,835	584,197	15.5	19.3
33 percent	1,131,196	362,308,081	308,558,893	61,091,865	72,699,532	20,160,315	75,757,072	20.9	24.6
35 percent	811,228	1,012,300,062	916,487,919	471,066,207	264,116,042	164,873,172	260,646,156	25.7	28.4
Form 8615 [3]	0	0	0	0	0	0	0	[4]	[4]
Returns of married persons filing separately									
All tax rates	**2,108,485**	**136,551,605**	**102,807,654**	**45,840,105**	**20,964,163**	**11,645,238**	**20,321,871**	**14.9**	**19.8**
5 percent	10,117	265,965	65,514	65,468	3,280	3,273	1,947	0.7	3.0
8 percent	0	0	0	0	0	0	0	[4]	[4]
10 percent	281,728	4,356,595	1,076,733	966,686	105,098	96,669	87,815	2.0	8.2
10 percent (capital gains)	0	0	0	0	0	0	0	[4]	[4]
10 percent (Form 8814) [1]	* 4	* -5,747	* 1	* 1	0	0	0	[4]	[4]
15 percent	1,008,235	30,389,933	18,374,589	11,014,384	2,388,198	1,652,158	2,122,181	7.0	11.5
15 percent (capital gains) [2]	95,490	12,323,379	9,033,106	6,886,407	1,269,320	1,032,961	1,359,733	11.0	15.1
20 percent	0	0	0	0	0	0	0	[4]	[4]
25 percent	507,982	29,122,958	21,573,852	4,444,021	3,621,185	1,111,005	3,572,521	12.3	16.6
25 percent (capital gains)	4,866	1,315,935	1,171,238	142,800	194,546	35,700	206,740	15.7	17.7
28 percent	124,490	11,759,524	9,490,940	1,073,073	1,948,746	300,460	1,973,749	16.8	20.8
28 percent (capital gains)	* 4	* 72,165	* 65,438	* 10,150	* 12,265	* 2,842	* 12,150	* 16.8	* 18.6
33 percent	47,797	7,417,725	6,318,419	1,141,011	1,480,170	376,534	1,560,199	21.0	24.7
35 percent	27,773	39,533,171	35,637,825	20,096,103	9,941,356	7,033,636	9,424,838	23.8	26.4
Form 8615 [3]	0	0	0	0	0	0	0	[4]	[4]

Footnotes at end of table.

Table 1. Returns with Modified Taxable Income: Tax Classified by Marginal Tax Rate, Tax Year 2005—Continued

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

Tax rate classes	Classified by the highest marginal rate at which tax was computed								
	Number of returns	Adjusted gross income less deficit	Modified taxable income		Tax generated		Income tax after credits		
			At all rates	At marginal rate	At all rates	At marginal rate	Total	As a percentage of	
								Adjusted gross income less deficit	Modified taxable income
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Returns of heads of households									
All tax rates	**13,214,442**	**519,901,431**	**280,638,442**	**123,429,229**	**43,513,314**	**21,562,027**	**34,017,461**	**6.5**	**12.1**
5 percent	27,244	1,006,091	380,654	380,654	19,036	19,033	15,946	1.6	4.2
8 percent	0	0	0	0	0	0	0	[4]	[4]
10 percent	5,603,279	121,227,357	27,953,271	27,153,463	2,784,016	2,715,346	275,522	0.2	1.0
10 percent (capital gains)	* 986	* 24,349	* 2,420	* 169	* 209	* 17	0	[4]	[4]
10 percent (Form 8814) [1]	* 2,989	* 18,520	* 1,496	* 1,496	* 150	* 150	0	[4]	[4]
15 percent	5,809,929	223,527,504	121,059,959	60,345,067	15,123,445	9,051,760	8,908,451	4.0	7.4
15 percent (capital gains) [2]	337,494	21,119,665	13,751,169	4,520,490	1,767,498	678,074	1,567,694	7.4	11.4
20 percent	* 304	* 52,824	* 45,887	* 34,318	* 8,020	* 6,864	* 8,013	* 15.2	* 17.5
25 percent	1,286,824	101,825,294	73,330,222	16,395,359	12,367,097	4,098,840	11,748,378	11.5	16.0
25 percent (capital gains)	9,489	1,887,609	1,608,546	153,628	274,893	38,407	286,877	15.2	17.8
28 percent	75,640	13,176,271	10,440,847	831,399	2,232,697	232,792	2,398,347	18.2	23.0
28 percent (capital gains)	* 305	* 109,745	* 98,190	* 18,723	* 17,315	* 5,242	* 18,289	* 16.7	* 18.6
33 percent	39,396	11,384,195	9,848,718	2,128,081	2,419,061	702,267	2,546,649	22.4	25.9
35 percent	20,566	24,542,007	22,117,064	11,466,385	6,499,877	4,013,235	6,243,295	25.4	28.2
Form 8615 [3]	0	0	0	0	0	0	0	[4]	[4]
Returns of single persons									
All tax rates	**43,990,697**	**1,694,812,122**	**1,202,217,129**	**443,734,023**	**211,373,335**	**91,156,766**	**208,719,282**	**12.3**	**17.4**
5 percent	811,563	10,426,230	3,278,989	3,278,989	163,979	163,949	168,464	1.6	5.1
8 percent	* 651	* 5,922	* 100	* 100	* 8	* 8	* 8	* 0.1	* 8.0
10 percent	12,140,088	142,951,942	42,927,761	35,438,570	4,122,368	3,543,857	3,565,678	2.5	8.3
10 percent (capital gains)	* 3,311	* 49,436	* 14,838	* 1,590	* 1,401	* 159	* 1,401	* 2.8	* 9.4
10 percent (Form 8814) [1]	* 2,197	* 5,837	* 384	* 384	* 40	* 40	* 265	* 4.5	* 69.0
15 percent	17,300,707	463,608,653	292,638,130	166,342,968	37,581,416	24,951,445	35,730,352	7.7	12.2
15 percent (capital gains) [2]	2,530,597	145,080,212	104,905,546	50,163,493	13,633,951	7,524,524	13,883,637	9.6	13.2
20 percent	2,346	166,724	134,256	58,513	21,892	11,703	21,909	13.1	16.3
25 percent	9,205,473	536,414,371	415,324,933	92,047,643	71,432,013	23,011,911	71,170,147	13.3	17.1
25 percent (capital gains)	125,074	17,880,791	15,294,440	1,426,913	2,565,689	356,728	2,631,711	14.7	17.2
28 percent	1,359,858	170,611,315	141,385,599	15,357,409	30,494,342	4,300,075	30,755,310	18.0	21.8
28 percent (capital gains)	12,578	1,664,005	1,412,618	214,953	284,247	60,187	287,643	17.3	20.4
33 percent	261,204	72,148,302	62,793,365	14,705,611	15,753,217	4,852,852	16,194,733	22.4	25.8
35 percent	93,438	131,537,083	119,986,708	62,763,279	34,885,751	21,967,148	33,890,360	25.8	28.2
Form 8615 [3]	141,612	2,261,298	2,119,463	1,933,607	433,021	412,180	417,662	18.5	19.7

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

[1] Form 8814 was filed for a dependent child under age 14 for whom the parents made the election to report the child's investment income (if it was from interest, dividends, or capital gains totaling between $800 and $8,000) on the parents' income tax return. This rate classification is comprised of those returns with a tax liability only from the dependent's income.

[2] The 15 percent capital gains rate also includes qualified dividends.

[3] Form 8615 was filed for a child under age 14 to report the child's investment income in excess of $1,600. The returns in this rate classification are not distributed by tax rate.

[4] Percentage not computed.

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

Table 2. Returns with Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 2005

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

Size of adjusted gross income	Number of returns	Taxable income	Modified taxable income	Tax generated at all rates	Tax generated at specified rate: 5 percent: Number of returns	Income taxed at rate	Tax generated at rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total	**104,321,332**	**5,137,137,809**	**5,136,900,575**	**972,712,962**	**12,608,155**	**66,355,442**	**3,318,085**
Under $2,000 [1]	332,329	150,737	153,356	10,715	211,765	97,452	4,879
$2,000 under $4,000	363,198	448,522	452,544	37,480	226,958	223,526	11,182
$4,000 under $6,000	958,104	888,836	888,849	84,193	181,528	236,306	11,818
$6,000 under $8,000	1,106,781	2,340,695	2,342,803	229,186	148,146	221,041	11,051
$8,000 under $10,000	2,370,122	4,526,677	4,527,971	442,307	199,072	264,606	13,241
$10,000 under $12,000	2,589,099	8,130,807	8,131,473	797,709	257,721	365,566	18,280
$12,000 under $14,000	2,598,061	11,871,800	11,873,094	1,178,715	267,041	415,451	20,784
$14,000 under $16,000	2,991,349	16,641,877	16,645,702	1,671,832	271,226	496,827	24,850
$16,000 under $18,000	3,306,335	21,460,916	21,466,533	2,267,712	292,038	608,894	30,448
$18,000 under $20,000	3,583,235	26,124,481	26,128,826	2,900,117	346,238	596,165	29,816
$20,000 under $25,000	8,780,721	85,496,749	85,545,976	9,888,565	839,218	1,691,810	84,617
$25,000 under $30,000	8,311,926	113,233,995	113,250,263	13,592,847	854,517	2,318,932	115,974
$30,000 under $40,000	13,558,142	263,349,704	263,385,954	32,844,794	1,677,185	4,907,611	245,409
$40,000 under $50,000	10,472,437	285,012,273	285,046,843	38,443,590	1,340,457	5,187,542	259,398
$50,000 under $75,000	18,236,789	730,289,744	730,331,501	105,556,349	2,955,917	13,627,077	681,440
$75,000 under $100,000	10,420,964	621,931,856	621,926,019	94,697,328	1,611,476	11,791,943	589,641
$100,000 under $200,000	10,782,164	1,054,728,764	1,054,664,756	192,474,765	679,156	14,630,737	731,554
$200,000 under $500,000	2,733,040	657,160,294	657,082,123	152,646,998	181,559	5,898,817	294,944
$500,000 under $1,000,000	523,352	313,445,881	313,355,620	83,871,841	38,075	1,473,113	73,657
$1,000,000 under $1,500,000	127,680	138,339,811	138,293,024	38,338,032	11,105	468,823	23,441
$1,500,000 under $2,000,000	56,508	87,812,010	87,771,580	24,189,349	5,082	223,770	11,189
$2,000,000 under $5,000,000	83,885	226,492,549	226,432,948	61,785,443	8,108	382,578	19,129
$5,000,000 under $10,000,000	21,381	132,899,011	132,869,081	35,001,479	2,545	123,602	6,180
$10,000,000 or more	13,733	334,359,818	334,333,736	79,761,612	2,023	103,251	5,163

Footnotes at end of table.

Table 2. Returns with Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 2005—Continued

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

Size of adjusted gross income	Tax generated at specified rate—continued								
	8 percent			10 percent			10 percent (capital gains)		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Total	*** 3,328**	*** 11,841**	*** 947**	**102,754,108**	**978,752,225**	**97,875,223**	**20,059**	**92,675**	**9,268**
Under $2,000 [1]	0	0	0	150,006	49,397	4,940	0	0	0
$2,000 under $4,000	0	0	0	213,975	183,127	18,313	0	0	0
$4,000 under $6,000	0	0	0	865,598	570,472	57,047	0	0	0
$6,000 under $8,000	0	0	0	1,080,499	2,055,973	205,597	0	0	0
$8,000 under $10,000	* 651	* 100	* 8	2,286,301	4,214,150	421,415	* 651	* 49	* 5
$10,000 under $12,000	0	0	0	2,506,961	7,673,030	767,303	0	0	0
$12,000 under $14,000	0	0	0	2,545,750	11,249,404	1,124,940	* 1,005	* 95	* 10
$14,000 under $16,000	0	0	0	2,934,558	15,494,044	1,549,404	* 1,005	* 1,331	* 133
$16,000 under $18,000	0	0	0	3,258,952	17,869,645	1,786,965	* 651	* 189	* 19
$18,000 under $20,000	0	0	0	3,506,309	19,239,835	1,923,984	0	0	0
$20,000 under $25,000	* 986	* 50	* 4	8,679,959	55,598,408	5,559,841	* 2,260	* 302	* 30
$25,000 under $30,000	0	0	0	8,243,108	63,376,554	6,337,655	* 624	* 1,904	* 190
$30,000 under $40,000	0	0	0	13,470,300	124,878,641	12,487,864	* 3,941	* 14,778	* 1,478
$40,000 under $50,000	* 997	* 175	* 14	10,409,678	110,550,169	11,055,017	* 2,272	* 14,725	* 1,472
$50,000 under $75,000	* 655	* 11,479	* 918	18,143,302	217,770,560	21,777,056	** 7,155	** 42,529	** 4,254
$75,000 under $100,000	** 40	** 37	** 3	10,357,352	136,641,718	13,664,172	**	**	**
$100,000 under $200,000	0	0	0	10,655,574	144,643,144	14,464,314	** 449	** 15,897	** 1,590
$200,000 under $500,000	0	0	0	2,664,233	36,130,124	3,613,012	**	**	**
$500,000 under $1,000,000	0	0	0	501,064	6,788,032	678,803	** 43	** 754	** 76
$1,000,000 under $1,500,000	0	0	0	119,825	1,612,328	161,233	**	**	**
$1,500,000 under $2,000,000	0	0	0	52,806	713,549	71,355	0	0	0
$2,000,000 under $5,000,000	0	0	0	77,148	1,038,682	103,868	0	0	0
$5,000,000 under $10,000,000	**	**	**	19,069	255,099	25,510	* 3	* 123	* 12
$10,000,000 or more	0	0	0	11,781	156,140	15,614	0	0	0

Footnotes at end of table.

Table 2. Returns with Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 2005—Continued

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

Size of adjusted gross income	Tax generated at specified rate—continued								
	10 percent (from Form 8814) [2]			15 percent			15 percent (capital gains and qualified dividends)		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
Total	**129,502**	**67,007**	**6,735**	**77,067,321**	**1,720,036,721**	**258,005,508**	**12,249,826**	**605,997,994**	**90,900,009**
Under $2,000 [1]	2,871	2,608	262	0	0	0	0	0	0
$2,000 under $4,000	0	0	0	0	0	0	0	0	0
$4,000 under $6,000	* 31	* 3	* 0	0	0	0	0	0	0
$6,000 under $8,000	0	0	0	0	0	0	0	0	0
$8,000 under $10,000	* 1,953	* 1,195	* 120	8,220	7,635	1,145	0	0	0
$10,000 under $12,000	* 1,532	* 281	* 29	* 7,616	* 10,220	* 1,533	0	0	0
$12,000 under $14,000	* 3,499	* 479	* 50	229,932	188,271	28,241	0	0	0
$14,000 under $16,000	* 1,966	* 662	* 66	609,335	604,516	90,677	0	0	0
$16,000 under $18,000	* 986	* 136	* 15	1,845,255	2,965,143	444,771	0	0	0
$18,000 under $20,000	* 107	* 19	* 2	1,890,537	6,281,407	942,211	0	0	0
$20,000 under $25,000	* 2,974	* 263	* 28	4,689,913	28,180,958	4,227,144	0	0	0
$25,000 under $30,000	* 4,538	* 1,897	* 191	5,288,451	47,466,775	7,120,016	0	0	0
$30,000 under $40,000	10,008	3,291	334	10,755,590	132,775,166	19,916,275	73,364	55,069	8,262
$40,000 under $50,000	6,910	2,088	212	9,719,534	150,596,165	22,589,425	643,883	1,340,249	201,066
$50,000 under $75,000	23,898	8,173	824	17,751,031	409,648,226	61,447,234	1,489,111	6,530,049	979,540
$75,000 under $100,000	10,959	3,804	383	10,270,871	370,045,224	55,506,784	2,177,301	10,315,364	1,547,366
$100,000 under $200,000	30,695	19,171	1,923	10,579,398	430,919,480	64,637,922	5,094,736	54,416,417	8,162,563
$200,000 under $500,000	16,732	13,310	1,332	2,645,244	108,449,214	16,267,382	2,036,408	92,413,743	13,862,128
$500,000 under $1,000,000	5,454	5,421	542	497,157	20,464,288	3,069,643	454,604	66,718,338	10,007,762
$1,000,000 under $1,500,000	1,529	1,286	129	119,120	4,871,640	730,746	115,847	34,845,051	5,226,761
$1,500,000 under $2,000,000	943	970	97	52,503	2,155,770	323,366	52,056	25,591,193	3,838,680
$2,000,000 under $5,000,000	1,313	1,335	134	76,830	3,153,000	472,950	78,676	76,365,041	11,454,758
$5,000,000 under $10,000,000	331	335	33	19,016	776,728	116,509	20,466	54,250,845	8,137,627
$10,000,000 or more	273	283	28	11,767	476,895	71,534	13,374	183,156,633	27,473,495

Footnotes at end of table.

Table 2. Returns with Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 2005—Continued

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

Size of adjusted gross income	Tax generated at specified rate—continued								
	20 percent			25 percent			25 percent (capital gains)		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)
Total	**13,585**	**262,511**	**52,503**	**28,087,498**	**720,621,785**	**180,155,446**	**676,189**	**14,947,825**	**3,737,032**
Under $2,000 [1]	0	0	0	0	0	0	0	0	0
$2,000 under $4,000	0	0	0	0	0	0	0	0	0
$4,000 under $6,000	0	0	0	0	0	0	0	0	0
$6,000 under $8,000	0	0	0	0	0	0	0	0	0
$8,000 under $10,000	0	0	0	0	0	0	0	0	0
$10,000 under $12,000	0	0	0	0	0	0	0	0	0
$12,000 under $14,000	0	0	0	0	0	0	0	0	0
$14,000 under $16,000	0	0	0	0	0	0	0	0	0
$16,000 under $18,000	0	0	0	0	0	0	0	0	0
$18,000 under $20,000	0	0	0	0	0	0	0	0	0
$20,000 under $25,000	0	0	0	651	9,774	2,444	0	0	0
$25,000 under $30,000	0	0	0	0	0	0	0	0	0
$30,000 under $40,000	* 1,005	* 1,565	* 313	629,589	668,258	167,065	* 997	* 291	* 73
$40,000 under $50,000	* 2,259	* 8,254	* 1,651	3,191,138	17,276,858	4,319,215	12,720	3,673	919
$50,000 under $75,000	* 2,814	* 12,898	* 2,580	5,439,071	82,380,227	20,595,057	48,550	81,697	20,431
$75,000 under $100,000	* 1,552	* 5,421	* 1,085	5,761,272	89,357,253	22,339,313	73,760	210,257	52,569
$100,000 under $200,000	4,761	51,614	10,323	9,792,108	345,893,671	86,473,418	236,600	1,246,265	311,595
$200,000 under $500,000	889	9,878	1,976	2,525,305	142,414,850	35,603,713	186,591	3,164,971	791,263
$500,000 under $1,000,000	194	67,550	13,510	478,362	27,253,130	6,813,283	61,405	2,243,792	560,956
$1,000,000 under $1,500,000	12	866	173	114,908	6,535,296	1,633,824	18,930	1,093,927	273,484
$1,500,000 under $2,000,000	39	17,104	3,421	50,707	2,885,586	721,397	9,965	856,861	214,216
$2,000,000 under $5,000,000	36	12,071	2,414	74,574	4,253,648	1,063,412	17,340	2,082,547	520,639
$5,000,000 under $10,000,000	16	39,198	7,840	18,420	1,048,881	262,220	5,225	1,295,001	323,751
$10,000,000 or more	* 7	* 36,092	* 7,218	11,394	644,353	161,088	4,108	2,668,544	667,137

Footnotes at end of table.

Table 2. Returns with Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 2005—Continued

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

Size of adjusted gross income	Tax generated at specified rate—continued								
	28 percent			28 percent (capital gains)			33 percent		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
	(35)	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)
Total	**6,143,950**	**243,295,195**	**68,122,655**	**34,972**	**1,775,748**	**497,209**	**2,432,597**	**217,358,025**	**71,728,148**
Under $2,000 [1]	0	0	0	0	0	0	0	0	0
$2,000 under $4,000	0	0	0	0	0	0	0	0	0
$4,000 under $6,000	0	0	0	0	0	0	0	0	0
$6,000 under $8,000	0	0	0	0	0	0	0	0	0
$8,000 under $10,000	0	0	0	0	0	0	0	0	0
$10,000 under $12,000	0	0	0	0	0	0	0	0	0
$12,000 under $14,000	0	0	0	0	0	0	0	0	0
$14,000 under $16,000	0	0	0	0	0	0	0	0	0
$16,000 under $18,000	0	0	0	0	0	0	0	0	0
$18,000 under $20,000	0	0	0	0	0	0	0	0	0
$20,000 under $25,000	0	0	0	0	0	0	0	0	0
$25,000 under $30,000	0	0	0	0	0	0	0	0	0
$30,000 under $40,000	0	0	0	0	0	0	0	0	0
$40,000 under $50,000	0	0	0	* 997	* 1,522	* 427	0	0	0
$50,000 under $75,000	18,796	62,349	17,458	* 4,638	* 3,920	* 1,098	0	0	0
$75,000 under $100,000	506,484	3,486,158	976,124	* 6,663	* 22,571	* 6,319	0	0	0
$100,000 under $200,000	2,556,013	60,481,759	16,934,893	11,785	34,667	9,706	116,491	2,100,756	693,249
$200,000 under $500,000	2,343,027	134,026,913	37,527,536	6,142	162,504	45,501	1,623,713	117,897,740	38,906,254
$500,000 under $1,000,000	457,691	28,712,088	8,039,385	2,365	272,750	76,370	437,771	61,148,716	20,179,076
$1,000,000 under $1,500,000	111,110	7,045,108	1,972,630	621	94,168	26,367	107,940	15,342,141	5,062,907
$1,500,000 under $2,000,000	48,891	3,060,452	856,927	443	84,756	23,732	47,117	6,697,969	2,210,330
$2,000,000 under $5,000,000	72,558	4,568,507	1,279,182	746	379,153	106,163	70,602	10,046,034	3,315,191
$5,000,000 under $10,000,000	18,092	1,143,653	320,223	271	226,811	63,507	17,794	2,538,636	837,750
$10,000,000 or more	11,288	708,208	198,298	300	492,926	138,019	11,170	1,586,033	523,391

Footnotes at end of table.

Table 2. Returns with Modified Taxable Income: Tax Generated by Rate and by Size of Adjusted Gross Income, Tax Year 2005—Continued

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

Size of adjusted gross income	Tax generated at specified rate—continued					
	35 percent			Form 8615 [3]		
	Number of returns	Income taxed at rate	Tax generated at rate	Number of returns	Income taxed at rate	Tax generated at rate
	(44)	(45)	(46)	(47)	(48)	(49)
Total	**953,005**	**565,391,974**	**197,887,191**	**141,612**	**1,933,607**	**412,180**
Under $2,000 [1]	0	0	0	19,866	3,899	621
$2,000 under $4,000	0	0	0	44,706	45,891	7,961
$4,000 under $6,000	0	0	0	24,124	82,068	15,261
$6,000 under $8,000	0	0	0	11,892	65,789	12,491
$8,000 under $10,000	0	0	0	* 5,862	* 40,236	* 6,276
$10,000 under $12,000	0	0	0	9,141	82,377	10,460
$12,000 under $14,000	0	0	0	* 2,293	* 19,394	* 4,539
$14,000 under $16,000	0	0	0	* 4,245	* 48,322	* 6,559
$16,000 under $18,000	0	0	0	* 1,596	* 22,527	* 5,335
$18,000 under $20,000	0	0	0	* 651	* 11,399	* 3,990
$20,000 under $25,000	0	0	0	* 3,213	* 64,411	* 14,124
$25,000 under $30,000	0	0	0	* 3,240	* 84,201	* 18,425
$30,000 under $40,000	0	0	0	* 2,549	* 81,284	* 17,153
$40,000 under $50,000	0	0	0	* 1,872	* 65,423	* 14,304
$50,000 under $75,000	0	0	0	* 2,528	* 152,374	* 27,697
$75,000 under $100,000	0	0	0	* 624	* 46,249	* 13,254
$100,000 under $200,000	1,893	20,838	7,293	* 1,549	* 190,377	* 33,637
$200,000 under $500,000	312,173	16,161,375	5,656,481	1,228	338,647	75,294
$500,000 under $1,000,000	397,127	98,011,733	34,304,107	* 305	* 195,972	* 54,624
$1,000,000 under $1,500,000	101,778	66,280,724	23,198,253	* 82	* 101,609	* 28,066
$1,500,000 under $2,000,000	44,850	45,460,455	15,911,159	* 16	* 23,144	* 3,477
$2,000,000 under $5,000,000	67,158	124,086,951	43,430,433	* 19	* 63,400	* 17,161
$5,000,000 under $10,000,000	17,141	71,116,532	24,890,786	* 8	* 53,602	* 9,525
$10,000,000 or more	10,886	144,253,366	50,488,678	* 3	* 51,010	* 11,946

* Estimate should be used with caution because of the small number of sample returns on which it is based.
** Data combined to prevent disclosure of specific taxpayer information.
[1] Includes returns with adjusted gross deficit.
[2] Form 8814 was filed for a dependent child under age 14 for whom the parents made the election to report the child's investment income (if it was from interest or dividends totaling between $800 and $8,000) on the parents' income tax return. This rate classification is comprised of those returns with a tax liability only from the dependent's income.
[3] Form 8615 was filed for a child under age 14 to report the child's investment income in excess of $1,600. The returns in this rate classification are not distributed by tax rate.
NOTE: Detail may not add to totals because of rounding.

Table 3. Returns with Modified Taxable Income: Taxable Income and Tax, Classified by Tax Rate and by Filing Status, Tax Year 2005

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

Tax rate class	All returns			Joint returns and returns of surviving spouses			Returns of married persons filing separately		
	Number of returns	Income taxed at rate	Income tax generated at rate	Number of returns	Income taxed at rate	Income tax generated at rate	Number of returns	Income taxed at rate	Income tax generated at rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All tax rates	**104,321,332**	**5,136,900,575**	**972,707,439**	**45,007,708**	**3,551,237,350**	**696,859,772**	**2,108,485**	**102,807,654**	**20,964,130**
5 percent	12,608,155	66,355,442	3,317,772	7,172,164	44,704,860	2,235,243	121,442	655,174	32,759
8 percent	* 3,327	* 11,841	* 947	* 695	* 11,515	* 921	0	0	0
10 percent	102,754,108	978,752,225	97,875,223	44,530,504	593,793,293	59,379,329	2,090,811	14,226,613	1,422,661
10 percent (capital gains)	20,059	92,675	9,268	7,796	63,852	6,385	0	0	0
10 percent (Form 8814) [1]	129,502	67,007	6,735	112,512	62,195	6,247	1,564	172	18
15 percent	77,067,321	1,720,036,721	258,005,508	36,990,671	1,145,962,704	171,894,406	1,806,807	27,955,070	4,193,260
15 percent (capital gains) [2]	12,249,826	605,997,994	90,899,699	8,029,505	449,353,937	67,403,091	206,360	20,547,630	3,082,144
20 percent	13,585	262,511	52,502	5,096	95,142	19,028	* 342	* 491	* 98
25 percent	28,087,498	720,621,785	180,155,446	14,909,563	480,176,113	120,044,028	711,681	11,825,538	2,956,384
25 percent (capital gains)	676,189	14,947,825	3,736,956	455,113	11,620,845	2,905,211	11,279	462,106	115,527
28 percent	6,143,950	243,295,195	68,122,655	4,088,143	175,306,151	49,085,722	200,060	3,855,597	1,079,567
28 percent (capital gains)	34,972	1,775,748	497,209	20,083	1,395,789	390,821	102	47,375	13,265
33 percent	2,432,597	217,358,025	71,728,148	1,942,423	177,624,746	58,616,166	75,569	3,135,786	1,034,809
35 percent	953,005	565,391,974	197,887,191	811,228	471,066,207	164,873,172	27,773	20,096,103	7,033,636
Form 8615 [3]	141,612	1,933,607	412,180	0	0	0	0	0	0

Tax rate class	Returns of heads of households			Returns of single persons		
	Number of returns	Income tax generated at rate	Income tax generated at rate	Number of returns	Income taxed at rate	Income tax generated at rate
	(10)	(11)	(12)	(13)	(14)	(15)
All tax rates	**13,214,442**	**280,638,442**	**43,512,678**	**43,990,697**	**1,202,217,129**	**211,370,859**
5 percent	476,078	1,869,881	93,494	4,838,471	19,125,527	956,276
8 percent	* 985	* 50	* 4	* 1,647	* 274	* 21
10 percent	13,172,306	106,792,695	10,679,270	42,960,488	263,939,624	26,393,962
10 percent (capital gains)	* 3,781	* 12,443	* 1,244	8,481	16,379	1,638
10 percent (Form 8814) [1]	13,210	4,246	428	2,216	395	41
15 percent	7,565,745	106,964,432	16,044,665	30,704,099	439,154,515	65,873,177
15 percent (capital gains) [2]	327,570	13,008,393	1,951,259	3,686,390	123,088,034	18,463,205
20 percent	* 453	* 41,961	* 8,392	7,693	124,917	24,983
25 percent	1,429,752	29,170,445	7,292,611	11,036,502	199,449,690	49,862,422
25 percent (capital gains)	14,646	298,690	74,673	195,152	2,566,183	641,546
28 percent	135,602	5,559,687	1,556,712	1,720,146	58,573,761	16,400,653
28 percent (capital gains)	831	30,457	8,528	13,957	302,128	84,596
33 percent	59,962	5,418,676	1,788,163	354,642	31,178,817	10,289,010
35 percent	20,566	11,466,385	4,013,235	93,438	62,763,279	21,967,148
Form 8615 [3]	0	0	0	141,612	1,933,607	412,180

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

[1] Form 8814 was filed for a dependent child under age 14 for whom the parents made an election to report the child's investment income (if it was from interest or dividends totaling between $800 and $8,000) on the parents' income tax return. This rate classification is comprised of those returns with a tax liability only from the dependent's income.

[2] The 15-percent capital gain rate also includes qualified dividends.

[3] Form 8615 was filed for a child under age 14 to report the child's investment income in excess of $1,600. The returns in this rate classification are not distributed by tax rate.

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

Table 4. Returns with Modified Taxable Income: Tax Classified by Type of Tax Computation and by Size of Adjusted Gross Income, Tax Years 2004 and 2005

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

Type of tax computation by size of adjusted gross income	Tax year 2004				Tax year 2005			
	Income tax before credits (regular tax computation) [1]		Tax generated	Difference due to special tax computation [2]	Income tax before credits (regular tax computation) [1]		Tax generated	Difference due to special tax computation [2]
	Number of returns	Amount	Amount		Number of returns	Amount	Amount	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Returns with regular tax computation only								
Total	**80,944,402**	**383,230,289**	**383,068,983**	**0**	**81,028,120**	**396,300,504**	**396,026,640**	**0**
Under $5,000 [3]	354,057	17,824	17,824	0	284,018	21,359	21,359	0
$5,000 under $10,000	4,183,091	713,487	713,487	0	3,850,619	624,301	624,301	0
$10,000 under $15,000	6,102,723	2,642,981	2,642,981	0	6,039,149	2,528,026	2,528,026	0
$15,000 under $20,000	7,897,196	5,944,174	5,944,143	0	7,579,909	5,599,169	5,599,135	0
$20,000 under $25,000	8,058,258	9,474,192	9,473,729	0	7,938,918	9,086,914	9,085,825	0
$25,000 under $30,000	7,320,695	12,354,285	12,353,942	0	7,454,831	12,367,596	12,367,382	0
$30,000 under $40,000	11,936,618	30,101,945	30,104,975	0	11,841,642	29,119,400	29,117,809	0
$40,000 under $50,000	8,732,922	33,367,725	33,366,399	0	8,663,652	32,148,799	32,144,409	0
$50,000 under $75,000	13,825,744	81,607,794	81,599,369	0	14,015,996	81,055,445	81,044,529	0
$75,000 under $100,000	6,874,978	63,947,577	63,938,595	0	7,076,366	64,200,816	64,182,788	0
$100,000 under $200,000	4,991,827	88,038,103	88,003,336	0	5,506,370	94,578,674	94,511,559	0
$200,000 under $500,000	592,065	33,135,773	33,076,409	0	687,214	38,339,802	38,285,795	0
$500,000 under $1,000,000	56,095	10,099,552	10,080,698	0	67,230	11,811,280	11,771,546	0
$1,000,000 under $1,500,000	9,295	3,208,009	3,201,892	0	11,573	4,064,837	4,046,290	0
$1,500,000 under $2,000,000	3,593	1,821,791	1,815,909	0	4,316	2,242,679	2,227,404	0
$2,000,000 under $5,000,000	4,327	3,850,317	3,830,670	0	5,090	4,441,339	4,418,794	0
$5,000,000 under $10,000,000	663	1,394,976	1,394,841	0	879	1,833,448	1,822,538	0
$10,000,000 or more	253	1,509,785	1,509,785	0	347	2,236,622	2,227,150	0
Returns with Form 8615 tax computation								
Total	**111,617**	**285,867**	**289,640**	**3,773**	**141,612**	**443,840**	**419,425**	**-24,414**
Under $5,000 [3]	65,681	14,785	20,127	5,342	75,994	14,233	18,545	4,312
$5,000 under $10,000	16,315	10,950	16,670	5,721	30,456	18,043	29,306	11,263
$10,000 under $15,000	* 9,020	* 12,260	* 15,358	* 3,097	13,373	15,450	18,249	2,798
$15,000 under $20,000	* 6,817	* 13,172	* 19,001	* 5,830	* 4,553	* 8,614	* 14,033	* 5,419
$20,000 under $25,000	* 4,837	* 11,761	* 21,368	* 9,607	* 3,213	* 8,887	* 14,336	* 5,449
$25,000 under $30,000	* 1,923	* 6,438	* 11,427	* 4,990	* 3,240	* 11,754	* 18,576	* 6,821
$30,000 under $40,000	* 1,906	* 9,096	* 13,406	* 4,310	* 2,549	* 12,425	* 17,239	* 4,814
$40,000 under $50,000	0	0	0	0	* 1,872	* 10,764	* 14,354	* 3,590
$50,000 under $75,000	* 4,094	* 41,513	* 48,900	* 7,387	* 2,528	* 29,939	* 27,754	* -2,185
$75,000 under $100,000	0	0	0	0	* 624	* 9,548	* 13,259	* 3,710
$100,000 under $200,000	* 41	* 1,254	* 1,838	* 583	* 1,549	* 44,966	* 33,637	* -11,329
$200,000 under $500,000	* 862	* 69,347	* 67,095	* -2,252	1,228	96,553	75,326	-21,227
$500,000 under $1,000,000	* 41	* 10,092	* 4,784	* -5,308	* 305	* 62,680	* 54,636	* -8,044
$1,000,000 under $1,500,000	* 17	* 7,924	* 3,923	* -4,001	* 82	* 33,970	* 28,066	* -5,904
$1,500,000 under $2,000,000	* 8	* 5,641	* 3,294	* -2,347	* 16	* 7,785	* 3,477	* -4,307
$2,000,000 under $5,000,000	* 38	* 31,588	* 14,588	* -17,001	* 19	* 21,829	* 17,161	* -4,667
$5,000,000 under $10,000,000	16	40,047	27,862	-12,185	* 8	* 18,603	* 9,525	* -9,078
$10,000,000 or more	0	0	0	0	* 3	* 17,795	* 11,946	* -5,850

Footnotes at end of table.

Table 4. Returns with Modified Taxable Income: Tax Classified by Type of Tax Computation and by Size of Adjusted Gross Income, Tax Years 2004 and 2005—Continued

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

Type of tax computation by size of adjusted gross income	Tax year 2004				Tax year 2005			
	Income tax before credits (regular tax computation) [1]		Tax generated	Difference due to special tax computation [2]	Income tax before credits (regular tax computation) [1]		Tax generated	Difference due to special tax computation [2]
	Number of returns	Amount	Amount		Number of returns	Amount	Amount	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Returns with Schedule D and qualified dividends tax computation								
Total	**20,374,141**	**537,893,884**	**472,303,099**	**-65,590,785**	**21,677,179**	**648,370,905**	**556,720,072**	**-91,650,833**
Under $5,000 [3]	93,317	11,038	8,463	-2,575	138,271	19,243	14,837	-4,407
$5,000 under $10,000	240,585	60,983	50,611	-10,372	289,597	82,031	65,888	-16,143
$10,000 under $15,000	463,203	203,863	174,835	-29,028	514,733	222,687	189,952	-32,735
$15,000 under $20,000	628,433	476,315	412,646	-63,669	612,188	477,144	418,206	-58,938
$20,000 under $25,000	709,244	807,511	719,430	-88,081	738,478	848,330	755,385	-92,945
$25,000 under $30,000	798,930	1,334,828	1,211,353	-123,475	786,326	1,330,149	1,181,694	-148,455
$30,000 under $40,000	1,622,307	3,980,670	3,687,066	-293,604	1,627,410	3,992,041	3,656,318	-335,723
$40,000 under $50,000	1,701,120	6,671,410	6,205,803	-465,607	1,745,402	6,727,356	6,217,918	-509,438
$50,000 under $75,000	4,056,360	25,616,195	24,165,388	-1,450,807	4,126,681	26,026,832	24,312,251	-1,714,581
$75,000 under $100,000	3,150,793	31,468,075	29,856,581	-1,611,494	3,280,362	32,201,106	30,273,964	-1,927,143
$100,000 under $200,000	4,640,389	94,786,835	89,389,627	-5,397,207	5,148,904	103,374,429	96,938,906	-6,435,523
$200,000 under $500,000	1,705,544	109,518,743	99,591,954	-9,926,789	1,976,715	125,508,287	112,396,952	-13,111,335
$500,000 under $1,000,000	359,479	67,704,672	59,591,438	-8,113,234	433,693	81,225,172	70,387,989	-10,837,183
$1,000,000 under $1,500,000	88,621	31,865,533	27,257,294	-4,608,239	108,253	38,821,657	33,221,144	-5,600,513
$1,500,000 under $2,000,000	38,681	20,328,653	17,242,660	-3,085,992	48,490	25,438,981	21,234,478	-4,204,503
$2,000,000 under $5,000,000	55,788	51,809,705	42,774,555	-9,035,151	72,054	67,247,286	54,962,574	-12,284,712
$5,000,000 under $10,000,000	13,331	28,969,078	23,182,633	-5,786,445	18,189	39,775,810	31,286,880	-8,488,930
$10,000,000 or more	8,017	62,279,778	46,780,761	-15,499,016	11,433	95,052,365	69,204,737	-25,847,628

* Estimate should be used with caution due to the small number of sample returns on which it is based.
[1] Includes special taxes (tax on lump sum distributions from Form 4972 and tax on election to report child's interest and dividends, Form 8814) not included in tax generated.
[2] The difference between the amount of tax resulting from using provisions of one of the special tax computations and the amount of tax resulting from the regular tax computation.
[3] Includes returns with adjusted gross deficit.
NOTE: Detail may not add to totals because of rounding.

Table 5. Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986–2005

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns [1]:						
1986	102,087,623	1,020,876	5,104,381	10,208,762	25,521,906	51,043,811
1987	106,154,761	1,061,548	5,307,738	10,615,476	26,538,690	53,077,380
1988	108,872,859	1,088,729	5,443,643	10,887,286	27,218,214	54,436,429
1989	111,312,721	1,113,127	5,565,636	11,131,272	27,828,181	55,656,361
1990	112,812,262	1,128,123	5,640,613	11,281,226	28,203,066	56,406,132
1991	113,804,104	1,138,041	5,690,205	11,380,410	28,451,026	56,902,052
1992	112,652,759	1,126,528	5,632,638	11,265,276	28,163,190	56,326,380
1993	113,681,387	1,136,814	5,684,069	11,368,139	28,420,347	56,840,694
1994	114,989,920	1,149,899	5,749,496	11,498,992	28,747,480	57,494,960
1995	117,274,186	1,172,742	5,863,709	11,727,419	29,318,546	58,637,093
1996	119,441,767	1,194,418	5,972,088	11,944,177	29,860,442	59,720,884
1997	121,503,284	1,215,033	6,075,164	12,150,328	30,375,821	60,751,642
1998	123,775,831	1,237,758	6,188,792	12,377,583	30,943,958	61,887,915
1999	126,008,974	1,260,090	6,300,449	12,600,897	31,502,244	63,004,487
2000	128,227,143	1,282,271	6,411,357	12,822,714	32,056,786	64,113,572
2001	128,817,051	1,288,171	6,440,853	12,881,705	32,204,263	64,408,526
2002	128,323,986	1,283,240	6,416,199	12,832,399	32,080,997	64,161,993
2003	128,609,786	1,286,098	6,430,489	12,860,979	32,152,447	64,304,893
2004	130,371,156	1,303,712	6,518,558	13,037,116	32,592,789	65,185,578
2005	132,611,637	1,326,116	6,630,582	13,261,164	33,152,909	66,305,819
Adjusted gross income floor on percentiles (current dollars):						
1986	N/A	118,818	62,377	48,656	32,242	17,302
1987	N/A	139,289	68,414	52,921	33,983	17,768
1988	N/A	157,136	72,735	55,437	35,398	18,367
1989	N/A	163,869	76,933	58,263	36,839	18,993
1990	N/A	167,421	79,064	60,287	38,080	19,767
1991	N/A	170,139	81,720	61,944	38,929	20,097
1992	N/A	181,904	85,103	64,457	40,378	20,803
1993	N/A	185,715	87,386	66,077	41,210	21,179
1994	N/A	195,726	91,226	68,753	42,742	21,802
1995	N/A	209,406	96,221	72,094	44,207	22,344
1996	N/A	227,546	101,141	74,986	45,757	23,174
1997	N/A	250,736	108,048	79,212	48,173	24,393
1998	N/A	269,496	114,729	83,220	50,607	25,491
1999	N/A	293,415	120,846	87,682	52,965	26,415
2000	N/A	313,469	128,336	92,144	55,225	27,682
2001	N/A	292,913	127,904	92,754	56,085	28,528
2002	N/A	285,424	126,525	92,663	56,401	28,654
2003	N/A	295,495	130,080	94,891	57,343	29,019
2004	N/A	328,049	137,056	99,112	60,041	30,122
2005	N/A	364,657	145,283	103,912	62,068	30,881
Adjusted gross income floor on percentiles (constant dollars) [2]:						
1986	N/A	108,411	56,913	44,394	29,418	15,786
1987	N/A	122,614	60,224	46,585	29,915	15,641
1988	N/A	132,828	61,484	46,861	29,922	15,526
1989	N/A	132,152	62,043	46,986	29,709	15,317
1990	N/A	128,096	60,493	46,126	29,135	15,124
1991	N/A	124,919	60,000	45,480	28,582	14,756
1992	N/A	129,654	60,658	45,942	28,780	14,828
1993	N/A	128,522	60,475	45,728	28,519	14,657
1994	N/A	132,069	61,556	46,392	28,841	14,711
1995	N/A	137,406	63,137	47,306	29,007	14,661
1996	N/A	145,026	64,462	47,792	29,163	14,769
1997	N/A	156,222	67,320	49,353	30,014	15,198
1998	N/A	164,427	69,999	50,775	30,877	15,553
1999	N/A	176,119	72,537	52,630	31,792	15,855
2000	N/A	182,038	74,527	53,510	32,070	16,075
2001	N/A	165,394	72,221	52,374	31,669	16,108
2002	N/A	158,657	70,331	51,508	31,351	15,928
2003	N/A	160,595	70,696	51,571	31,165	15,771
2004	N/A	173,663	72,555	52,468	31,785	15,946
2005	N/A	186,716	74,390	53,206	31,781	15,812

Footnotes at end of table.

Table 5. Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986–2005—Continued

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Adjusted gross income (millions of dollars):						
1986	2,524,124	285,197	608,467	886,510	1,490,173	2,103,569
1987	2,813,728	346,635	722,221	1,038,221	1,709,389	2,373,869
1988	3,124,156	473,527	890,702	1,232,536	1,950,860	2,657,865
1989	3,298,858	468,079	918,421	1,286,539	2,054,478	2,805,235
1990	3,451,237	483,252	953,337	1,338,032	2,144,177	2,932,537
1991	3,516,142	456,603	943,350	1,343,202	2,174,765	2,984,003
1992	3,680,552	523,586	1,031,093	1,443,784	2,299,401	3,131,400
1993	3,775,578	520,586	1,048,252	1,474,463	2,357,953	3,212,299
1994	3,961,146	546,700	1,103,084	1,552,205	2,481,074	3,371,352
1995	4,244,607	619,610	1,222,723	1,704,513	2,689,820	3,627,542
1996	4,590,527	736,545	1,393,805	1,909,149	2,952,637	3,944,383
1997	5,023,457	872,826	1,597,107	2,151,401	3,267,600	4,327,992
1998	5,469,211	1,010,245	1,796,647	2,393,716	3,589,600	4,721,430
1999	5,909,329	1,152,820	2,011,763	2,652,835	3,927,308	5,126,164
2000	6,423,977	1,336,773	2,267,403	2,955,386	4,313,786	5,589,755
2001	6,241,036	1,094,296	1,996,492	2,690,589	4,071,034	5,379,286
2002	6,113,778	985,781	1,867,787	2,553,475	3,935,504	5,244,029
2003	6,287,586	1,054,567	1,960,676	2,663,470	4,078,227	5,407,851
2004	6,875,123	1,306,417	2,299,595	3,049,275	4,546,401	5,952,781
2005	7,507,958	1,591,711	2,683,934	3,487,010	5,069,455	6,544,824
Total income tax (millions of dollars) [3]:						
1986	366,979	94,491	156,240	200,703	278,976	343,289
1987	369,046	91,559	159,642	205,230	283,857	346,655
1988	412,761	113,841	188,303	236,411	321,297	389,145
1989	432,838	109,259	190,188	241,458	334,258	407,599
1990	447,061	112,338	195,088	247,514	344,340	421,075
1991	448,349	111,267	194,480	250,282	346,511	423,759
1992	476,163	131,156	218,479	276,213	373,700	452,070
1993	502,720	145,836	238,083	297,808	398,516	478,563
1994	534,754	154,337	254,106	317,902	425,402	509,256
1995	588,331	178,035	287,741	357,402	472,808	561,225
1996	658,124	212,626	335,433	411,404	535,164	629,684
1997	727,303	241,239	377,241	459,639	594,007	696,161
1998	788,452	274,009	424,506	512,836	651,964	755,240
1999	877,292	317,419	486,464	583,002	732,890	842,168
2000	980,521	366,929	553,670	660,150	823,706	942,179
2001	887,882	300,898	472,823	576,163	736,053	852,642
2002	796,862	268,608	428,680	523,812	668,558	768,963
2003	747,939	256,340	406,597	492,452	627,380	722,027
2004	831,890	306,902	475,224	567,273	705,915	804,471
2005	934,703	368,132	557,759	657,085	803,772	906,028
Average tax rate (percentage) [4]:						
1986	14.54	33.13	25.68	22.64	18.72	16.32
1987	13.12	26.41	22.10	19.77	16.61	14.60
1988	13.21	24.04	21.14	19.18	16.47	14.64
1989	13.12	23.34	20.71	18.77	16.27	14.53
1990	12.95	23.25	20.46	18.50	16.06	14.36
1991	12.75	24.37	20.62	18.63	15.93	14.20
1992	12.94	25.05	21.19	19.13	16.25	14.44
1993	13.32	28.01	22.71	20.20	16.90	14.90
1994	13.50	28.23	23.04	20.48	17.15	15.11
1995	13.86	28.73	23.53	20.97	17.58	15.47
1996	14.34	28.87	24.07	21.55	18.12	15.96
1997	14.48	27.64	23.62	21.36	18.18	16.09
1998	14.42	27.12	23.63	21.42	18.16	16.00
1999	14.85	27.53	24.18	21.98	18.66	16.43
2000	15.26	27.45	24.42	22.34	19.09	16.86
2001	14.23	27.50	23.68	21.41	18.08	15.85
2002	13.03	27.25	22.95	20.51	16.99	14.66
2003	11.90	24.31	20.74	18.49	15.38	13.35
2004	12.10	23.49	20.67	18.60	15.53	13.51
2005	12.45	23.13	20.78	18.84	15.86	13.84

Footnotes at end of table.

Table 5. Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, AGI Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986–2005—Continued

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Adjusted gross income share (percentage):						
1986	100.00	11.30	24.11	35.12	59.04	83.34
1987	100.00	12.32	25.67	36.90	60.75	84.37
1988	100.00	15.16	28.51	39.45	62.44	85.07
1989	100.00	14.19	27.84	39.00	62.28	85.04
1990	100.00	14.00	27.62	38.77	62.13	84.97
1991	100.00	12.99	26.83	38.20	61.85	84.87
1992	100.00	14.23	28.01	39.23	62.47	85.08
1993	100.00	13.79	27.76	39.05	62.45	85.08
1994	100.00	13.80	27.85	39.19	62.64	85.11
1995	100.00	14.60	28.81	40.16	63.37	85.46
1996	100.00	16.04	30.36	41.59	64.32	85.92
1997	100.00	17.38	31.79	42.83	65.05	86.16
1998	100.00	18.47	32.85	43.77	65.63	86.33
1999	100.00	19.51	34.04	44.89	66.46	86.75
2000	100.00	20.81	35.30	46.01	67.15	87.01
2001	100.00	17.53	31.99	43.11	65.23	86.19
2002	100.00	16.12	30.55	41.77	64.37	85.77
2003	100.00	16.77	31.18	42.36	64.86	86.01
2004	100.00	19.00	33.45	44.35	66.13	86.58
2005	100.00	21.20	35.75	46.44	67.52	87.17
Total income tax share (percentage):						
1986	100.00	25.75	42.57	54.69	76.02	93.54
1987	100.00	24.81	43.26	55.61	76.92	93.93
1988	100.00	27.58	45.62	57.28	77.84	94.28
1989	100.00	25.24	43.94	55.78	77.22	94.17
1990	100.00	25.13	43.64	55.36	77.02	94.19
1991	100.00	24.82	43.38	55.82	77.29	94.52
1992	100.00	27.54	45.88	58.01	78.48	94.94
1993	100.00	29.01	47.36	59.24	79.27	95.19
1994	100.00	28.86	47.52	59.45	79.55	95.23
1995	100.00	30.26	48.91	60.75	80.36	95.39
1996	100.00	32.31	50.97	62.51	81.32	95.68
1997	100.00	33.17	51.87	63.20	81.67	95.72
1998	100.00	34.75	53.84	65.04	82.69	95.79
1999	100.00	36.18	55.45	66.45	83.54	96.00
2000	100.00	37.42	56.47	67.33	84.01	96.09
2001	100.00	33.89	53.25	64.89	82.90	96.03
2002	100.00	33.71	53.80	65.73	83.90	96.50
2003	100.00	34.27	54.36	65.84	83.88	96.54
2004	100.00	36.89	57.13	68.19	84.86	96.70
2005	100.00	39.38	59.67	70.30	85.99	96.93

N/A—Not applicable.

[1] The number of returns with negative adjusted gross income, i.e., returns with an adjusted gross deficit, and the corresponding amounts for adjusted gross deficit, was excluded from Table 5. By excluding deficit returns, alternative minimum tax reported on some of these returns was also excluded. For Tax Year 2005, there were 4,882 returns with no adjusted gross income that reported income tax.

[2] For Table 5, constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). For 2005, the CPI-U=195.3.

[3] Total income tax is income tax after credits (includes alternative minimum tax) reported on returns that showed a positive amount for adjusted gross income. Therefore, total income tax excludes alternative minimum tax, Form 8814 tax (tax on a child's interest or dividends), and Form 4972 tax (tax on lump-sum distributions from qualified retirement plans) reported on some returns with a negative amount for adjusted gross income. See also footnote 1.

[4] The average tax rate was computed by dividing total income tax (see footnote 3) by (positive) adjusted gross income.

Table 6. Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986–2005

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns [1]:						
1986	102,087,623	51,043,811	76,565,717	91,878,861	96,983,242	101,066,747
1987	106,154,761	53,077,380	79,616,071	95,539,285	100,847,023	105,093,213
1988	108,872,858	54,436,429	81,654,643	97,985,572	103,429,215	107,784,129
1989	111,312,721	55,656,361	83,484,542	100,181,451	105,747,087	110,199,596
1990	112,812,262	56,406,132	84,609,198	101,531,038	107,171,651	111,684,141
1991	113,804,104	56,902,052	85,353,078	102,423,694	108,113,899	112,666,063
1992	112,652,759	56,326,380	84,489,560	101,387,483	107,020,121	111,526,231
1993	113,681,387	56,840,693	85,261,040	102,313,248	107,997,318	112,544,573
1994	114,989,920	57,494,960	86,242,440	103,490,928	109,240,424	113,840,021
1995	117,274,186	58,637,093	87,955,640	105,546,767	111,410,477	116,101,444
1996	119,441,767	59,720,883	89,581,325	107,497,590	113,469,679	118,247,349
1997	121,503,284	60,751,642	91,127,463	109,352,956	115,428,120	120,288,251
1998	123,775,831	61,887,916	92,831,873	111,398,248	117,587,039	122,538,073
1999	126,008,974	63,004,487	94,506,731	113,408,077	119,708,525	124,748,884
2000	128,227,143	64,113,572	96,170,357	115,404,429	121,815,786	126,944,872
2001	128,817,051	64,408,526	96,612,788	115,935,346	122,376,198	127,528,880
2002	128,323,986	64,161,993	96,242,990	115,491,587	121,907,787	127,040,746
2003	128,609,786	64,304,893	96,457,340	115,748,807	122,179,297	127,323,688
2004	130,371,156	65,185,578	97,778,367	117,334,040	123,852,598	129,067,444
2005	132,611,637	66,305,819	99,458,728	119,350,473	125,981,055	131,285,521
Adjusted gross income (millions of dollars):						
1986	2,524,124	420,555	1,033,951	1,637,614	1,915,657	2,238,927
1987	2,813,728	439,859	1,104,338	1,775,506	2,091,507	2,467,093
1988	3,124,156	466,291	1,173,296	1,891,620	2,233,454	2,650,629
1989	3,298,858	493,623	1,244,380	2,012,319	2,380,437	2,830,779
1990	3,451,237	518,700	1,307,060	2,113,205	2,497,900	2,967,985
1991	3,516,142	532,138	1,341,377	2,172,939	2,572,792	3,059,539
1992	3,680,552	549,152	1,381,151	2,236,768	2,649,459	3,156,966
1993	3,775,578	563,279	1,417,625	2,301,115	2,727,326	3,254,992
1994	3,961,146	589,795	1,480,073	2,408,941	2,858,063	3,414,447
1995	4,244,607	617,065	1,554,788	2,540,094	3,021,884	3,624,997
1996	4,590,527	646,144	1,637,891	2,681,378	3,196,723	3,853,983
1997	5,023,457	695,465	1,755,857	2,872,056	3,426,350	4,150,631
1998	5,469,211	747,781	1,879,611	3,075,495	3,672,564	4,458,967
1999	5,909,329	783,164	1,982,021	3,256,494	3,897,565	4,756,509
2000	6,423,977	834,222	2,110,190	3,468,590	4,156,573	5,087,204
2001	6,241,036	861,750	2,170,001	3,550,447	4,244,543	5,146,740
2002	6,113,778	869,750	2,178,274	3,560,303	4,245,991	5,127,997
2003	6,287,586	879,735	2,209,359	3,624,117	4,326,911	5,233,019
2004	6,875,123	922,342	2,328,722	3,825,848	4,575,529	5,568,706
2005	7,507,958	963,135	2,438,504	4,020,948	4,824,024	5,916,248
Total income tax (millions of dollars) [2]:						
1986	366,979	23,690	88,002	166,276	210,739	272,488
1987	369,046	22,391	85,189	163,816	209,404	277,488
1988	412,761	23,616	91,464	176,350	224,459	298,920
1989	432,838	25,239	98,580	191,380	242,650	323,579
1990	447,061	25,986	102,721	199,547	251,973	334,723
1991	448,349	24,554	101,837	198,067	253,869	337,081
1992	476,163	24,093	102,463	199,950	257,683	345,007
1993	502,720	24,157	104,203	204,912	264,637	356,884
1994	534,754	25,499	109,353	216,852	280,648	380,418
1995	588,331	27,106	115,523	230,929	300,590	410,296
1996	658,124	28,440	122,960	246,720	322,691	445,498
1997	727,303	31,134	133,296	267,664	350,062	486,064
1998	788,452	33,212	136,488	275,615	363,946	514,442
1999	877,292	35,126	144,402	294,290	390,828	559,874
2000	980,521	38,343	156,816	320,371	426,851	613,592
2001	887,882	35,239	151,826	311,719	415,059	586,984
2002	796,862	27,899	128,304	273,050	368,182	528,254
2003	747,932	25,912	120,564	255,486	341,341	491,597
2004	831,890	27,418	125,973	264,617	356,666	524,988
2005	934,703	28,673	130,930	277,618	376,942	566,571

Footnotes at end of table.

Table 6. Returns with Positive Adjusted Gross Income (AGI): Number of Returns, Shares of AGI and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size Using the Definition of AGI for Each Year, Tax Years 1986–2005—Continued

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Average tax rate (percentage) [3]:						
1986	14.54	5.63	8.51	10.15	11.00	12.17
1987	13.12	5.09	7.71	9.23	10.01	11.25
1988	13.21	5.06	7.80	9.32	10.05	11.28
1989	13.12	5.11	7.92	9.51	10.19	11.43
1990	12.95	5.01	7.86	9.44	10.09	11.28
1991	12.75	4.61	7.59	9.12	9.87	11.04
1992	12.94	4.39	7.42	8.94	9.73	10.93
1993	13.32	4.29	7.35	8.90	9.70	10.96
1994	13.50	4.32	7.39	9.00	9.82	11.14
1995	13.86	4.39	7.43	9.09	9.95	11.32
1996	14.34	4.40	7.51	9.20	10.09	11.56
1997	14.48	4.48	7.59	9.32	10.22	11.71
1998	14.42	4.44	7.26	8.96	9.91	11.54
1999	14.85	4.49	7.29	9.04	10.03	11.77
2000	15.26	4.60	7.43	9.24	10.27	12.06
2001	14.23	4.09	7.00	8.78	9.78	11.41
2002	13.03	3.21	5.89	7.67	8.67	10.30
2003	11.90	2.95	5.46	7.05	7.89	9.39
2004	12.10	2.97	5.41	6.92	7.80	9.43
2005	12.45	2.98	5.37	6.90	7.81	9.58
Adjusted gross income share (percentage):						
1986	100.00	16.66	40.96	64.88	75.89	88.70
1987	100.00	15.63	39.25	63.10	74.33	87.68
1988	100.00	14.93	37.56	60.55	71.49	84.84
1989	100.00	14.96	37.72	61.00	72.16	85.81
1990	100.00	15.03	37.87	61.23	72.38	86.00
1991	100.00	15.13	38.15	61.80	73.17	87.01
1992	100.00	14.92	37.53	60.77	71.99	85.77
1993	100.00	14.92	37.55	60.95	72.24	86.21
1994	100.00	14.89	37.36	60.81	72.15	86.20
1995	100.00	14.54	36.63	59.84	71.19	85.40
1996	100.00	14.08	35.68	58.41	69.64	83.96
1997	100.00	13.84	34.95	57.17	68.21	82.63
1998	100.00	13.67	34.37	56.23	67.15	81.53
1999	100.00	13.25	33.54	55.11	65.96	80.49
2000	100.00	12.99	32.85	53.99	64.70	79.19
2001	100.00	13.81	34.77	56.89	68.01	82.47
2002	100.00	14.23	35.63	58.23	69.45	83.88
2003	100.00	13.99	35.14	57.64	68.82	83.23
2004	100.00	13.42	33.87	55.65	66.55	81.00
2005	100.00	12.83	32.48	53.56	64.25	78.80
Total income tax share (percentage):						
1986	100.00	6.46	23.98	45.31	57.43	74.25
1987	100.00	6.07	23.08	44.39	56.74	75.19
1988	100.00	5.72	22.16	42.72	54.38	72.42
1989	100.00	5.83	22.78	44.22	56.06	74.76
1990	100.00	5.81	22.98	44.64	56.36	74.87
1991	100.00	5.48	22.71	44.18	56.62	75.18
1992	100.00	5.06	21.52	41.99	54.12	72.46
1993	100.00	4.81	20.73	40.76	52.64	70.99
1994	100.00	4.77	20.45	40.55	52.48	71.14
1995	100.00	4.61	19.64	39.25	51.09	69.74
1996	100.00	4.32	18.68	37.49	49.03	67.69
1997	100.00	4.28	18.33	36.80	48.13	66.83
1998	100.00	4.21	17.31	34.96	46.16	65.25
1999	100.00	4.00	16.46	33.55	44.55	63.82
2000	100.00	3.91	15.99	32.67	43.53	62.58
2001	100.00	3.97	17.10	35.11	46.75	66.11
2002	100.00	3.50	16.10	34.27	46.20	66.29
2003	100.00	3.46	16.12	34.16	45.64	65.73
2004	100.00	3.30	15.14	31.81	42.87	63.11
2005	100.00	3.07	14.01	29.70	40.33	60.62

N/A—Not applicable.

[1] The number of returns with negative adjusted gross income, i.e., returns with an adjusted gross deficit, and the corresponding amounts for adjusted gross deficit, were excluded from Table 6. By excluding deficit returns, alternative minimum tax reported on some of these returns was also excluded. For Tax Year 2005, there were 4,882 returns with no adjusted gross income that reported income tax.

[2] Total income tax is income tax after credits (includes alternative minimum tax) reported on returns that showed a positive amount for adjusted gross income. Therefore, total income tax excludes alternative minimum tax, Form 8814 tax (tax on a child's interest or dividends), and Form 4972 tax (tax on lump-sum distributions from qualified retirement plans) reported on some returns with a negative amount for adjusted gross income. See also footnote 1.

[3] The average tax rate was computed by dividing total income tax (see footnote 2) by (positive) adjusted gross income.

Table 7. Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, Income Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986–2005

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns [1]:						
1986	101,988,805	1,019,888	5,099,440	10,198,881	25,497,201	50,994,402
1987	106,191,624	1,061,916	5,309,581	10,619,162	26,547,906	53,095,812
1988	108,879,154	1,088,792	5,443,958	10,887,915	27,219,788	54,439,577
1989	111,328,835	1,113,288	5,566,442	11,132,884	27,832,209	55,664,418
1990	112,717,959	1,127,180	5,635,898	11,271,796	28,179,490	56,358,980
1991	113,823,123	1,138,231	5,691,156	11,382,312	28,455,781	56,911,562
1992	112,687,747	1,126,877	5,634,387	11,268,775	28,171,937	56,343,874
1993	113,721,706	1,137,217	5,686,085	11,372,171	28,430,426	56,860,853
1994	115,061,112	1,150,611	5,753,056	11,506,111	28,765,278	57,530,556
1995	117,333,779	1,173,338	5,866,689	11,733,378	29,333,445	58,666,889
1996	119,487,813	1,194,878	5,974,391	11,948,781	29,871,953	59,743,906
1997	121,555,156	1,215,552	6,077,758	12,155,516	30,388,789	60,777,578
1998	123,852,016	1,238,520	6,192,601	12,385,202	30,963,004	61,926,008
1999	126,107,596	1,261,076	6,305,380	12,610,760	31,526,899	63,053,798
2000	128,340,271	1,283,403	6,417,014	12,834,027	32,085,068	64,170,135
2001	128,863,007	1,288,630	6,443,150	12,886,301	32,215,752	64,431,504
2002	128,415,184	1,284,152	6,420,759	12,841,518	32,103,796	64,207,592
2003	128,757,145	1,287,571	6,437,857	12,875,715	32,189,286	64,378,573
2004	130,508,966	1,305,090	6,525,448	13,050,897	32,627,242	65,254,483
2005	132,730,734	1,327,307	6,636,537	13,273,073	33,182,684	66,365,367
Income floor on percentiles (current dollars):						
1986	N/A	147,863	68,362	52,035	33,623	17,909
1987	N/A	145,624	69,222	53,094	34,165	17,959
1988	N/A	161,774	73,451	55,532	35,432	18,534
1989	N/A	169,603	77,542	58,429	36,783	19,152
1990	N/A	174,813	80,400	60,623	38,026	19,947
1991	N/A	180,268	83,300	62,413	38,913	20,302
1992	N/A	197,031	87,370	65,283	40,423	21,041
1993	N/A	199,698	88,992	66,685	41,013	21,390
1994	N/A	210,742	93,186	69,118	42,480	22,000
1995	N/A	224,523	98,420	72,210	43,860	22,575
1996	N/A	246,268	103,489	75,574	45,508	23,378
1997	N/A	268,889	110,949	79,598	47,738	24,551
1998	N/A	301,513	120,262	84,904	50,232	25,612
1999	N/A	332,253	126,643	89,172	52,399	26,487
2000	N/A	353,945	134,128	93,715	54,592	27,647
2001	N/A	323,861	131,728	93,633	55,203	28,404
2002	N/A	315,937	132,253	93,833	55,695	28,541
2003	N/A	327,160	134,818	96,021	56,573	28,896
2004	N/A	363,905	142,975	100,957	59,112	29,899
2005	N/A	402,354	152,048	105,958	61,055	30,588
Income floor on percentiles (constant dollars) [2]:						
1986	N/A	134,912	62,374	47,477	30,678	16,340
1987	N/A	128,190	60,935	46,738	30,075	15,809
1988	N/A	136,749	62,089	46,942	29,951	15,667
1989	N/A	136,777	62,534	47,120	29,664	15,445
1990	N/A	133,751	61,515	46,383	29,094	15,262
1991	N/A	132,355	61,160	45,825	28,571	14,906
1992	N/A	140,436	62,274	46,531	28,812	14,997
1993	N/A	138,199	61,586	46,149	28,383	14,803
1994	N/A	142,201	62,879	46,638	28,664	14,845
1995	N/A	147,325	64,580	47,382	28,780	14,813
1996	N/A	156,959	65,959	48,167	29,004	14,900
1997	N/A	167,532	69,127	49,594	29,743	15,297
1998	N/A	183,962	73,375	51,802	30,648	15,627
1999	N/A	199,432	76,016	53,525	31,452	15,899
2000	N/A	205,543	77,891	54,422	31,703	16,055
2001	N/A	182,869	74,381	52,870	31,171	16,038
2002	N/A	175,618	73,515	52,158	30,959	15,865
2003	N/A	177,804	73,271	52,185	30,746	15,704
2004	N/A	192,644	75,688	53,445	31,293	15,828
2005	N/A	206,018	77,854	54,254	31,262	15,662

Foonotes at end of table.

Table 7. Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, Income Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986–2005—Continued

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Income (millions of dollars):						
1986	2,804,691	427,513	796,935	1,097,550	1,732,231	2,368,620
1987	2,856,118	363,880	749,240	1,067,438	1,741,747	2,411,715
1988	3,153,639	484,675	911,170	1,255,108	1,973,061	2,683,524
1989	3,336,571	486,976	947,363	1,317,619	2,085,003	2,838,481
1990	3,497,118	504,687	987,582	1,376,162	2,182,091	2,973,847
1991	3,577,337	478,756	985,590	1,390,924	2,224,979	3,038,428
1992	3,763,002	556,421	1,090,019	1,509,728	2,369,701	3,206,490
1993	3,849,532	554,075	1,105,014	1,537,285	2,422,475	3,278,866
1994	4,033,642	579,564	1,161,972	1,617,250	2,544,400	3,436,167
1995	4,317,506	653,717	1,284,726	1,772,890	2,754,988	3,692,267
1996	4,670,644	772,868	1,462,979	1,984,931	3,025,107	4,015,461
1997	5,112,706	918,007	1,679,877	2,242,353	3,353,245	4,409,075
1998	5,626,390	1,072,779	1,925,214	2,542,399	3,742,006	4,869,467
1999	6,082,931	1,236,081	2,166,370	2,825,789	4,099,929	5,290,805
2000	6,601,494	1,424,436	2,430,957	3,138,299	4,495,910	5,758,808
2001	6,361,523	1,159,037	2,121,055	2,828,677	4,202,776	5,491,703
2002	6,262,714	1,057,775	2,005,658	2,712,226	4,092,069	5,383,263
2003	6,429,711	1,122,582	2,091,401	2,813,645	4,226,517	5,539,087
2004	7,044,141	1,383,978	2,453,830	3,228,229	4,726,625	6,111,786
2005	7,701,103	1,678,406	2,863,229	3,694,152	5,278,659	6,729,456
Total income tax (millions of dollars) [3]:						
1986	366,763	93,128	155,553	198,862	277,578	342,296
1987	368,924	89,908	158,485	204,050	282,970	346,228
1988	412,549	112,208	186,793	235,121	320,152	388,631
1989	432,643	107,508	188,588	240,229	333,285	407,106
1990	446,906	110,530	192,991	245,856	342,926	420,345
1991	448,177	107,926	192,548	246,745	345,168	423,180
1992	476,067	127,361	216,303	272,361	372,352	451,494
1993	502,638	142,329	235,908	294,238	397,261	477,997
1994	534,693	150,133	250,770	314,909	423,743	508,540
1995	588,292	173,877	284,036	354,427	471,035	560,748
1996	658,059	208,071	331,404	407,726	532,750	628,918
1997	731,123	238,978	376,046	459,674	595,060	699,131
1998	783,437	262,464	413,303	503,577	644,182	749,547
1999	877,199	307,382	479,531	577,903	729,679	841,172
2000	980,459	355,911	546,102	654,155	819,937	941,304
2001	887,770	291,907	466,057	570,430	732,094	851,539
2002	796,763	259,192	420,834	517,937	664,670	767,890
2003	747,800	248,107	400,202	487,657	624,070	720,861
2004	831,815	297,199	467,728	562,092	702,203	803,521
2005	934,524	359,060	549,667	651,220	800,022	904,857
Average tax rate (percentage) [4]:						
1986	13.08	21.78	19.52	18.12	16.02	14.45
1987	12.92	24.71	21.15	19.12	16.25	14.36
1988	13.08	23.15	20.50	18.73	16.23	14.48
1989	12.97	22.08	19.91	18.23	15.98	14.34
1990	12.78	21.90	19.54	17.87	15.72	14.13
1991	12.53	22.54	19.54	17.74	15.51	13.93
1992	12.65	22.89	19.84	18.04	15.71	14.08
1993	13.06	25.69	21.35	19.14	16.40	14.58
1994	13.26	25.90	21.58	19.47	16.65	14.80
1995	13.63	26.60	22.11	19.99	17.10	15.19
1996	14.09	26.92	22.65	20.54	17.61	15.66
1997	14.30	26.03	22.39	20.50	17.75	15.86
1998	13.92	24.47	21.47	19.81	17.21	15.39
1999	14.42	24.87	22.14	20.45	17.80	15.90
2000	14.85	24.99	22.46	20.84	18.24	16.35
2001	13.96	25.19	21.97	20.17	17.42	15.51
2002	12.72	24.50	20.98	19.10	16.24	14.26
2003	11.63	22.10	19.14	17.33	14.77	13.01
2004	11.81	21.47	19.06	17.41	14.86	13.15
2005	12.13	21.39	19.20	17.63	15.16	13.45

Foonotes at end of table.

Table 7. Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, Income Floor on Percentiles in Current and Constant Dollars, and Average Tax Rates, by Selected Descending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986–2005—Continued

[All figures are estimates based on samples]

Item, tax year	Total	Descending cumulative percentiles				
		Top 1 percent	Top 5 percent	Top 10 percent	Top 25 percent	Top 50 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Income share (percentage):						
1986	100.00	15.24	28.41	39.13	61.76	84.45
1987	100.00	12.74	26.23	37.37	60.98	84.44
1988	100.00	15.37	28.89	39.80	62.56	85.09
1989	100.00	14.60	28.39	39.49	62.49	85.07
1990	100.00	14.43	28.24	39.35	62.40	85.04
1991	100.00	13.38	27.55	38.88	62.20	84.94
1992	100.00	14.79	28.97	40.12	62.97	85.21
1993	100.00	14.39	28.71	39.93	62.93	85.18
1994	100.00	14.37	28.81	40.09	63.08	85.19
1995	100.00	15.14	29.76	41.06	63.81	85.52
1996	100.00	16.55	31.32	42.50	64.77	85.97
1997	100.00	17.96	32.86	43.86	65.59	86.24
1998	100.00	19.07	34.22	45.19	66.51	86.55
1999	100.00	20.32	35.61	46.45	67.40	86.98
2000	100.00	21.58	36.82	47.54	68.10	87.23
2001	100.00	18.22	33.34	44.47	66.07	86.33
2002	100.00	16.89	32.03	43.31	65.34	85.96
2003	100.00	17.46	32.53	43.76	65.73	86.15
2004	100.00	19.65	34.84	45.83	67.10	86.76
2005	100.00	21.79	37.18	47.97	68.54	87.38
Total income tax share (percentage):						
1986	100.00	25.39	42.41	54.22	75.68	93.33
1987	100.00	24.37	42.96	55.31	76.70	93.85
1988	100.00	27.20	45.28	56.99	77.60	94.20
1989	100.00	24.85	43.59	55.53	77.03	94.10
1990	100.00	24.73	43.18	55.01	76.73	94.06
1991	100.00	24.08	42.96	55.06	77.02	94.42
1992	100.00	26.75	45.44	57.21	78.21	94.84
1993	100.00	28.32	46.93	58.54	79.04	95.10
1994	100.00	28.08	46.90	58.90	79.25	95.11
1995	100.00	29.56	48.28	60.25	80.07	95.32
1996	100.00	31.62	50.36	61.96	80.96	95.57
1997	100.00	32.69	51.43	62.87	81.39	95.62
1998	100.00	33.50	52.76	64.28	82.23	95.67
1999	100.00	35.04	54.67	65.88	83.18	95.89
2000	100.00	36.30	55.70	66.72	83.63	96.01
2001	100.00	32.88	52.50	64.25	82.46	95.92
2002	100.00	32.53	52.82	65.01	83.42	96.38
2003	100.00	33.18	53.52	65.21	83.45	96.40
2004	100.00	35.73	56.23	67.57	84.42	96.60
2005	100.00	38.42	58.82	69.68	85.61	96.83

N/A—Not applicable.

[1] The number of returns with negative adjusted gross income, i.e., returns with an adjusted gross deficit, and the corresponding amounts for adjusted gross deficit, were excluded from Table 7. By excluding deficit returns, alternative minimum tax reported on some of these returns was also excluded. For Tax Year 2005, there were 4,882 returns with no adjusted gross income that reported income tax.

[2] For Table 1, constant dollars were calculated using the U.S. Bureau of Labor Statistics' consumer price index for urban consumers (CPI-U, 1982-84=100). For 2005, the CPI-U = 195.3.

[3] Total income tax is income tax after credits (includes alternative minimum tax) reported on returns that showed a positive amount for adjusted gross income. Therefore, total income tax excludes alternative minimum tax, Form 8814 tax (tax on a child's interest or dividends), and Form 4972 tax (tax on lump-sum distributions from qualified retirement plans) reported on some returns with a negative amount for adjusted gross income. See also footnote 1.

[4] The average tax rate was computed by dividing total income tax (see footnote 3) by (positive) adjusted gross income.

Table 8. Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986–2005

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns [1]:						
1986	101,988,805	50,994,402	76,491,604	91,789,924	96,889,365	100,968,917
1987	106,191,624	53,095,812	79,643,718	95,572,462	100,882,043	105,129,708
1988	108,879,154	54,439,577	81,659,366	97,991,239	103,435,196	107,790,362
1989	111,328,835	55,664,417	83,496,626	100,195,951	105,762,393	110,215,547
1990	112,717,959	56,358,980	84,538,469	101,446,163	107,082,061	111,590,779
1991	113,823,123	56,911,562	85,367,342	102,440,811	108,131,967	112,684,892
1992	112,687,747	56,343,874	84,515,810	101,418,972	107,053,360	111,560,870
1993	113,721,706	56,860,853	85,291,280	102,349,535	108,035,621	112,584,489
1994	115,061,112	57,530,556	86,295,834	103,555,001	109,308,056	113,910,501
1995	117,333,779	58,666,890	88,000,334	105,600,401	111,467,090	116,160,441
1996	119,487,813	59,743,907	89,615,860	107,539,032	113,513,422	118,292,935
1997	121,555,156	60,777,578	91,166,367	109,399,640	115,477,398	120,339,604
1998	123,852,016	61,926,008	92,889,012	111,466,814	117,659,415	122,613,496
1999	126,107,596	63,053,798	94,580,697	113,496,836	119,802,216	124,846,520
2000	128,340,271	64,170,135	96,255,203	115,506,243	121,923,257	127,056,868
2001	128,863,007	64,431,504	96,647,255	115,976,706	122,419,857	127,574,377
2002	128,415,184	64,207,592	96,311,388	115,573,666	121,994,425	127,131,032
2003	128,757,145	64,378,573	96,567,859	115,881,431	122,319,288	127,469,574
2004	130,508,966	65,254,483	97,881,725	117,458,069	123,983,518	129,203,876
2005	132,730,734	66,365,367	99,548,051	119,457,661	126,094,197	131,403,427
Income (millions of dollars):						
1986	2,804,691	436,071	1,072,460	1,707,142	2,007,756	2,377,178
1987	2,856,118	444,403	1,114,372	1,788,680	2,106,878	2,492,238
1988	3,153,639	470,115	1,180,578	1,898,531	2,242,469	2,668,964
1989	3,336,571	498,089	1,251,567	2,018,952	2,389,207	2,849,595
1990	3,497,118	523,271	1,315,027	2,120,956	2,509,535	2,992,431
1991	3,577,337	538,910	1,352,358	2,186,413	2,591,748	3,098,582
1992	3,763,002	556,512	1,393,300	2,253,273	2,672,983	3,206,581
1993	3,849,532	570,666	1,427,057	2,312,247	2,744,518	3,295,456
1994	4,033,642	597,475	1,489,242	2,416,392	2,871,670	3,454,078
1995	4,317,506	625,239	1,562,518	2,544,615	3,032,780	3,663,789
1996	4,670,644	655,183	1,645,537	2,685,713	3,207,665	3,897,777
1997	5,112,706	703,631	1,759,461	2,870,353	3,432,828	4,194,699
1998	5,626,390	756,923	1,884,384	3,083,991	3,701,176	4,553,611
1999	6,082,931	792,125	1,983,002	3,257,142	3,916,561	4,846,850
2000	6,601,494	842,686	2,105,584	3,463,195	4,170,537	5,177,058
2001	6,361,523	869,820	2,158,748	3,532,846	4,240,468	5,202,486
2002	6,262,714	879,451	2,170,646	3,550,488	4,257,056	5,204,939
2003	6,429,711	890,624	2,203,193	3,616,066	4,338,310	5,307,129
2004	7,044,141	932,354	2,317,516	3,815,911	4,590,311	5,660,163
2005	7,701,103	971,647	2,422,444	4,006,951	4,837,875	6,022,698
Total income tax (millions of dollars) [2]:						
1986	366,763	24,467	89,186	167,901	211,210	273,635
1987	368,924	22,696	85,954	164,874	210,439	279,016
1988	412,549	23,918	92,397	177,429	225,756	300,341
1989	432,643	25,537	99,358	192,414	244,055	325,135
1990	446,906	26,562	103,980	201,050	253,915	336,376
1991	448,177	24,997	103,009	201,432	255,629	340,251
1992	476,067	24,573	103,715	203,706	259,764	348,706
1993	502,638	24,641	105,377	208,400	266,730	360,309
1994	534,693	26,153	110,950	219,783	283,923	384,560
1995	588,292	27,544	117,257	233,864	304,256	414,415
1996	658,059	29,142	125,310	250,333	326,655	449,988
1997	731,123	31,992	136,063	271,450	355,078	492,146
1998	783,437	33,889	139,249	279,860	370,134	520,973
1999	877,199	36,027	147,520	299,294	397,669	569,817
2000	980,459	39,155	160,521	326,304	434,357	624,548
2001	887,770	36,230	155,676	317,341	421,713	595,863
2002	796,763	28,872	132,093	278,827	375,930	537,571
2003	747,800	26,939	123,731	260,143	347,598	499,694
2004	831,815	28,294	129,610	269,723	364,087	534,616
2005	934,524	29,668	134,499	283,305	384,857	575,464

Footnotes at end of table.

Table 8. Returns with Positive "1979 Income Concept" Income: Number of Returns, Shares of Income and Total Income Tax, and Average Tax Rates, by Selected Ascending Cumulative Percentiles of Returns Based on Income Size, Tax Years 1986–2005—Continued

[All figures are estimates based on samples]

Item, tax year	Total	Ascending cumulative percentiles				
		Bottom 50 percent	Bottom 75 percent	Bottom 90 percent	Bottom 95 percent	Bottom 99 percent
	(1)	(2)	(3)	(4)	(5)	(6)
Average tax rate (percentage) [3]:						
1986	13.08	5.61	8.32	9.84	10.52	11.51
1987	12.92	5.11	7.71	9.22	9.99	11.20
1988	13.08	5.09	7.83	9.35	10.07	11.25
1989	12.97	5.13	7.94	9.53	10.21	11.41
1990	12.78	5.08	7.91	9.48	10.12	11.24
1991	12.53	4.64	7.62	9.21	9.86	10.98
1992	12.65	4.42	7.44	9.04	9.72	10.87
1993	13.06	4.32	7.38	9.01	9.72	10.93
1994	13.26	4.38	7.45	9.10	9.89	11.13
1995	13.63	4.41	7.50	9.19	10.03	11.31
1996	14.09	4.45	7.62	9.32	10.18	11.54
1997	14.30	4.55	7.73	9.46	10.34	11.73
1998	13.92	4.48	7.39	9.07	10.00	11.44
1999	14.42	4.55	7.44	9.19	10.15	11.76
2000	14.85	4.65	7.62	9.42	10.41	12.06
2001	13.96	4.17	7.21	8.98	9.95	11.45
2002	12.72	3.28	6.09	7.85	8.83	10.33
2003	11.63	3.02	5.62	7.19	8.01	9.42
2004	11.81	3.03	5.59	7.07	7.93	9.45
2005	12.13	3.05	5.55	7.07	7.96	9.55
Income share (percentage):						
1986	100.00	15.55	38.24	60.87	71.59	84.76
1987	100.00	15.56	39.02	62.63	73.77	87.26
1988	100.00	14.91	37.44	60.20	71.11	84.63
1989	100.00	14.93	37.51	60.51	71.61	85.40
1990	100.00	14.96	37.60	60.65	71.76	85.57
1991	100.00	15.06	37.80	61.12	72.45	86.62
1992	100.00	14.79	37.03	59.88	71.03	85.21
1993	100.00	14.82	37.07	60.07	71.29	85.61
1994	100.00	14.81	36.92	59.91	71.19	85.63
1995	100.00	14.48	36.19	58.94	70.24	84.86
1996	100.00	14.03	35.23	57.50	68.68	83.45
1997	100.00	13.76	34.41	56.14	67.14	82.04
1998	100.00	13.45	33.49	54.81	65.78	80.93
1999	100.00	13.02	32.60	53.55	64.39	79.68
2000	100.00	12.77	31.90	52.46	63.18	78.42
2001	100.00	13.67	33.93	55.53	66.66	81.78
2002	100.00	14.04	34.66	56.69	67.97	83.11
2003	100.00	13.85	34.27	56.24	67.47	82.54
2004	100.00	13.24	32.90	54.17	65.16	80.35
2005	100.00	12.62	31.46	52.03	62.82	78.21
Total income tax share (percentage):						
1986	100.00	6.67	24.32	45.78	57.59	74.61
1987	100.00	6.15	23.30	44.69	57.04	75.63
1988	100.00	5.80	22.40	43.01	54.72	72.80
1989	100.00	5.90	22.97	44.47	56.41	75.15
1990	100.00	5.94	23.27	44.99	56.82	75.27
1991	100.00	5.58	22.98	44.94	57.04	75.92
1992	100.00	5.16	21.79	42.79	54.56	73.25
1993	100.00	4.90	20.96	41.46	53.07	71.68
1994	100.00	4.89	20.75	41.10	53.10	71.92
1995	100.00	4.68	19.93	39.75	51.72	70.44
1996	100.00	4.43	19.04	38.04	49.64	68.38
1997	100.00	4.38	18.61	37.13	48.57	67.31
1998	100.00	4.33	17.77	35.72	47.24	66.50
1999	100.00	4.11	16.82	34.12	45.33	64.96
2000	100.00	3.99	16.37	33.28	44.30	63.70
2001	100.00	4.08	17.54	35.75	47.50	67.12
2002	100.00	3.62	16.58	34.99	47.18	67.47
2003	100.00	3.60	16.55	34.79	46.48	66.82
2004	100.00	3.40	15.58	32.43	43.77	64.27
2005	100.00	3.17	14.39	30.32	41.18	61.58

N/A—Not applicable.

[1] The number of returns with negative adjusted gross income, i.e., returns with an adjusted gross deficit, and the corresponding amounts for adjusted gross deficit, were excluded from Table 8. By excluding deficit returns, alternative minimum tax reported on some of these returns was also excluded. For Tax Year 2005, there were 4,882 returns with no adjusted gross income that reported income tax.

[2] Total income tax is income tax after credits (includes alternative minimum tax) reported on returns that showed a positive amount for adjusted gross income. Therefore, total income tax excludes alternative minimum tax, Form 8814 tax (tax on a child's interest or dividends), and Form 4972 tax (tax on lump-sum distributions from qualified retirement plans) reported on some returns with a negative amount for adjusted gross income. See also footnote 1.

[3] The average tax rate was computed by dividing total income tax (see footnote 2) by (positive) adjusted gross income.

Split-Interest Trusts, Filing Year 2006

by Lisa Schreiber

The *Split-Interest Trust Information Return* (Form 5227) is filed by entities with both charitable and noncharitable beneficiaries. In Filing Year 2006, preparers filed 124,036 Forms 5227, about the same number as in 2005.[1] Total distributions remained stable, with $8.4 billion reported in both 2005 and 2006. The total end-of-year book value of assets in Filing Year 2006 was more than $108.2 billion, a 1.6-percent increase from 2005.

A split-interest trust (SIT) can be created by a will or a trust instrument. The trust instrument specifies the term of the trust, designates the trustee(s), as well as the beneficiaries, and provides parameters for managing assets and distributing income to the beneficiaries. The instrument usually specifies the contents of the trust. The individual who owns, and then transfers, the assets that make up the trust corpus is known as the grantor.

A trustee is charged with holding, investing, and distributing the income and assets of the trust. A trustee may be an individual, a group of individuals, or an entity such as a bank or charity. Each trustee must ensure that all transactions, including distributions, conform to the requirements of the trust document and to any applicable laws. Additionally, trustees must coordinate the preparation, verification, and submission of all required State and Federal tax forms.

There are three distinct types of split-interest trusts: charitable remainder trusts, charitable lead trusts, and pooled income funds. In 2006, some 116,062 returns for charitable remainder trusts were submitted (Figure A). Trustees for charitable lead trusts submitted 6,298 returns in 2006, while pooled income fund trustees submitted 1,676 returns.

Charitable Remainder Trusts

Under a charitable remainder trust (CRT) agreement, an income stream is distributed annually to one or more noncharitable beneficiaries for a defined period. The period may be either a fixed duration, statutorily limited to 20 years, or the lifetime of a noncharitable beneficiary.[2] At the conclusion of the period, the trust is dissolved, and the remaining value is distributed to predetermined charitable beneficiaries.[3] The present value of the expected future charitable distribution must equal at least 10.0 percent of the initial fair market value of the assets placed in the trust.[4]

The donor must file a *U.S. Gift Tax Return* (Form 709) for all assets contributed to the trust. For tax year 2005, reflected in 2006 filings, any gift exceeding $11,000 is taxable and is included in the donor's lifetime exclusion.[5] At the time of trust creation, the donor receives an income tax deduction based on an estimate of the charitable distribution. The donor is also eligible for a gift tax deduction if the charitable beneficiary has been named. A beneficiary must report the distributions as gross income on his or her *U.S. Individual Income Tax Return* (Form 1040).

There are two types of charitable remainder trusts. Charitable remainder annuity trusts (CRATs) and charitable remainder unitrusts (CRUTs) differ in the calculation of the noncharitable distribution amount. Charitable remainder annuity trusts annually distribute a fixed percentage, between 5.0 percent and 50.0 percent, of the initial fair market value of the property in the trust. As a result, the amount of the distribution to noncharitable beneficiaries from a CRAT should be the same each year. Charitable remainder unitrusts distribute a fixed percentage, between 5.0 percent and 50.0 percent, of the fair market value of the trust property, valued annually. Therefore, the value of the distribution to noncharitable beneficiaries from a CRUT, called the unitrust amount, may vary from year to year, depending on the value of the assets in the trust.

There are two common variants of charitable remainder unitrusts that allow for added flexibility of noncharitable distributions. One variant, a net income charitable remainder unitrust (NI-CRUT), permits the trustee to distribute only the amount of trust income for that year, should that amount be less than the distribution that would otherwise be required.[6] This allows the trustee to limit distributions in years when the trust's income is low, to avoid depletion of

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[1] A filing year includes all returns submitted to IRS processing between January 1 and December 31 of that year. Returns filed in 2006 were primarily for Tax Year 2005.
[2] For more information on the allowable duration of charitable remainder trusts, see Internal Revenue Code section 664(d)(1)(A) and 664(d)(2)(A).
[3] The qualifications for a "charitable beneficiary" are detailed in Internal Revenue Code section 170(c).
[4] The method for determining the fair market value of a trust is given in Internal Revenue Code section 7520.
[5] The gift tax threshold is indexed for inflation. In the case of a couple who are splitting gifts, the threshold is doubled.
[6] For more information regarding net income charitable remainder unitrusts, see Internal Revenue Code section 664(d)(3)(A).

Figure A

Profile of Split-Interest Trusts, by Type of Trust, Filing Years 2005 and 2006

[Money amounts are in thousands of dollars]

Item	All		Charitable remainder annuity trusts		Charitable remainder unitrusts		Charitable lead trusts		Pooled income funds	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Number of returns	124,292	124,036	21,667	21,296	94,779	94,767	6,168	6,298	1,677	1,676
Total distributions [1]	8,424,057	8,390,320	1,002,261	1,232,106	6,358,763	5,978,298	935,744	1,058,070	127,290	121,847
Book value of assets, end of year [2]	106,507,419	108,248,391	9,540,935	9,041,175	79,845,710	81,121,949	15,500,073	16,485,658	1,620,701	1,599,610

[1] In the case of charitable remainder annuity trusts and charitable remainder unitrusts, the value of distributions have been calculated as the sum of all distribution types from the Current Distributions Schedule (Form 5227, Part III). In the case of charitable lead trusts, distributions have been calculated as the sum of "excess income required to be paid for charitable purposes" (line 2), "annuity or unitrust payment required to be paid to charitable beneficiaries" (line 3), and "annuity or unitrust payments required to be paid to private beneficiaries" (line 4) from Form 5227, Part VII, Section A, the Questionnaire for Charitable Lead Trusts. In the case of pooled income funds, distributions were calculated as the "amount required to be distributed to satisfy the remainder interest" (line 2), plus the "amount of income required to be paid to the private beneficiaries" (line 4), plus the "amount of income required to be paid to the charitable remainder beneficiary" (line 5), less the "amounts that were required to be distributed to the remainder beneficiary that remain undistributed" (line 3) from Form 5227, Part VII, Section B, the Questionnaire for Pooled Income Trusts.

[2] Taken from Form 5227, Part IV, column (b).

NOTE: Detail may not add to totals due to rounding and taxpayer reporting discrepancies.

the trust corpus. A related variant is called the net income with makeup charitable remainder unitrust (NIM-CRUT).[7] A NIM-CRUT works like a NI-CRUT, in that the trustee is allowed to distribute the lesser of the trust income or the required percentage of fair market value. However, the reductions in required distributions accumulate. The trustee must make up for previous distribution deficiencies when trust income permits.

Charitable remainder unitrusts may accept property transfers throughout the life of the trust. These are called "additional contributions." These contributions may be in the form of any asset, including cash and stock. All additional contributions must be detailed on an attachment to the Form 5227 filed for the year in which the contribution was received. The presence of additional contributions complicates the calculation of the unitrust amount. Preparers must prorate the value of the contributions based on the date they were donated to the trust.[8] The unitrust amount is then calculated by multiplying the sum of the balance sheet fair market value and the prorated value of the additional contributions by the unitrust percentage.

Charitable Lead Trusts

Under a charitable lead trust (CLT) agreement, a charitable organization receives the income interest in the trust assets, while the remainder interest is assigned to a noncharitable beneficiary, usually the grantor or the grantor's spouse. Annual distributions are made to a predetermined charitable beneficiary. The amount of CLT distributions is not constrained by minimum or maximum payout restrictions. The distributions continue for the lifetime of the noncharitable beneficiary.[9]

[7] For more information regarding net income with makeup charitable remainder unitrusts, see Internal Revenue Code section 664(d)(3)(B).

[8] Prorating requires the preparer to calculate the number of days remaining in the year when the additional contribution is made. This number is then divided by the total number of days in the calendar year. The resulting percentage is then multiplied by the value of the additional contribution to determine the prorated value of the additional contributions.

[9] In order to qualify, the individual or individuals must be the donor, the donor's spouse, a linear ancestor of a noncharitable beneficiary, or the spouse of a linear ancestor of a noncharitable beneficiary. For more information, see Treasury Regulations 1.1170A-6(c)(2)(i).

Charitable lead trusts are classified as annuity trusts or unitrusts depending on the calculation of the distribution amount. Charitable lead annuity trusts (CLATs) distribute a fixed dollar amount of the initial fair market value of the trust property. Charitable lead unitrusts (CLUTs) distribute a fixed percentage of the net fair market value of the trust property, determined annually. CLATs tend to be favored over CLUTs. CLATs do not require that the trust property be revalued annually, therefore reducing the trustee's costs, and allow the noncharitable remainder beneficiaries to benefit from the appreciation of trust assets.

CLTs are further classified by the role of the donor. If the donor of the trust assets is the noncharitable beneficiary, the trust is classified as a grantor charitable lead trust. In this case, the grantor will receive an income tax deduction up to the amount of the present value of the future charitable distributions as well as a gift tax deduction.[10] Because a grantor CLT is not considered a separate taxable entity, the grantor must pay tax on income earned by the trust. Grantor CLTs are generally used to convert future charitable contributions into a current tax deduction. A trust is classified as a nongrantor charitable lead trust if the donor of the trust property is not a beneficiary. In the case of nongrantor charitable lead trusts, the grantor receives only a gift tax charitable deduction at the time of the trust creation equal to the present value of the future charitable distributions. The nongrantor CLT is considered a fully taxable separate entity for income tax purposes. As a result, the grantor is not liable for tax owed on trust income. Nongrantor CLTs are generally used as a transfer tax reduction technique.

Pooled Income Funds

Under a pooled income fund (PIF) arrangement, donors to a charitable organization contribute assets to a pool of donated assets and, in return, receive income payments for the remainder of the grantors' lifetimes.[11] The transfer of assets to the fund must be irrevocable, meaning it cannot be altered or cancelled without consent of the beneficiary. Generally, donors contribute to existing pooled income funds, thus incurring far lower administrative costs to the grantor than a charitable remainder trust. At the time of donation, the grantor receives income and gift tax deductions equal to the estimated value of the eventual charitable contribution. The donee charity, commonly a large educational institution, is responsible for the maintenance of the fund, including investing assets and making distributions to beneficiaries. PIFs are prohibited from investing in tax-exempt securities. Each year, grantors receive a distribution from the fund based on the ratio of their contributions to the value of the investment pool and the return on the fund assets for that year. These distributions are reported as gross income on the grantor's Form 1040. At the time of the donor's death, the charity receives the grantor's prorated share of the value of the PIF.

Analysis Overview

A *Split-Interest Trust Information Return* (Form 5227) must be submitted for each calendar year a split-interest trust is in existence.[12] Form 5227 must be filed with the IRS by April 15 of the year following the applicable calendar year. Form 5227 is used to disclose the financial activities of the trust, not to calculate tax liability. If a trust incurred any taxable income during the calendar year, a Form 1041, *United States Income Tax Return for Estates and Trusts*, must be completed.

The number of Forms 5227 filed decreased from 124,292 during Filing Year 2005 to 124,036 in 2006 (Figure A). Charitable remainder unitrusts remained the most common type of split-interest trust. Pooled income funds made up the smallest percentage of the SIT population. The majority of returns filed in 2006 were for ongoing trusts, in neither the first nor last year of existence. However, some 4,213, or 3.4 percent of the population, were filed with an initial status (Figure B).[13] Final returns were even less common; in 2006, preparers for terminating trusts filed 3,720 returns. The average lifetime of a terminating trust in Filing Year 2006 was almost 12 years.[14]

[10] This charitable deduction is not without limit. In general, individuals may not receive a deduction for a charitable contribution in excess of 50.0 percent of the taxpayer's contribution base, usually equal to the adjusted gross income. This and other related limitations on charitable deductions are further described in Internal Revenue Code section 170(b).

[11] Pooled income funds are further discussed in Internal Revenue Code section 642(c)(5).

[12] Split-interest trusts created before May 27, 1969, are exempt from having to file a Form 5227, as long as no amounts have been transferred to the trust since May 27, 1969.

[13] An initial return denotes the first return filed by a trust during its lifetime. Generally, these returns cover the tax year in which the trust was created.

[14] The trust lifetime was estimated by subtracting the year of the reported creation date from the tax year of the final return.<?> Trusts that do not report end-of-year total assets, or that report the amount as zero, are often final-year filers. In those instances, the trusts usually report asset amounts for the beginning of the year, but, as they have terminated, there are no trust assets to report for the end of the year.

Figure B

Filing Status Frequency, by Type of Trust, Filing Year 2006

Filing status	All		Charitable remainder annuity trusts		Charitable remainder unitrusts	
	Number of returns	Percent of total	Number of returns	Percent of total	Number of returns	Percent of total
	(1)	(2)	(3)	(4)	(5)	(6)
All returns	**124,036**	**100.0**	**21,296**	**100.0**	**94,767**	**100.0**
Initial [1]	4,213	3.4	763	3.6	3,166	3.3
Final [2]	3,720	3.0	1,168	5.5	2,334	2.5

Filing status	Charitable lead trusts		Pooled income funds	
	Number of returns	Percent of total	Number of returns	Percent of total
	(7)	(8)	(9)	(10)
All returns	**6,298**	**100.0**	**1,676**	**100.0**
Initial [1]	283	4.5	0	0
Final [2]	* 156	* 2.5	* 62	* 3.7

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

[1] An initial return status is denoted by selecting the "Initial return" box on line E of Form 5227.

[2] A final return status is denoted by selecting the "Final return" box on line E of Form 5227.

Paid preparers completed 75.6 percent of returns filed in 2006 (Figure C). However, in some instances, the trustee type may indicate the presence of a professional preparer even when the return does not indicate a paid preparer. Of those returns that did not indicate a paid preparer, 89.1 percent reported institutions, such as banks or charities, as the trustee. When entities such as these are acting as trustee, it is likely that the return was professionally prepared even if a paid preparer did not sign the return. For example, while paid preparers completed only 44.5 percent of the returns filed for pooled income funds, institutional trustees were reported for 91.1 percent of the PIF returns that did not indicate a paid preparer. CLTs were the type of trust most likely to be completed by a paid preparer. In 2006, only 17.2 percent of forms filed for CLTs did not utilize a paid preparer.

Form 5227 is divided into several parts, many of which are only completed for one type of split-interest trust. All trusts report the total fair market value of assets in the trust at the end of the tax year, as well as distribution information. The balance sheet portion of *Split-Interest Trust Information Return* is a detailed listing of the assets and liabilities of the trust and is completed, at least in part, by all SITs. There are three separate valuations for each asset and liability category: beginning-of-year book value; end-of-year book value; and fair market value. The beginning- and end-of-year book values are reported for all types of trusts. For all SITs, the end-of-year book value of trust assets increased from $106.5 billion in Filing Year 2005 to $108.2 billion in 2006. The fair market valuation is only required for charitable remainder unitrusts. Tax law requires the fair market value to be assessed on the same date and by the same method each year that a Form 5227 is filed for a CRUT. Assets are apportioned into several categories, including cash, receivables, and investments. Investments are further separated into five categories: U.S. and State government obligations; corporate stock; corporate bonds; land, buildings, and equipment; and other. Liabilities are also separated into four categories, including accounts payable and deferred revenue.

This article primarily focuses on split-interest trust reporting for Filing Year 2006, reporting, primarily, information and activities that occurred in Calendar Year 2005. Throughout this article, trusts are described in terms of size as small, medium, or large, based on the trust's reported end-of-year total book value of assets. Small trusts are defined as those that reported total assets of $500,000 or less, including those trusts that either did not report end-of-year book value of total assets or that reported the amount as zero.[15] Medium trusts are defined as those

[15] Trusts that do not report end-of-year total assets, or that report the amount as zero, are often final-year filers. In those instances, the trusts usually report asset amounts for the beginning of the year, but, as they have terminated, there are no turst assets to report for the end of the year.

Figure C

Utilization of Paid Preparers and Distribution of Trustee Type, by Type of Trust, Filing Years 2005 and 2006

Preparer status and type of trustee	All		Charitable remainder annuity trusts		Chartiable remainder unitrusts	
	2005	2006	2005	2006	2005	2006
	(1)	(2)	(3)	(4)	(5)	(6)
All returns, total	**124,292**	**124,036**	**21,667**	**21,296**	**94,779**	**94,767**
Paid preparer [1]	88,442	93,717	12,883	13,262	69,795	74,492
Unpaid preparer, total	35,850	30,318	8,785	8,033	24,984	20,274
Institutional trustee	33,338	27,012	8,614	7,601	22,703	17,670
Noninstitutional trustee	2,512	3,306	171	432	2,281	2,604

Preparer status and type of trustee	Charitable lead trusts		Pooled income funds	
	2005	2006	2005	2006
	(7)	(8)	(9)	(10)
All returns, total	**6,168**	**6,298**	**1,677**	**1,676**
Paid preparer [1]	4,950	5,217	815	746
Unpaid preparer, total	1,219	1,081	862	930
Institutional trustee	1,158	894	862	847
Noninstitutional trustee	60	187	0	83

[1] The presence of a paid preparer is indicated on Form 5227 by the completion of the paid preparer section found on page 4 of the return.

with between $500,000 and $3.0 million in total assets. Large trusts are defined as those that reported total assets of $3.0 million or more.

Analysis by Type of Trust

Charitable Remainder Trusts

The income and deductions portion of Form 5227 is completed only for charitable remainder trusts, for which 116,062 returns were filed in 2006 (Figure D). Reported ordinary income is divided into seven classifications that include interest income, ordinary dividends, and business income or loss. Total ordinary income of $3.0 billion was reported for CRTs in 2006, of which $2.7 billion, or 90.3 percent, was reported for CRUTs. Deductions allocable to ordinary income are divided into three classifications: interest, taxes, and other deductions totaled $547.6 million in 2006.[16] The total ordinary income less deductions allocable to ordinary income is referred to, in this article, as "net ordinary income." In 2006, this amount was $2.4 billion.

Capital gains and losses are reported separately from net ordinary income. The total short-term capital gain or loss amount, as well as the total long-term capital gain or loss amount, is taken from Form 1041 Schedule D, *Capital Gains and Losses,* for the corresponding tax year. Deductions reduce the short- and long-term amounts, resulting in a "net short-term capital gain (loss)" and a "net long-term capital gain (loss)." Charitable remainder trust returns reported total net capital gains of $7.4 billion in 2006 (Figure D). This is an increase of 16.6 percent from $6.4 billion in 2005. A possible explanation for this increase may be continued effects of the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003, which reduced the long-term capital gain tax rate from 20.0 percent to 15.0 percent, and, therefore, spurred the sales of capital assets. The 2005 tax year, reflected on returns filed in 2006, was the second full year that the law was in effect. Net long-term capital gains made up approximately 96.1 percent, or $7.2 billion, of total net capital gains reported for CRTs in 2006. This is an increase of nearly $1.2 billion over the net long-

[16] Charitable remainder trusts are not allowed deductions for personal exemptions, charitable contributions, net operating losses, income distributions, capital loss carry forwards, Federal income taxes, or Federal excise taxes.

term capital gains reported for CRTs in 2005. This change is minor compared to the $2.5 billion, or 81.3 percent, increase seen between Filing Years 2004 and 2005, when the JGTRRA was initiated.

In this article, total net income is defined as the sum of net ordinary income, net capital gains, and nontaxable income. Nontaxable income, primarily from municipal bonds, is also reported separately from ordinary income. Charitable remainder trusts reported $127.4 million in nontaxable income in 2006, a decrease of 4.5 percent from the $133.4 million reported in 2005 (Figure D). Total net income reported for charitable remainder trusts increased by 10.6 percent, from $9.0 in 2005 to $10.0 billion in 2006, despite the relatively small increase, 0.3 percent, in the number of returns filed. This increase is attributable to the $1.1 billion increase in the total net capital gains reported for CRTs.

The accumulation schedule section of Form 5227 shows the flow of income through the trust from January 1 to December 31 of the tax year.[17] This section is also only completed for charitable remainder trusts. Income is reported in two categories: undistributed income from prior years and current-year income. Income in these two categories is further disaggregated by source: ordinary; net short-term capital gains and losses; net long-term capital gains and losses; and nontaxable. Returns filed for CRTs in 2006 reported total accumulations, including ordinary income, short-term and long-term capital gains,

Figure D

Overview of Charitable Remainder Trusts, Filing Years 2005 and 2006

[Money amounts are in thousands of dollars]

Item	All charitable remainder trusts		Charitable remainder annuity trusts		Charitable remainder unitrusts	
	2005	2006	2005	2006	2005	2006
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns	**116,446**	**116,062**	**21,667**	**21,296**	**94,779**	**94,767**
Total net income [1]	**9,030,411**	**9,991,947**	**817,535**	**853,971**	**8,212,876**	**9,137,976**
Net ordinary income [2]	2,517,779	2,425,472	226,971	235,279	2,290,808	2,190,193
Total net capital gains (losses) [3]	6,379,243	7,439,099	550,259	579,224	5,828,984	6,859,875
Nontaxable income [4]	133,389	127,376	40,305	39,468	93,085	87,908
Total accumulations [5]	**65,111,364**	**66,278,298**	**5,540,401**	**5,407,534**	**59,570,962**	**60,870,765**
Prior year undistributed	56,080,951	56,286,350	4,722,866	4,553,562	51,358,084	51,732,788
Current year accumulations	9,030,411	9,991,947	817,535	853,971	8,212,876	9,137,976
Undistributed at end of tax year [6]	58,696,916	59,734,950	4,737,789	4,481,374	53,959,127	55,253,576
Total distributions [7][8]	**7,361,024**	**7,210,404**	**1,002,261**	**1,232,106**	**6,358,763**	**5,978,298**
Total book value of assets at end of year	**89,386,646**	**90,163,123**	**9,540,935**	**9,041,175**	**79,845,710**	**81,121,949**
Cash, savings, and temporary cash investments	7,019,174	6,746,676	1,066,482	763,038	5,952,691	5,983,637
Receivables due [9]	1,136,970	1,281,565	135,076	155,005	1,001,894	1,126,560
Inventories and prepaid expenses	25,532	10,273	2,474	2,457	23,058	7,816
Investments	77,620,536	79,535,080	8,035,587	7,834,583	69,584,949	71,700,498
Other assets [10]	3,584,405	2,589,506	301,310	286,088	3,283,095	2,303,418
Total book value of liabilities at end of year	**1,363,939**	**1,358,047**	**144,313**	**166,179**	**1,219,626**	**1,191,868**
Net book value assets at end of year [11]	**87,984,754**	**88,805,077**	**9,389,909**	**8,874,996**	**78,594,845**	**79,930,081**

[1] Calculated as the sum of "ordinary income less deductions" (Form 5227, Part I, line 13), "net short-term capital gains (losses)" (line 16), "net long-term capital gains (losses)" (line 19), and "current tax year nontaxable income" (Part II, line 21(d)).

[2] Taken from "ordinary income less deductions" (Form 5227, Part I, line 13).

[3] Calculated as the sum of "net short-term capital gains (losses)" (Form 5227, Part I, line 16) and "net long-term capital gains (losses)" (line 19).

[4] Taken from "current tax year nontaxable income" (Form 5227, Part II, line 21(d)).

[5] Taken from Form 5227, Part II, line 22.

[6] Taken from Form 5227, Part II, line 23.

[7] Calculated as the sum of all distributions reported on Part III of Form 5227.

[8] May include distributions made after December 31 of the tax year and therefore may not be reflected on the accumulation schedule.

[9] Calculated as the sum of "accounts receivable" (Form 5227, Part IV, line 27, column (b)), "receivables due from officers, directors, and other disqualified persons" (line 28, column (b)), and "other notes and loans receivable" (line 29, column (b)).

[10] Calculated as the sum of charitable purpose land, buildings, and equipment (Form 5227, Part IV, line 35, column (b)) and other assets (line 36, column (b)).

[11] Taken from Form 5227, Part IV, line 46, column (b). This is the excess of total assets over total liabilities. This value may deviate from the calculated value of total assets (line 37, column (b)) less total liabilities (line 43, column (b)) due to taxpayer reporting error.

NOTE: Detail may not add to totals due to rounding and taxpayer reporting discrepancies.

[17] Those distributions made after December 31 of a tax year, for that tax year, will be included as undistributed at the end of the tax year on the accumulation schedule.

and nontaxable income, of $66.3 billion (Figure D). Approximately $56.3 billion of the accumulations were undistributed from prior tax years. The accumulation schedule shows undistributed income at the end of the tax year, which is the amount of income held by the trust on the last day of the calendar year, once all payouts and distributions have been recorded. In Filing Year 2006, some $59.7 billion was reported for end-of-year undistributed income. As shown in Figure D, returns filed for charitable remainder trusts reported $7.2 billion in distributions and $90.2 billion in end-of-year book value assets of in Filing Year 2006.

Charitable Remainder Annuity Trusts

During Filing Year 2006, some 21,296 Forms 5227 were filed for charitable remainder annuity trusts. This is a 1.7-percent decrease from Filing Year 2005, when 21,667 returns were filed. As in 2005, the majority of CRATs included in Filing Year 2006 were small trusts, with end-of-year book value of total assets less than $500,000 (Figure E). Approximately $854.0 million in total net income was reported for CRATs in 2006. The percentage of net income attributable to net long-term capital gains increased slightly between 2005 and 2006. Reported to be $560.7 million, net long-term capital gains composed 65.7 percent of net income for CRATs. Nontaxable income accounted for the smallest portion of total net income.

Reported total accumulations for charitable remainder annuity trusts decreased from $5.5 billion in Filing Year 2005 to $5.4 billion in 2006 (Figure F). This included $4.6 billion in prior-year undistributed income as well as $854.0 million in current-year income. At the end of the tax year, CRATs reported $4.5 billion in undistributed income. Most of the undistributed income, 91.2 percent or $4.1 billion, was in the form of net long-term capital gains.

Figure G shows distributions made by charitable remainder annuity trusts in Filing Year 2006. In total, $1.2 billion were distributed. The allocation of distributions between sizes of CRATs in 2006 parallels the allocation in previous filing years. Small CRATs, which accounted for 82.1 percent of all returns filed, accounted for 53.7 percent of distributions. Large CRATs accounted for 21.3 percent of total distributions but made up only 1.9 percent of the CRAT population. Long-term capital gains represented the largest portion of distributions for CRATs of all sizes. Corpus distributions constituted a decreasing percentage of distributions as size of charitable remainder annuity trusts increased, while

Figure E

Charitable Remainder Annuity Trusts: Income and Deductions, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

[Money amounts are in thousands of dollars]

Item	Total	Size of end-of-year book value of total assets		
		Under $500,000 [1]	$500,000 under $3,000,000	$3,000,000 or more
	(1)	(2)	(3)	(4)
Number of returns	**21,296**	**17,480**	**3,417**	**399**
Total net income [2]	**853,971**	**158,870**	**318,043**	**377,057**
Net ordinary income [3]	235,279	53,623	92,279	89,377
Total ordinary income	289,283	70,521	113,700	105,061
Deductions allocable to ordinary income	54,003	16,898	21,421	15,684
Net short-term capital gains or (losses) [4]	18,504	5,385	6,058	7,061
Net long-term capital gains or (losses) [5]	560,720	91,099	201,654	267,968
Nontaxable income [6]	39,468	8,763	18,052	12,652

[1] Includes returns that did not report end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] Calculated as the sum of "ordinary income less deductions" (Form 5227, Part I, line 13), "net short-term capital gains (losses)" (line 16), "net long-term capital gains (losses)" (line 19), and "current tax year nontaxable income" (Part II, line 21 (d)).

[3] Taken from "ordinary income less deductions" (Form 5227, Part I, line 13). This amount may not equal "total ordinary income" (line 8) less "total deductions allocable to ordinary income" (line 12) due to taxpayer reporting discrepancies.

[4] Taken from Form 5227, Part I, line 16.

[5] Taken from Form 5227, Part I, line 19.

[6] Taken from Form 5227, Part II, line 21(d).

NOTE: Detail may not add to totals due to rounding.

Figure F

Charitable Remainder Annuity Trusts: Accumulation Information, by Type of Income, Filing Year 2006

[Money amounts are in thousands of dollars]

Item	Total	Type of income			
		Net ordinary income	Capital gains (losses)		Nontaxable income
			Net short-term	Net long-term	
	(1)	(2)	(3)	(4)	(5)
Total accumulations [1]	**5,407,534**	**491,620**	**50,752**	**4,681,536**	**183,626**
Prior-year undistributed [2]	4,553,562	256,341	21,668	4,131,396	144,158
Current-year accumulations [3]	853,971	235,279	18,504	560,720	39,468
Undistributed at end of tax year [4]	**4,481,374**	**219,674**	**24,213**	**4,089,062**	**148,425**

[1] Taken from Form 5227, Part II, line 22.

[2] Taken from Form 5227, Part II, line 20.

[3] Taken from Form 5227, Part II, line 21.

[4] Taken from Form 5227, Part II, line 23.

NOTES: Detail may not add to totals due to rounding. Additionally, the total accumulations for capital gains (losses) may be skewed due to netting short- and long-term values together.

Figure G

Charitable Remainder Annuity Trusts: Distributions, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

[Money amounts are in thousands of dollars]

Item	All	Size of end-of-year book value of total assets		
		Under $500,000 [1]	$500,000 under $3,000,000	$3,000,000 or more
	(1)	(2)	(3)	(4)
Number of returns	**21,296**	**17,480**	**3,417**	**399**
Total distributions [2]	**1,232,106**	**661,287**	**307,810**	**263,009**
Ordinary income [3]	272,509	98,710	90,792	83,007
Short-term capital gains [4]	29,389	12,185	8,036	9,168
Long-term capital gains [5]	565,694	292,400	142,526	130,767
Nontaxable income [6]	34,056	10,436	14,715	8,905
Corpus [7]	330,457	247,555	51,741	31,161

[1] Includes returns that did not report end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often these zero amounts are explained by trusts filing a final return.

[2] May include distributions made after December 31 of the tax year and therefore may not be reflected on the accumulation schedule.

[3] Reported on Form 5227, Part III, column (a).

[4] Reported on Form 5227, Part III, column (b).

[5] Reported on Form 5227, Part III, column (c).

[6] Reported on Form 5227, Part III, column (d).

[7] Reported on Form 5227, Part III, column (e).

NOTE: Detail may not add to totals due to rounding.

ordinary income increased as a percentage of distributions as size of CRATs increased.

Overall, distributions from CRATs increased by 22.9 percent from Filing Year 2005 to Filing Year 2006. One source of year-to-year variation in aggregate estimates is a change in the CRAT population due to the creation or termination of trusts. Figure H presents the 2005 and 2006 Filing Year data for CRATs that did not begin or terminate during the year. In contrast with the population, distributions for ongoing trusts decreased by 5.4 percent between 2005 and 2006.

Figure I shows the allocation of distributions among basic beneficiary types. Trust grantors received the largest percentage of total distributions, 47.8 percent or $589.3 million. Charitable beneficiaries received 26.3 percent of all reported distributions. Noncharitable entities and nongrantor individ-

Figure H

Charitable Remainder Annuity Trusts: Distributions, Filing Years 2005 and 2006

[Money amounts are in thousands of dollars]

Item	All returns			Ongoing returns [1]		
	2005	2006	Percent change	2005	2006	Percent change
	(1)	(2)	(3)	(4)	(5)	(6)
Total distributions [2]	**1,002,261**	**1,232,106**	**22.9**	**790,468**	**747,930**	**-5.4**
Ordinary income [3]	227,475	272,509	19.8	206,343	208,577	1.1
Short-term capital gains [4]	28,789	29,389	2.1	24,541	20,469	-16.6
Long-term capital gains [5]	433,026	565,694	30.6	387,686	356,736	-8.0
Nontaxable income [6]	33,414	34,056	1.9	31,375	32,073	2.2
Corpus [7]	279,556	330,457	18.2	140,523	130,074	-7.4

[1] This category includes only returns that did not make initial or final distributions during the filing year.
[2] May include distributions made after December 31 of the tax year and therefore may not be reflected on the accumulation schedule.
[3] Reported on Form 5227, Part III, column (a).
[4] Reported on Form 5227, Part III, column (b).
[5] Reported on Form 5227, Part III, column (c).
[6] Reported on Form 5227, Part III, column (d).
[7] Reported on Form 5227, Part III, column (e).
NOTE: Detail may not add to totals due to rounding.

Figure I

Charitable Remainder Annuity Trusts: Distributions, by Beneficiary and Income Type, Filing Year 2006

[Money amounts are in thousands of dollars]

Beneficiary type	Total distributions [1]	Ordinary income [2]	Short-term capital gains [3]	Long-term capital gains [4]	Nontaxable income [5]	Corpus [6]
	(1)	(2)	(3)	(4)	(5)	(6)
All beneficiary types	**1,232,106**	**272,509**	**29,389**	**565,694**	**34,056**	**330,457**
Grantor	589,314	162,358	18,054	282,115	21,503	105,284
Other individual	149,545	45,142	3,691	61,633	10,676	28,403
Charity	323,934	57,984	7,320	156,811	* 1,259	100,559
Noncharitable entity	169,313	7,026	* 323	65,135	* 618	96,212

* Estimate should be used with caution because of the small number of sample returns on which it is based.
[1] May include distributions made after December 31 of the tax year and therefore may not be reflected on the accumulation schedule.
[2] Reported on Form 5227, Part III, column (a).
[3] Reported on Form 5227, Part III, column (b).
[4] Reported on Form 5227, Part III, column (c).
[5] Reported on Form 5227, Part III, column (d).
[6] Reported on Form 5227, Part III, column (e).
NOTE: Detail may not add to totals due to rounding.

uals were the recipients of only 13.7 percent and 12.1 percent of distributions for Filing Year 2006, respectively. Corpus distributions made up the majority, or 56.8 percent, of distributions to noncharitable entities. Long-term capital gains made up the largest percentage of distributions to all other beneficiary types.

Approximately $9.0 billion in assets were reported for charitable remainder annuity trusts in Filing Year 2006 (Figure J). The allocation of assets in the investment portfolios of trusts filing in 2006 mirrors that in 2005. Investments comprised the largest portion of assets, more than $7.8 billion, or 86.7 percent of the total. Corporate stock made up 50.6 percent of the total investments reported and comprised the largest portion of the investment portfolio for all sizes of CRATs. Investments in land, buildings, and equipment comprised the smallest portion of the investment portfolio. Figure J also shows that $166.2 million in liabilities were reported for CRATs in Filing Year 2006, an increase of 15.2 percent from 2005.

Figure J

Charitable Remainder Annuity Trusts: Investment Allocations, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

[Money amounts are in thousands of dollars]

Item	Total		Size of end-of-year book value of total assets					
			Under $500,000 [1]		$500,000 under $3,000,000		$3,000,000 or more	
	Amount	Percent of total investments	Amount	Percent of total investments	Amount	Percent of total investments	Amount	Percent of total investments
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total book value of assets at end of year	**9,041,175**	**N/A**	**1,910,724**	**N/A**	**3,629,955**	**N/A**	**3,500,496**	**N/A**
Total investments	**7,834,583**	**100.0**	**1,666,546**	**100.0**	**3,176,497**	**100.0**	**2,991,540**	**100.0**
U.S. and State government obligations [2]	1,460,344	18.6	231,652	13.9	683,500	21.5	545,192	18.2
Corporate stock [3]	3,960,596	50.6	903,241	54.2	1,545,671	48.7	1,511,684	50.5
Corporate bonds [4]	1,224,705	15.6	251,110	15.1	533,294	16.8	440,302	14.7
Land, buildings, and equipment [5]	83,696	1.1	19,824	1.2	28,286	0.9	35,587	1.2
Other investments [6]	1,105,241	14.1	260,720	15.6	385,746	12.1	458,775	15.3
Total book value of liabilities at end of year	**166,179**	**N/A**	**46,287**	**N/A**	**91,064**	**N/A**	**28,829**	**N/A**

N/A—Not applicable.

[1] Includes returns that did not report end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] Taken from Form 5227, Part IV, line 32a, column (b).

[3] Taken from Form 5227, Part IV, line 32b, column (b).

[4] Taken from Form 5227, Part IV, line 32c, column (b).

[5] Taken from Form 5227, Part IV, line 33, column (b).

[6] Taken from Form 5227, Part IV, line 34, column (b).

NOTE: Detail may not add to totals due to rounding and taxpayer reporting discrepancies.

Charitable Remainder Unitrusts

The number of Forms 5227 filed for charitable remainder unitrusts in 2006 was 94,767, virtually unchanged from 2005. As in 2005, the majority of returns filed in 2006 were for small CRUTs with less than $500,000 in end-of-year book value of assets. In Filing Year 2006, about $9.1 billion in total net income were reported for charitable remainder unitrusts (Figure K). Net long-term capital gains comprised the largest portion of the income, with $6.6 billion reported, and increase of 20.1 percent from Filing Year 2005. Nontaxable income made up the smallest portion of income for all categories of CRUTs, accounting for only 1.0 percent of total income for all CRUTs.

Returns filed for charitable remainder unitrusts in 2006 reported $60.9 billion in total accumulations, an increase of only 2.2 percent over Filing Year 2005 (Figure L). Total accumulations included $51.7 billion in prior-year undistributed income. Undistributed income at the end of the tax year reported for CRUTs totaled $55.3 billion in 2006, a slight increase from Filing Year 2005.

Charitable remainder unitrust distributions are shown in Figure M. During Filing Year 2006, nearly $6.0 billion in distributions were reported. Of this, large CRUTs, which made up just 3.7 percent of all CRUTs in 2006, accounted for $2.6 billion or 43.2 percent of total distributions that year, an increase from 2005 filings. In contrast, small CRUTs, which made up 70.0 percent of the CRUT filing population in 2006, reported distributions making up 23.4 percent of the total. The dollar value of distributions reported for small CRUTs decreased by 34.0 percent, from $2.1 billion in 2005 to $1.4 billion in 2006. Long-term capital gains remained the largest source of all distributions, accounting for 51.1 percent of all distributions made by charitable remainder unitrusts. Reported distributions from short-term capital gains increased by 48.6 percent, from $342.6 million in Filing Year 2005 to $509.2 million in Filing Year 2006. Nontaxable income contributed the smallest share to distributions for all CRUTs that filed in 2006, making up only 0.7 percent of total distributions.

Overall distributions from CRUTs decreased by 6.0 percent between 2005 and 2006. Figure N

Figure K

Charitable Remainder Unitrusts: Income and Deductions, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

[Money amounts are in thousands of dollars]

Item	Total	Size of end-of-year book value of total assets		
		Under $500,000 [1]	$500,000 under $3,000,000	$3,000,000 or more
	(1)	(2)	(3)	(4)
Number of returns	**94,767**	**66,187**	**25,090**	**3,489**
Total net income [2]	**9,137,976**	**951,868**	**2,493,192**	**5,692,916**
Net ordinary income [3]	2,190,193	317,518	674,358	1,198,317
Total ordinary income	2,683,840	419,189	852,292	1,412,359
Deductions allocable to ordinary income	493,645	101,670	177,934	214,042
Net short-term capital gains or (losses) [4]	269,222	33,639	77,242	158,341
Net long-term capital gains or (losses) [5]	6,590,653	589,059	1,708,597	4,292,996
Nontaxable income [6]	87,908	11,651	32,994	43,263

[1] Includes returns that did not report end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] Calculated as the sum of "ordinary income less deductions" (Form 5227, Part I, line 13), "net short-term capital gains (losses)" (line 16), "net long-term capital gains (losses)" (line 19), and "current tax year nontaxable income" (Part II, line 21 (d)).

[3] Taken from "ordinary income less deductions" (Form 5227, Part I, line 13). This amount may not equal "total ordinary income" (line 8) less "total deductions allocable to ordinary income" (line 12) due to taxpayer reporting discrepancies.

[4] Taken from Form 5227, Part I, line 16.

[5] Taken from Form 5227, Part I, line 19.

[6] Taken from Form 5227, Part II, line 21(d).

NOTE: Detail may not add to totals due to rounding and taxpayer reporting discrepancies.

Figure L

Charitable Remainder Unitrusts: Accumulation Information, by Type of Income, Filing Year 2006

[Money amounts are in thousands of dollars]

Item	Total	Type of income			
		Net ordinary income	Capital gains (losses)		Nontaxable income
			Net short-term	Net long-term	
	(1)	(2)	(3)	(4)	(5)
Total accumulations [1]	**60,870,765**	**5,222,659**	**1,846,745**	**53,374,126**	**427,234**
Prior-year undistributed [2]	51,732,788	3,032,466	1,402,833	46,958,163	339,325
Current-year accumulations [3]	9,137,976	2,190,193	269,222	6,590,653	87,908
Undistributed at end of tax year [4]	**55,253,576**	**3,404,240**	**1,347,569**	**50,119,516**	**382,250**

[1] Taken from Form 5227, Part II, line 22.

[2] Taken from Form 5227, Part II, line 20.

[3] Taken from Form 5227, Part II, line 21.

[4] Taken from Form 5227, Part II, line 23.

NOTES: Detail may not add to totals due to rounding. Additionally, the total accumulations for capital gains (losses) may be skewed due to netting short- and long-term values together.

presents distribution data for ongoing CRUTs. These data show that distributions increased by 9.8 percent between the 2 years for ongoing trusts, which starkly contrasts the overall change. Figure O presents the allocation of distributions reported for charitable remainder unitrusts in 2006 among basic beneficiary types. Grantors received $4.4 billion, or 73.2 percent of distributions reported for charitable remainder unitrusts in 2006. The second most common beneficiary type was nongrantor individuals, who received $940.7 million in distributions. Noncharitable entities were the least common beneficiary of CRUTs, receiving 3.8 percent of all distributions.

Charitable remainder unitrust returns filed in 2006 reported $81.1 billion for end-of-year book value of assets (Figure P). Approximately 88.4 per-

Figure M

Charitable Remainder Unitrusts: Distributions, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

[Money amounts are in thousands of dollars]

Item	All	Size of end-of-year book value of total assets		
		Under $500,000 [1]	$500,000 under $3,000,000	$3,000,000 or more
	(1)	(2)	(3)	(4)
Number of returns	**94,767**	**66,187**	**25,090**	**3,489**
Total distributions [2]	**5,978,298**	**1,399,891**	**1,998,663**	**2,579,744**
Ordinary income [3]	1,829,156	341,779	646,733	840,644
Short-term capital gains [4]	509,175	40,103	105,171	363,900
Long-term capital gains [5]	3,052,897	714,423	1,067,428	1,271,047
Nontaxable income [6]	41,725	10,987	18,059	12,678
Corpus [7]	545,345	292,599	161,273	91,474

[1] Includes returns that did not report end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] May include distributions made after December 31 of the tax year and therefore may not be reflected on the accumulation schedule.

[3] Reported on Form 5227, Part III, column (a).

[4] Reported on Form 5227, Part III, column (b).

[5] Reported on Form 5227, Part III, column (c).

[6] Reported on Form 5227, Part III, column (d).

[7] Reported on Form 5227, Part III, column (e).

NOTE: Detail may not add to totals due to rounding.

Figure N

Charitable Remainder Unitrusts: Distributions, Filing Years 2005 and 2006

[Money amounts are in thousands of dollars]

Item	All returns			Ongoing returns [1]		
	2005	2006	Percent change	2005	2006	Percent change
	(1)	(2)	(3)	(4)	(5)	(6)
Total distributions [2]	**6,358,763**	**5,978,298**	**-6.0**	**5,005,945**	**5,497,046**	**9.8**
Ordinary income [3]	1,706,843	1,829,156	7.2	1,668,673	1,790,616	7.3
Short-term capital gains [4]	342,579	509,175	48.6	336,840	497,745	47.8
Long-term capital gains [5]	3,706,584	3,052,897	-17.6	2,621,214	2,823,939	7.7
Nontaxable income [6]	44,359	41,725	-5.9	38,352	37,470	-2.3
Corpus [7]	558,398	545,345	-2.3	340,866	347,276	1.9

[1] This category includes only returns that did not make initial or final distributions during the filing year.

[2] May include distributions made after December 31 of the tax year and therefore may not be reflected on the accumulation schedule.

[3] Reported on Form 5227, Part III, column (a).

[4] Reported on Form 5227, Part III, column (b).

[5] Reported on Form 5227, Part III, column (c).

[6] Reported on Form 5227, Part III, column (d).

[7] Reported on Form 5227, Part III, column (e).

NOTE: Detail may not add to totals due to rounding.

cent of the asset value was made up of investments, reported to be $71.7 billion. As in prior years, corporate stock, a reported $37.6 billion, comprised the majority of the investment portfolio of CRUTs in 2006. The second most common component of the 2006 Filing Year portfolio was other investments, which include partnerships, annuities, and bonds issued by foreign governments. Real estate investments were the smallest component of investments for CRUTs of all sizes. Overall, CRUT returns reported $1.2 billion in liabilities during the filing year.

In Filing Year 2006, some 2,236, or 2.4 percent of all CRUTs, reported $791.9 million in additional contributions (Figure Q). This is a decrease from

Figure O

Charitable Remainder Unitrusts: Distributions, by Beneficiary and Income Type, Filing Year 2006

[Money amounts are in thousands of dollars]

Beneficiary type	Total distributions [1]	Ordinary income [2]	Short-term capital gains [3]	Long-term capital gains [4]	Nontaxable income [5]	Corpus [6]
	(1)	(2)	(3)	(4)	(5)	(6)
All beneficiary types	**5,978,298**	**1,829,156**	**509,175**	**3,052,897**	**41,725**	**545,345**
Grantor	4,375,138	1,346,541	388,341	2,342,134	27,073	271,049
Other individual	940,653	363,059	54,966	404,920	11,276	106,432
Charity	433,364	58,450	1,478	227,153	3,235	143,048
Noncharitable entity	229,143	61,106	64,390	78,691	* 140	24,816

* Estimate should be used with caution because of the small number of sample returns on which it is based.
[1] May include distributions made after December 31 of the tax year and therefore may not be reflected on the accumulation schedule.
[2] Reported on Form 5227, Part III, column (a).
[3] Reported on Form 5227, Part III, column (b).
[4] Reported on Form 5227, Part III, column (c).
[5] Reported on Form 5227, Part III, column (d).
[6] Reported on Form 5227, Part III, column (e).
NOTE: Detail may not add to totals due to rounding.

Figure P

Charitable Remainder Unitrusts: Investment Allocations, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

[Money amounts are in thousands of dollars]

Item	Total		Size of end-of-year book value of total assets					
			Under $500,000 [1]		$500,000 under $3,000,000		$3,000,000 or more	
	Amount	Percent of total investments	Amount	Percent of total investments	Amount	Percent of total investments	Amount	Percent of total investments
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total book value of assets at end of year	**81,121,949**	**N/A**	**12,048,950**	**N/A**	**26,716,472**	**N/A**	**42,356,527**	**N/A**
Total investments	**71,700,498**	**100.0**	**10,370,099**	**100.0**	**23,436,091**	**100.0**	**37,894,308**	**100.0**
U.S. and State government obligations [2]	4,840,546	6.8	535,161	5.2	1,720,481	7.3	2,584,905	6.8
Corporate stock [3]	37,616,254	52.5	6,646,864	64.1	14,948,250	63.8	16,021,140	42.3
Corporate bonds [4]	7,729,408	10.8	1,498,396	14.4	3,043,050	13.0	3,187,962	8.4
Land, buildings, and equipment [5]	749,432	1.0	74,364	0.7	273,129	1.2	401,940	1.1
Other investments [6]	20,764,857	29.0	1,615,315	15.6	3,451,181	14.7	15,698,362	41.4
Total book value of liabilities at end of year	**1,191,868**	**N/A**	**151,973**	**N/A**	**376,152**	**N/A**	**663,743**	**N/A**

N/A—Not applicable.
[1] Includes returns that did not report end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.
[2] Taken from Form 5227, Part IV, line 32a, column (b).
[3] Taken from Form 5227, Part IV, line 32b, column (b).
[4] Taken from Form 5227, Part IV, line 32c, column (b).
[5] Taken from Form 5227, Part IV, line 33, column (b).
[6] Taken from Form 5227, Part IV, line 34, column (b).
NOTE: Detail may not add to totals due to rounding and taxpayer reporting discrepancies.

Filing Year 2005 when 3,086 returns filed for CRUTs reported additional contributions of $943.5 million. Because they dominate the population, small CRUTs reported the largest quantity of additional contributions, however large CRUTs were reported to receive the largest dollar value of additional contributions. As in Filing Year 2005, stocks were the most common type of asset contributed, composing 67.5 percent of all contributions reported in 2006. Contributions of other assets, including insurance, art, and

Figure Q

Charitable Remainder Unitrusts: Additional Contributions, by Type and Size of End-of-Year Book Value of Total Assets, Filing Year 2006

[Money amounts are in thousands of dollars]

Item	Total	Size of end-of-year book value of total assets		
		Under $500,000 [1]	$500,000 under $3,000,000	$3,000,000 or more
	(1)	(2)	(3)	(4)
Number of returns	**94,767**	**66,187**	**25,090**	**3,489**
Number of returns with additional contributions	**2,236**	**1,379**	**743**	**114**
Total additional contributions [2]	**791,892**	**62,427**	**257,459**	**472,007**
Cash and money market accounts	97,111	18,252	54,212	24,647
Stocks [3]	534,776	31,701	114,301	388,775
Bonds	* 13,529	** 486	0	** 15,429
Real estate [4]	* 25,734	**	* 23,348	**
Other assets [5]	120,741	11,988	65,598	43,155

* Estimate should be used with caution because of the small number of sample returns on which it is based.
** Data are combined to prevent disclosure of individual taxpayer data. However, the data are included in the appropriate totals.
[1] Includes returns that did not report end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often these zero amounts are explained by trusts filing a final return.
[2] The values for additional contributions are taken from attachments to the Form 5227.
[3] The value of stock includes both publicly traded and closely held stocks.
[4] The value given for real estate includes traditional real estate, as well as real estate mutual funds and partnerships.
[5] Other assets includes such items as retirement assets, annuities, partnerships, insurance assets, and art.
NOTE: Detail may not add to totals due to rounding.

retirement assets, were reported to be $120.7 million. Additional contributions of bonds were reported to be $13.5 million, making them the least common asset contributed to CRUTs in 2006.

Charitable Lead Trusts

Trustees filed returns for 6,298 charitable lead trusts in 2006, a 2.1-percent increase from the number filed in 2005. CLT returns filed in 2006 reported $1.1 billion in distributions (Figure R). Of this total, more than 99.3 percent were required payments for charitable purposes, while only $7.4 million were required payments to private beneficiaries. Figure R also shows that $16.5 billion in end-of-year total assets were reported for charitable lead trusts in Filing Year 2006, a nearly $1.0 billion increase from 2005. Investments made up 88.0 percent, or $14.5 billion, of total assets. In contrast to 2005, corporate stock was not the largest component of all investments for all sizes of CLTs. The investment portfolios of large CLTs were dominated by other investments in 2006. Land, buildings, and equipment investments made up the smallest share of CLT investments overall. CLTs claimed $496.5 million in total liabilities.

Pooled Income Funds

The number of Forms 5227 filed for pooled income funds remained stable from 2005 to 2006, increasing by only one return. In Filing Year 2006, PIFs reported distributions of $121.8 million, a decrease of 4.3 percent from 2005 (Figure S). The majority of distributions were distributions to private beneficiaries, reported to be $58.2 million in Filing Year 2006. Of the $1.6 billion in end-of-year total assets reported for PIFs, $1.4 billion, or 89.8 percent, were investments. Overall, as in 2005, corporate bonds made up the largest portion of investments reported for PIFs, $471.6 million in 2006. However, for both large and small pooled income funds, corporate stock was the largest component of reported investments. Pooled income funds claimed $115.8 million in liabilities for Filing Year 2006.

Summary

Overall, split-interest trust filing statistics stabilized between Filing Years 2005 and 2006. The number of Forms 5227 filed in 2006 was only 0.2 percent less than the number filed in 2005. End-of-year book value of assets increased by 1.6 percent, and investments increased by 3.1 percent. In 2006, the

Figure R

Charitable Lead Trusts: Distributions and Investment Allocations, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

[Money amounts are in thousands of dollars]

Item	Total	Size of end-of-year book value of total assets		
		Under $500,000 [1]	$500,000 under $3,000,000	$3,000,000 or more
	(1)	(2)	(3)	(4)
Number of returns	**6,298**	**2,724**	**2,741**	**833**
Total distributions [2]	**1,058,070**	**83,047**	**257,846**	**717,177**
Required payments for charitable purposes	1,050,716	** 83,047	** 257,846	712,904
Required payments to private beneficiaries	* 7,353	**	**	* 4,273
Total book value of assets at end of year	**16,485,658**	**541,074**	**3,344,923**	**12,599,661**
Total investments [3]	**14,509,019**	**463,618**	**2,996,800**	**11,048,601**
U.S. and State government obligations [4]	650,227	53,894	180,839	415,494
Corporate stock [5]	6,756,726	288,666	1,793,983	4,674,077
Corporate bonds [6]	712,678	25,211	204,639	482,828
Land, buildings, and equipment [7]	143,111	** 95,847	** 817,339	94,301
Other investments [8]	6,246,277	**	**	5,381,902
Total book value of liabilities at end of year	**496,529**	**22,329**	**88,279**	**385,922**

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

** Data are combined to prevent disclosure of individual taxpayer data. However, the data are included in the appropriate totals.

[1] Includes returns that did not report end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] "Total distributions" are calculated as the sum of "excess income required to be paid for charitable purposes" (line 2), "annuity or unitrust payment required to be paid to charitable beneficiaries" (line 3), and "annuity or unitrust payments required to be paid to private beneficiaries" (line 4) from Form 5227, Part VII, Section A, the Questionnaire for Charitable

[3] Investments are reported as a portion of assets on Form 5227, Part IV, column (b).

[4] Taken from Form 5227, Part IV, line 32a, column (b).

[5] Taken from Form 5227, Part IV, line 32b, column (b).

[6] Taken from Form 5227, Part IV, line 32c, column (b).

[7] Taken from Form 5227, Part IV, line 33, column (b).

[8] Taken from Form 5227, Part IV, line 34, column (b).

NOTE: Detail may not add to totals due to rounding and taxpayer reporting discrepancies.

reported end-of-year book value of liabilities was 4.7 percent larger than the amount reported in 2005. In many ways, these are the most stable Forms 5227 filing statistics in recent years. Between Filing Years 2004 and 2005, total net income reported increased by 67.4 percent. End-of-year book value of assets increased by 5.7 percent between 2004 and 2005. The lack of striking change between Filing Years 2005 and 2006 may be attributed, in part, to an absence of new tax law revisions affecting split-interest trusts.

By trust type, however, some substantive change can be observed. In 2006, distributions reported for charitable remainder annuity trusts were 22.9 percent higher than those reported for Filing Year 2005. The value of additional contributions reported on returns for charitable remainder unitrusts fell 16.1 percent from 2005 to 2006. The end-of-year book value of liabilities reported for charitable lead trusts increased 24.4 percent between Filing Years 2005 and 2006.

Data Sources and Limitations

The data presented in this article were collected from a sample of Forms 5227, *Split-Interest Trust Information Returns*, from Filing Year 2006. A filing year includes returns received by IRS for processing between January 1 and December 31 of a given year. A filing year file is primarily comprised of returns for the tax year immediately prior, however it may include late-filed returns for numerous other tax years. For Filing Year 2006, approximately 98.2 percent of returns included in the sample were for Tax Year 2005, while Tax Year 2004 returns comprised 1.4 percent of the sampled returns. Partial year returns, for either initial or final reporting periods, were included in the SOI sample. All returns included in the sample were computer-designated at the IRS Ogden Submission Processing Center after posting to the IRS Master File.

For Filing Year 2006, a sample of 12,467 returns was drawn from an estimated population of 124,632

Figure S

Pooled Income Funds: Distributions and Investment Allocations, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

[Money amounts are in thousands of dollars]

Item	Total	Size of end-of-year book value of total assets		
		Under $500,000 [1]	$500,000 under $3,000,000	$3,000,000 or more
	(1)	(2)	(3)	(4)
Number of returns	**1,676**	**1,345**	**221**	**110**
Total distributions [2]	**121,847**	**14,309**	**18,578**	**88,960**
Amount required to be distributed to satisfy remainder interest [3]	69,353	11,874	8,945	48,533
Amount required to be distributed to private beneficiaries [4]	58,161	4,842	10,087	43,232
Amount required to be distributed to charitable remainder beneficiary [5]	731	313	152	266
Less: Undistributed required payments for charitable purposes [4]	6,398	* 2,720	* 606	* 3,072
Total book value of assets at end of year	**1,599,610**	**149,525**	**270,824**	**1,179,260**
Total investments [7]	**1,437,245**	**108,784**	**237,170**	**1,091,291**
U.S. and State government obligations [8]	231,772	13,030	29,588	189,154
Corporate stock [9]	460,045	36,097	59,194	364,753
Corporate bonds [10]	471,621	35,561	128,032	308,028
Other investments [11]	273,807	24,095	20,356	229,356
Total book value of liabilities at end of year	**115,837**	*** 393**	*** 855**	**114,589**

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

[1] Includes returns that did not report end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] Distributions were calculated as the "amount required to be distributed to satisfy the remainder interest" (Form 5227, Part VII, Section B, line 2), plus the "amount of income required to be paid to the private beneficiaries" (line 4), plus the "amount of income required to be paid to the charitable remainder beneficiary" (line 5), less the "amounts that were required to be distributed to the remainder beneficiary that remain undistributed" (line 3).

[3] Taken from Form 5227, Part VII, Section B, line 2.

[4] Taken from Form 5227, Part VII, Section B, line 4.

[5] Taken from Form 5227, Part VII, Section B, line 5.

[6] Taken from Form 5227, Part VII, Section B, line 3.

[7] Investments are reported as a portion of assets on Form 5227, Part IV, column (b).

[8] Taken from Form 5227, Part IV, line 32a, column (b).

[9] Taken from Form 5227, Part IV, line 32b, column (b).

[10] Taken from Form 5227, Part IV, line 32c, column (b).

[11] Other investments includes values taken from Form 5227, Part IV, line 33, column (b), as well as values from line 34, column (b).

NOTE: Detail may not add to totals due to rounding and taxpayer reporting discrepancies.

trusts that filed Form 5227. The sample size excludes returns that were selected for the sample but later rejected. Returns could be rejected if they were not one of the four types of trusts included in the study or if no money amounts were reported. The sample was stratified by the type of the trust (charitable remainder annuity trust, charitable remainder unitrust, charitable lead trust, or pooled income fund) and the reported book value of end-of-year total assets. The asset strata were: total assets of less than $1.0 million, $1.0 million to less than $10.0 million, and more than $10.0 million. Beginning in Filing Year 2006, the sample no longer includes a fourth asset category that included all trusts that reported end-of-year book value of total assets as less than $10.0 million, but reported end-of-year fair market value of total assets in excess of $50.0 million. In total, there are 12 strata. There were 21,333 charitable remainder annuity trusts, which were sampled at rates ranging from 6.2 percent (for the smallest) to 100.0 percent (for the largest), resulting in a sample of 2,088 returns. There were 95,291 charitable remainder unitrusts, sampled at rates from 4.9 percent to 100.0 percent, creating a sample of 9,532 returns. There were 6,332 charitable lead trusts, from which a sample of 661 was drawn. Lead trusts were sampled at rates ranging from 3.3 percent to 100.0 percent. There were 1,676 pooled income funds, of which 1,869 were included in the sample. Pooled income funds had sample rates from 4.8 percent to 100.0 percent. The magnitude of sampling error for selected items, measured by coefficients of variation, is shown in Figure T.

All samples were designed to provide reliable estimates of financial activity. All data were collected from original returns as they were filed. All

Figure T

Coefficients of Variation for Selected Items, by Type of Split-Interest Trust and Size of End-of-Year Book Value of Total Assets, Filing Year 2006

Item	Total	Size of end-of-year book value of total assets		
		Under $500,000 [1]	$500,000 under $3,000,000	$3,000,000 or more
	Coefficient of variation (percentage)			
	(1)	(2)	(3)	(4)
Charitable remainder annuity trusts				
Number of returns	0.57	1.18	5.03	4.07
Net ordinary income [2]	3.53	7.19	7.79	3.25
Net short-term capital gains or (losses) [3]	12.80	32.61	22.79	11.44
Net long-term capital gains or (losses) [4]	6.55	14.42	12.57	8.85
End-of-year total assets (book value) [5]	1.70	3.47	3.95	2.44
End-of-year total liabilities (book value) [7]	20.97	23.13	36.17	15.31
Charitable remainder unitrusts				
Number of returns	0.15	0.76	1.96	1.73
Net ordinary income [2]	1.14	4.95	2.49	1.07
Net short-term capital gains or (losses) [3]	5.15	15.97	10.42	6.30
Net long-term capital gains or (losses) [4]	1.61	7.15	4.25	1.60
End-of-year total assets (book value) [5]	0.49	1.47	1.39	0.77
End-of-year total assets (fair market value) [6]	0.55	1.89	1.51	0.75
End-of-year total liabilities (book value) [7]	4.19	12.16	7.78	5.47
Charitable lead trusts				
Number of returns	0.91	6.19	6.30	5.84
End-of-year total assets (book value) [5]	1.43	10.33	4.75	2.23
End-of-year total liabilities (book value) [7]	8.77	41.49	28.01	9.10
Required payments to private beneficiaries [8]	34.26	98.31	79.59	22.99
Required payments for charitable purposes [9]	3.83	23.59	10.27	4.05
Pooled income funds				
Number of returns	2.33	2.93	18.28	8.05
End-of-year total assets (book value) [5]	2.83	11.65	10.50	4.18
End-of-year total liabilities (book value) [7]	0.91	49.84	49.83	0.83
Required payment to private beneficiaries [8]	3.79	16.01	13.02	4.92

[1] Includes returns that did not report end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] Taken from Form 5227, Part I, line 13.

[3] Taken from Form 5227, Part I, line 16.

[4] Taken from Form 5227, Part I, line 19.

[5] Taken from Form 5227, Part IV, line 37, column (b).

[6] For charitable remainder unitrusts, taken from an estimated end-of-year fair market value.

[7] Taken from Form 5227, Part IV, line 43, column (b).

[8] In the case of charitable lead trusts, this value is based on the amount on Form 5227, Part VII, Section A, line 4. In the case of pooled income funds, this value is based on the amount on Form 5227, Part VII, Section B, line 4.

[9] Taken from Form 5227, Part VII, Section A, line 3.

edited returns were subjected to comprehensive testing and data verification procedures to ensure the highest quality of data. Changes that were made to the return after filing, either by the taxpayer (on an amended return) or during IRS processing, were not generally incorporated. A complete discussion of the reliability of estimates based on samples, methods for evaluating the magnitude for both sampling and nonsampling error, and the precision of the sample estimates can be found in the Appendix in this issue of the *SOI Bulletin*.

Explanation of Selected Terms

Annuity trust—An annuity trust is a trust in which the payments for the duration of the trust, either to a private or charitable beneficiary, are of a fixed amount. In the context of this article, an annuity trust can be either a charitable remainder trust (with a private income beneficiary) or charitable lead trust (with a charitable income beneficiary). The payment amount is determined by multiplying a specified percentage by the fair market value of the assets initially placed in the trust.

Beneficiary(ies)—Beneficiary(ies) refers to the person, persons, or organization that receives payments or assets from a trust. Recipient is used interchangeably with beneficiary. Beneficiaries can be either charitable or noncharitable (private), and can be either an income beneficiary or a remainder beneficiary.

Book value—Book value is generally the cost basis of an asset, or the price at which an asset is acquired. All trusts must report the beginning- and end-of-year book value of their assets on Part IV, Balance Sheet, Columns A and B, of Form 5227. All book value amounts referred to in this article are end-of-year book value amounts.

Charitable lead trust (CLT)—Charitable lead trusts are split-interest trusts in which a designated charitable organization receives an income stream from the assets in trust; one or more private beneficiaries receive the remainder interest of the trust. Charitable lead trusts can be classified as either grantor or nongrantor lead trusts, and payments can be made on an annuity basis or a unitrust basis.

Charitable remainder annuity trust (CRAT)—A charitable remainder annuity trust is a charitable remainder trust in which the income payments to the private beneficiary are fixed. The payment amount is calculated by multiplying the designated percentage by the fair market value of the assets initially placed in the trust.

Charitable remainder trust (CRT)—Charitable remainder trusts are split-interest trusts in which a private, or noncharitable beneficiary receives a stream of income for the duration of the trust, and a designated charity receives the remainder interest of the trust. Charitable remainder trusts can be either annuity trusts or unitrusts, depending on the method used to calculate the payment amounts. Further, unitrusts can be of the net income or net income with makeup variety.

Charitable remainder unitrust (CRUT)—A charitable remainder unitrust is a charitable remainder trust in which the income payments to the private beneficiary fluctuate with the annual value of the assets in the trust. The payment amount is calculated by multiplying the designated percentage by the fair market value of the assets as they are valued each year. Unitrusts can have net income or net income with makeup provisions.

Charity or charitable organization—A charity, or charitable organization, refers to a tax-exempt organization with purposes that are charitable, educational, scientific, literary, or religious in nature, or that otherwise qualifies as a 501(c) (3) organization.

Donor—A donor, also referred to as a grantor or contributor, is the individual who transfers personal assets into the trust or fund.

Fair market value—Fair market value is defined, for the purposes of this article, as the market price of the asset (or liability) as of a certain point in time. The fair market value of assets and liabilities is reported by charitable remainder unitrusts in Part IV, Balance Sheet, Column C, of Form 5227.

Grantor charitable lead trust—Charitable grantor lead trusts name the donor (grantor) as the remainder beneficiary. In establishing a grantor lead trust, the donor is entitled to an income tax deduction for the year in which the trust was created, but he or she must also pay taxes on the income generated by the trust's assets. The income generated is paid to a designated charitable beneficiary.

Income beneficiary—The income beneficiary of a split-interest trust is the recipient of the stream of payments made over the duration of the trust. The income beneficiary of charitable remainder trusts and pooled income funds is the private (noncharitable) beneficiary; in charitable lead trusts, the income beneficiary is the designated charitable organization.

Income interest—Income interest refers to the right to receive payments made to beneficiaries during the life of the trust. Income interest is paid to the income beneficiary.

Investments—Investments refer to the sum of "Government obligations" (line 32a); "corporate stock" (line 32b); "corporate bonds" (line 32c); "land, buildings, and equipment that is not held for charitable purposes" (line 33); and "other investments" (line 34) reported on Form 5227.

Net income charitable remainder unitrust (NI-CRUT)—Net income charitable remainder unitrusts are charitable remainder unitrusts that allow the annual payment to the private beneficiary to be the lesser of either the unitrust amount or the trust's net income.

Net income with makeup charitable remainder unitrusts (NIM-CRUT)—Net income with makeup charitable remainder unitrusts are charitable remainder unitrusts that allow the annual payment to the private beneficiary to be the lesser of either the unitrust amount or the trust's net income. Deficiencies in the distributions, which occur when the net income is less than the unitrust payment amount, are then made up in subsequent years when the net income of the trust is greater than the unitrust amount.

Nongrantor charitable lead trust—Charitable nongrantor lead trusts name as the remainder beneficiary a recipient other than the grantor (donor). Usually, the remainder beneficiary is a child or grandchild of the grantor.

Ordinary income—Ordinary income is income from the following sources: interest; dividends; business income; rents, royalties, partnerships, and other estates and trusts; farm income; ordinary gain; and "other income." Ordinary income is reported in Part I, Ordinary Income, of Form 5227.

Pooled income fund (PIF)—A pooled income fund is a fund established and maintained by a charity to invest and manage assets donated by multiple donors. Income from the assets is distributed annually on a prorated basis to the named beneficiaries. Upon the termination of an income interest, due to the death of one of the beneficiaries, a prorated part of the basis of the fund is removed and given to the charity.

Remainder beneficiary—The remainder beneficiary of a split-interest trust is the recipient of the trust's assets at the conclusion of the trust. In the case of charitable remainder trusts, the remainder beneficiary is the selected charity; in charitable lead trusts, the remainder beneficiary is the designated private beneficiary.

Remainder interest—The remainder interest of a trust is the right to receive assets remaining at the conclusion of the trust, after all liabilities have been settled and prior payments to beneficiaries have been made. This interest is then distributed to the remainder beneficiary.

Securities—Securities refer to the sum of "Government obligations" (line 32a); "corporate stock" (line 32b); and "corporate bonds" (line 32c) reported on Form 5227.

Short-term investments—Short-term investments are securities that mature in 1 year or less. Treasury bills and short-term corporate notes are common examples of a short-term investment.

Split-interest trust—A split-interest trust, according to the 2006 Instructions for Form 5227, is a trust that "is not exempt from tax under Internal Revenue Code section 501(a); has some unexpired interests that are devoted to purposes other than religious, charitable, or similar purposes described in Code section 170(c)(2)(B); and has amounts transferred in trust after May 26, 1969, for which a deduction was allowed under one of the Code sections listed in section 4947(a)(2)."

Trust—A trust is a legal arrangement between its creator (donor or grantor), the manager of the trust (trustee), and the beneficiary or beneficiaries of the trust. Trusts are legal entities in their own right, and can be responsible for any tax liabilities separate from the liabilities of the grantor and beneficiary. The conditions and provisions of a trust are defined in the trust document.

Unitrust—A unitrust is a trust in which the income interest, paid either to a private or charitable beneficiary, varies with the annual fair market value of the total assets of the trust in a given year. In the context of this article, a unitrust can be either of the charitable remainder trust (with income payments to a private beneficiary) or charitable lead trust (with income payments to a charitable beneficiary) variety. The payment amount is determined by multiplying a specified percentage by the fair market value of the assets of the trust as they are valued annually.

Table 1. Charitable Remainder Annuity Trusts: Income and Deductions, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

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

Item	Total	Size of end-of-year book value of total assets					
		Zero or not reported	$1 under $500,000	$500,000 under $1,000,000	$1,000,000 under $3,000,000	$3,000,000 under $10,000,000	$10,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Number of returns	**21,296**	**1,115**	**16,365**	**2,123**	**1,294**	**316**	**83**
Total net income [1]	**853,971**	**30,757**	**128,113**	**143,689**	**174,354**	**172,194**	**204,863**
Net ordinary income [2]	**235,279**	**4,884**	**48,739**	**40,801**	**51,478**	**36,990**	**52,386**
Total ordinary income [3]	289,283	7,040	63,481	50,041	63,659	45,188	59,873
Interest income	106,116	3,431	21,369	14,505	23,731	16,932	26,147
Dividends and business income (loss)	148,395	3,527	33,717	25,610	31,004	22,762	31,774
Other income [4]	34,771	* 82	8,394	9,926	8,924	5,494	1,952
Total deductions [5]	54,003	2,156	14,742	9,240	12,181	8,197	7,487
Interest	813	0	* 404	** 47	244	* 148	** 34
Taxes	305	[10]	20	**	153	68	**
Other deductions	52,885	2,156	14,318	9,193	11,784	7,981	7,453
Net short-term capital gains or (losses) [6]	**18,504**	**3,126**	**2,260**	**2,821**	**3,237**	**1,517**	**5,544**
Total short-term capital gains or (losses)	19,440	3,298	2,573	2,874	3,447	1,679	5,569
Deductions allocable to short-term capital gains or (losses)	936	173	313	53	210	162	* 25
Net long-term capital gains or (losses) [7]	**560,720**	**21,913**	**69,185**	**91,807**	**109,847**	**124,481**	**143,487**
Total long-term capital gains or(losses) [8]	567,676	22,380	71,342	92,935	111,339	125,312	144,368
Deductions allocable to long-term capital gains or (losses)	6,955	466	2,157	1,127	1,492	831	881
Nontaxable income [9]	**39,468**	**834**	**7,929**	**8,259**	**9,793**	**9,206**	**3,446**

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

** Data are combined to prevent disclosure of individual taxpayer data. However, the data are included in the appropriate totals.

[1] Calculated as the sum of "net ordinary income" (Form 5227, Part I, line 13), "net short-term capital gains (losses)" (line 16), "net long-term capital gains (losses)" (line 19), and "current tax year nontaxable income" (Part II, line 21(d)).

[2] Taken from "net ordinary income" (Form 5227, Part I, line 13). This amount may not equal "total ordinary income" (line 8) less "total deductions allocable to ordinary income" (line 12) due to taxpayer discrepancies.

[3] Taken from Form 5227, Part I, line 8.

[4] Calculated as the sum of "rents, royalties, partnerships, other estates, and trusts" (Form 5227, Part I, line 4), "farm income or loss" (line 5), "ordinary gain or loss" (line 6), and "other income" (line 7).

[5] Taken from Form 5227, Part I, line 12.

[6] Taken from Form 5227, Part I, line 16.

[7] Taken from Form 5227, Part I, line 19.

[8] Taken from Form 5227, Part I, line 17a.

[9] Taken from Form 5227, Part II, line 21(column d).

[10] Amount less than $500.

NOTE: Detail may not add to totals due to rounding.

Table 2. Charitable Remainder Annuity Trusts: Accumulation Information, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

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

Item	All	Size of end-of-year book value of total assets				
		Under $500,000 [1]	$500,000 under $1,000,000	$1,000,000 under $3,000,000	$3,000,000 under $10,000,000	$10,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns	**21,296**	**17,480**	**2,123**	**1,294**	**316**	**83**
Total accumulations [2]	**5,407,534**	**1,167,431**	**759,598**	**1,069,130**	**985,132**	**1,426,242**
Net ordinary income	491,620	128,893	60,411	92,863	122,682	86,771
Net short-term capital gains (losses)	50,752	12,213	9,037	11,036	6,315	12,152
Net long-term capital gains (losses)	4,681,536	991,320	659,491	914,546	803,372	1,312,806
Nontaxable income	183,626	35,005	30,659	50,686	52,763	14,513
Prior-year undistributed income [3]	**4,553,562**	**1,008,561**	**615,909**	**894,776**	**812,937**	**1,221,379**
Net ordinary income	256,341	75,270	19,609	41,385	85,691	34,385
Net short-term capital gains (losses)	21,668	5,624	4,745	3,219	2,757	5,323
Net long-term capital gains (losses)	4,131,396	901,424	569,155	809,279	680,932	1,170,605
Nontaxable income	144,158	26,242	22,400	40,893	43,557	11,066
Current-year net income [4]	**853,971**	**158,870**	**143,689**	**174,354**	**172,194**	**204,863**
Net ordinary income	235,279	53,623	40,801	51,478	36,990	52,386
Net short-term capital gains (losses)	18,504	5,385	2,821	3,237	1,517	5,544
Net long-term capital gains (losses)	560,720	91,099	91,807	109,847	124,481	143,487
Nontaxable income	39,468	8,763	8,259	9,793	9,206	3,446
Undistributed at end of year [5]	**4,481,374**	**735,850**	**652,204**	**919,403**	**889,367**	**1,284,550**
Net ordinary income	219,674	30,165	26,744	36,423	88,666	37,675
Net short-term capital gains (losses)	24,213	-376	5,658	6,686	2,643	9,603
Net long-term capital gains (losses)	4,089,062	681,764	596,381	834,032	751,922	1,224,963
Nontaxable income	148,425	24,297	23,421	42,262	46,136	12,309

[1] Includes returns that did not report the end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] Taken from Form 5227, Part II, line 22.

[3] Taken from Form 5227, Part II, line 20.

[4] Taken from Form 5227, Part II, line 21.

[5] Taken from Form 5227, Part II, line 23.

NOTE: Detail may not add to totals due to rounding.

Table 3. Charitable Remainder Annuity Trusts: Book Value Balance Sheet Information, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

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

Item	Total	Size of end-of-year book value of total assets				
		Under $500,000 [1]	$500,000 under $1,000,000	$1,000,000 under $3,000,000	$3,000,000 under $10,000,000	$10,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns	**21,296**	**17,480**	**2,123**	**1,294**	**316**	**83**
Total net assets [2]	**8,874,996**	**1,864,437**	**1,521,346**	**2,017,545**	**1,526,599**	**1,945,068**
Total liabilities and net assets [3]	**9,041,175**	**1,910,724**	**1,528,516**	**2,101,439**	**1,543,408**	**1,957,087**
Total assets [4]	**9,041,175**	**1,910,724**	**1,528,516**	**2,101,439**	**1,543,408**	**1,957,087**
Cash	138,244	45,445	26,517	32,801	20,917	12,564
Savings and temporary cash investments	624,794	119,441	88,551	119,088	133,898	163,816
Receivables due [5]	155,005	15,094	8,713	64,627	** 9,638	** 57,117
Inventories and prepaid expenses	2,457	* 24	0	* 2,248	**	**
Total investments	7,834,583	1,666,546	1,353,873	1,822,624	1,357,698	1,633,842
Securities	6,645,645	1,386,002	1,180,913	1,581,551	1,196,012	1,301,166
Government obligations	1,460,344	231,652	260,012	423,488	301,687	243,505
Corporate stock	3,960,596	903,241	673,557	872,114	699,706	811,978
Corporate bonds	1,224,705	251,110	247,344	285,950	194,619	245,683
Land, buildings, and equipment	83,696	19,824	0	28,286	35,586	0
Other investments	1,105,241	260,720	172,960	212,787	126,100	332,675
Charitable purpose land, buildings, and equipment	44,524	2,604	50,862	26,273	2,130	89,749
Other assets	241,564	61,566	**	33,778	19,126	**
Total liabilities [6]	**166,179**	**46,287**	**7,170**	**83,894**	**16,809**	**12,019**
Accounts payable, accrued expenses, and deferred revenue	29,467	10,857	3,550	13,664	629	768
Other liabilities [7]	136,712	35,429	3,621	70,229	16,180	11,252

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

** Data are combined to prevent disclosure of individual taxpayer data. However, the data are included in the appropriate totals.

[1] Includes returns that did not report the end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] Taken from Form 5227, Part IV, line 46, column (b). This is the excess of total assets over total liabilities. This value may deviate from the calculated value of total assets (line 37, column (b)) less total liabilities (line 43, column (b)) due to taxpayer reporting discrepancies.

[3] Taken from "total liabilities and net assets" (Form 5227, Part IV, line 47, column (b)). This amount may not equal "total liabilities" (line 43, column (b)) plus "total net assets" (line 46, column (b)) due to taxpayer reporting discrepancies.

[4] Taken from Form 5227, Part IV, line 37, column (b).

[5] Calculated as the sum of "accounts receivable" (Form 5227, Part IV, line 27, column (b)), "receivables due from officers, directors, and other disqualified persons" (line 28, column(b)), and "other notes and loans receivable" (line 29, column (b)).

[6] Taken from Form 5227, Part IV, line 43, column (b).

[7] Includes "loans from officers, directors, trustees, and other disqualified persons" (Form 5227, Part IV, line 40, column (b)), "mortgages and other notes payable" (line 41, column (b)), and "other liabilities" (line 42, column (b)).

NOTE: Detail may not add to totals due to rounding and taxpayer reporting discrepancies.

Table 4. Charitable Remainder Unitrusts: Income and Deductions, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

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

Item	Total	Size of end-of-year book value of total assets					
		Zero or not reported	$1 under $500,000	$500,000 under $1,000,000	$1,000,000 under $3,000,000	$3,000,000 under $10,000,000	$10,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Number of returns	**94,767**	**2,105**	**64,082**	**15,116**	**9,974**	**2,743**	**746**
Total net income [1]	**9,137,976**	**-962**	**952,830**	**851,011**	**1,642,181**	**1,460,514**	**4,232,402**
Net ordinary income [2]	**2,190,193**	**7,960**	**309,557**	**259,272**	**415,086**	**319,863**	**878,454**
Total ordinary income [3]	2,683,840	15,197	403,991	331,217	521,075	397,478	1,014,881
Interest income	844,989	6,620	103,565	89,960	152,975	117,383	374,485
Dividends and business income (loss)	1,484,474	4,685	243,728	206,007	295,404	234,471	500,179
Other income [4]	354,376	* 3,892	56,697	35,250	72,696	45,623	140,217
Total deductions [5]	493,645	7,237	94,433	71,944	105,989	77,614	136,428
Interest	25,338	** 11	** 2,577	590	2,690	1,566	18,803
Taxes	6,680	**	**	545	2,219	1,365	1,652
Other deductions	461,627	7,226	91,855	70,809	101,081	74,683	115,973
Net short-term capital gains or (losses) [6]	**269,222**	**3,074**	**30,565**	**26,299**	**50,943**	**51,321**	**107,020**
Total short-term capital gains or (losses)	633,168	3,209	32,592	28,120	53,926	53,190	462,130
Deductions allocable to short-term capital gains or (losses)	363,945	* 135	2,027	1,821	2,982	1,870	355,110
Net long-term capital gains or (losses) [7]	**6,590,653**	**-12,619**	**601,679**	**554,934**	**1,153,664**	**1,068,504**	**3,224,492**
Total long-term capital gains or (losses) [8]	6,738,271	-12,005	614,611	565,089	1,170,981	1,078,664	3,320,931
Deductions allocable to short-term capital gains or (losses)	147,618	615	12,932	10,155	17,317	10,160	96,439
Nontaxable income [9]	**87,908**	*** 623**	**11,029**	**10,506**	**22,488**	**20,827**	**22,436**

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

** Data are combined to prevent disclosure of individual taxpayer data. However, the data are included in the appropriate totals.

[1] Calculated as the sum of "net ordinary income" (Form 5227, Part I, line 13), "net short-term capital gains (losses)" (line 16), "net long-term capital gains (losses)" (line 19), and "current tax year nontaxable income" (Part II, line 21(d)).

[2] Taken from "net ordinary income" (Form 5227, Part I, line 13). This amount may not equal "total ordinary income" (line 8) less "total deductions allocable to ordinary income" (line 12) due to taxpayer reporting discrepancies.

[3] Taken from Form 5227, Part I, line 8.

[4] Calculated as the sum of "rents, royalties, partnerships, other estates, and trusts" (Form 5227, Part I, line 4), "farm income or loss" (line 5), "ordinary gain or loss" (line 6), and "other income" (line 7).

[5] Taken from Form 5227, Part I, line 12.

[6] Taken from Form 5227, Part I, line 16.

[7] Taken from Form 5227, Part I, line 19.

[8] Taken from Form 5227, Part I, line 17a.

[9] Taken from Form 5227, Part II, line 21(column d).

NOTE: Detail may not add to totals due to rounding.

Table 5. Charitable Remainder Unitrusts: Accumulation Information, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

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

Item	Total	Size of end-of-year book value of total assets					
		Zero or not reported	$1 under $500,000	$500,000 under $1,000,000	$1,000,000 under $3,000,000	$3,000,000 under $10,000,000	$10,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Number of returns	**94,767**	**2,105**	**64,082**	**15,116**	**9,974**	**2,743**	**746**
Total accumulations [1]	**60,870,765**	**384,269**	**6,961,007**	**6,608,965**	**11,296,703**	**10,481,994**	**25,137,826**
Net ordinary income	5,222,659	11,386	435,289	345,256	620,558	586,762	3,223,408
Net short-term capital gains (losses)	1,846,745	9,349	54,887	101,587	200,091	200,724	1,280,108
Net long-term capital gains (losses)	53,374,126	358,311	6,424,680	6,118,590	10,340,394	9,581,647	20,550,504
Nontaxable income	427,234	5,222	46,151	43,532	135,660	112,862	83,807
Prior-year undistributed income [2]	**51,732,788**	**385,231**	**6,008,177**	**5,757,954**	**9,654,523**	**9,021,480**	**20,905,425**
Net ordinary income	3,032,466	3,425	125,731	85,984	205,473	266,899	2,344,954
Net short-term capital gains (losses)	1,402,833	5,753	-30,332	63,301	109,819	110,506	1,143,786
Net long-term capital gains (losses)	46,958,163	371,453	5,877,655	5,575,643	9,226,059	8,552,040	17,355,313
Nontaxable income	339,325	4,600	35,122	33,026	113,172	92,035	61,371
Current-year net income [3]	**9,137,976**	**-962**	**952,830**	**851,011**	**1,642,181**	**1,460,514**	**4,232,402**
Net ordinary income	2,190,193	7,960	309,557	259,272	415,086	319,863	878,454
Net short-term capital gains (losses)	269,222	3,074	30,565	26,299	50,943	51,321	107,020
Net long-term capital gains (losses)	6,590,653	-12,619	601,679	554,934	1,153,664	1,068,504	3,224,492
Nontaxable income	87,908	* 623	11,029	10,506	22,488	20,827	22,436
Undistributed at end of year [4]	**55,253,576**	**137,309**	**6,026,839**	**5,875,701**	**10,170,926**	**9,563,593**	**23,479,207**
Net ordinary income	3,404,240	-199	107,752	96,268	230,902	291,214	2,678,302
Net short-term capital gains (losses)	1,347,569	* 708	25,194	64,645	140,388	144,899	971,735
Net long-term capital gains (losses)	50,119,516	** 136,800	** 5,893,892	5,679,261	9,676,430	9,021,472	19,751,077
Nontaxable income	382,250	**	**	35,527	123,206	106,007	78,094

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

** Data are combined to prevent disclosure of individual taxpayer data. However, the data are included in the appropriate totals.

[1] Taken from Form 5227, Part II, line 22.

[2] Taken from Form 5227, Part II, line 20.

[3] Taken from Form 5227, Part II, line 21.

[4] Taken from Form 5227, Part II, line 23.

NOTE: Detail may not add to totals due to rounding.

Table 6. Charitable Remainder Unitrusts: Book Value Balance Sheet Information, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

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

Item	Total	Size of end-of-year book value of total assets				
		Under $500,000 [1]	$500,000 under $1,000,000	$1,000,000 under $3,000,000	$3,000,000 under $10,000,000	$10,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns	**94,767**	**66,187**	**15,116**	**9,974**	**2,743**	**746**
Total net assets [2]	**79,930,081**	**11,896,977**	**10,429,235**	**15,911,085**	**13,388,876**	**28,303,908**
Total liabilities and net assets [3]	**81,121,949**	**12,048,950**	**10,558,223**	**16,158,249**	**13,617,030**	**28,739,497**
Total assets [4]	**81,121,949**	**12,048,950**	**10,558,223**	**16,158,249**	**13,617,030**	**28,739,497**
Cash	1,026,000	193,592	136,632	237,463	198,165	260,149
Savings and temporary cash investments	4,957,637	684,447	648,581	931,462	747,789	1,945,359
Receivables due [5]	1,126,560	** 202,062	** 123,542	329,918	251,342	220,594
Inventories and prepaid expenses	7,816	**	**	5,429	1,325	162
Total investments	71,700,498	10,370,099	9,308,386	14,127,705	12,006,408	25,887,901
Securities	50,186,209	8,680,421	7,965,310	11,746,472	9,408,198	12,385,808
Government obligations	4,840,546	535,161	592,076	1,128,405	1,086,674	1,498,231
Corporate stock	37,616,254	6,646,864	6,079,744	8,868,506	6,993,808	9,027,332
Corporate bonds	7,729,408	1,498,396	1,293,490	1,749,560	1,327,716	1,860,245
Land, buildings, and equipment	749,432	74,364	99,921	173,207	199,085	202,855
Other investments	20,764,857	1,615,315	1,243,155	2,208,026	2,399,124	13,299,238
Charitable purpose land, buildings, and equipment	218,919	46,344	* 13,492	63,770	57,959	* 37,354
Other assets	2,084,498	552,392	327,586	462,500	354,042	387,978
Total liabilities [6]	**1,191,868**	**151,973**	**128,988**	**247,164**	**228,154**	**435,589**
Accounts payable, accrued expenses, and deferred revenue	308,948	41,335	35,891	66,909	41,578	123,236
Other liabilities [7]	882,920	110,638	93,097	180,256	186,576	312,352

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

** Data are combined to prevent disclosure of individual taxpayer data. However, the data are included in the appropriate totals.

[1] Includes returns that did not report end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] Taken from Form 5227, Part IV, line 46, column (b). This is the excess of total assets over total liabilities. This value may deviate from the calculated value of total assets (line 37, column (b)) less total liabilities (line 43, column (b)) due to taxpayer reporting discrepancies.

[3] Taken from "total liabilities and net assets" (Form 5227, Part IV, line 47, column (b)) . This amount may not equal "total liabilities" (line 43, column (b)) plus "total net assets" (line 46, column (b)) due to taxpayer reporting discrepancies.

[4] Taken from Form 5227, Part IV, line 37, column (b).

[5] Calculated as the sum of "accounts receivable" (Form 5227, Part IV, line 27, column (b)), "receivables due from officers, directors, and other disqualified persons" (line 28, column b), and "other notes and loans receivable" (line 29, column (b)).

[6] Taken from Form 5227, Part IV, line 43, column (b).

[7] Includes "loans from officers, directors, trustees, and other disqualified persons" (Form 5227, Part IV, line 40, column (b)), "mortgages and other notes payable" (line 41, column b), and "other liabilities" (line 42, column (b)).

NOTE: Detail may not add to totals due to rounding.

Table 7. Charitable Remainder Unitrusts: Fair Market Value Balance Sheet Information, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

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

Item	Total	Size of end-of-year book value of total assets				
		Under $500,000 [1]	$500,000 under $1,000,000	$1,000,000 under $3,000,000	$3,000,000 under $10,000,000	$10,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns	**94,767**	**66,187**	**15,116**	**9,974**	**2,743**	**746**
Total assets	**96,835,553**	**14,162,526**	**11,993,819**	**18,362,797**	**15,405,494**	**36,910,917**
Cash	1,099,830	208,360	140,045	249,926	200,431	301,068
Savings and temporary cash investments	4,996,553	702,892	669,206	947,998	735,553	1,940,905
Receivables due [2]	1,068,410	** 190,017	** 120,806	319,985	225,370	213,131
Inventories and prepaid expenses	8,653	**	**	6,270	1,325	158
Total investments	86,920,413	12,314,060	10,688,907	16,213,653	13,767,797	33,935,996
Securities	59,605,369	10,226,133	9,231,285	13,493,948	10,897,889	15,756,114
Government obligations	5,211,882	576,414	649,754	1,228,720	1,150,206	1,606,788
Corporate stock	46,466,085	8,097,842	7,247,561	10,475,233	8,363,458	12,281,990
Corporate bonds	7,927,403	1,551,877	1,333,969	1,789,994	1,384,225	1,867,336
Land, buildings, and equipment	1,081,192	263,491	135,540	244,478	219,830	217,852
Other investments	26,233,853	1,824,436	1,322,082	2,475,227	2,650,078	17,962,029
Charitable purpose land, buildings, and equipment	343,564	120,097	* 40,298	73,110	* 70,787	* 39,272
Other assets	2,398,098	627,078	334,550	551,852	404,231	480,388

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

** Data are combined to prevent disclosure of individual taxpayer data. However, the data are included in the appropriate totals.

[1] Includes returns that did not report the end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] Calculated as the sum of "accounts receivable" (Form 5227, Part IV, line 27), "receivables due from officers, directors, and other disqualified persons" (line 28), and "other notes and loans receivable" (line 29).

NOTE: Detail may not add to totals due to rounding.

Table 8. Charitable Lead Trusts: Book Value Balance Sheet Information, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

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

Item	Total	Size of end-of-year book value of total assets				
		Under $500,000 [1]	$500,000 under $1,000,000	$1,000,000 under $3,000,000	$3,000,000 under $10,000,000	$10,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)
Number of returns	**6,298**	**2,724**	**1,362**	**1,379**	**601**	**232**
Total net assets [2]	**15,989,128**	**518,745**	**957,121**	**2,299,523**	**3,133,114**	**9,080,625**
Total liabilities and net assets [3]	**16,485,658**	**541,074**	**975,209**	**2,369,714**	**3,200,844**	**9,398,817**
Total assets [4]	**16,485,658**	**541,074**	**975,209**	**2,369,714**	**3,200,844**	**9,398,817**
Cash	210,717	20,673	32,736	31,015	41,413	84,879
Savings and temporary cash investments	1,064,356	** 41,714	** 88,117	121,044	188,267	626,357
Receivables due, inventories, and prepaid expenses [5]	148,358	**	**	29,869	26,959	90,388
Total investments	14,509,019	463,618	854,283	2,142,517	2,828,171	8,220,430
Securities	8,119,631	367,771	546,665	1,632,796	1,533,191	4,039,207
Government obligations	650,227	53,894	45,897	134,943	92,245	323,248
Corporate stock	6,756,726	288,666	454,873	1,339,110	1,247,872	3,426,205
Corporate bonds	712,678	25,211	* 45,896	158,743	193,074	289,755
Other investments [6]	6,389,388	95,847	307,618	509,721	1,294,980	4,181,222
Other assets [7]	553,207	15,069	* 73	45,268	* 116,034	376,763
Total liabilities [8]	**496,529**	**22,329**	*** 18,088**	**70,191**	**67,730**	**318,192**

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

** Data are combined to prevent disclosure of individual taxpayer data. However, the data are included in the appropriate totals.

[1] Includes returns that did not report the end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by trusts filing a final return.

[2] Taken from Form 5227, Part IV, line 46, column (b). This is the excess of total assets over total liabilities. This value may deviate from the calculated value of total assets (line 37, column (b)) less total liabilities (line 43, column (b)) due to taxpayer reporting discrepancies.

[3] Taken from "total liabilities and net assets" (Form 5227, Part IV, line 47, column (b)). This amount may not equal "total liabilities" (line 43, column (b)) plus "total net assets" (line 46,

[4] Taken from Form 5227, Part IV, line 37, column (b).

[5] Calculated as the sum of "accounts receivable" (Form 5227, Part IV, line 27, column (b)), "receivables due from officers, directors, and other disqualified persons" (line 28, column (b)), "other notes and loans receivable" (line 29, column (b)), "inventories for sale or use" (line 30, column (b)), and "prepaid expenses and deferred charges" (line 31, column (b)).

[6] Calculated as the sum of "investments—land, buildings, and equipment" (Form 5227, Part IV, line 33, column (b)) and "investments—other" (line 34, column (b)).

[7] Calculated as the sum of "charitable purpose land, buildings, and equipment" (Form 5227, Part IV, line 35, column (b)) and "other assets" (line 36, column (b)).

[8] Taken from Form 5227, Part IV, line 43, column (b).

NOTE: Detail may not add to totals due to rounding and taxpayer reporting discrepancies.

Table 9. Pooled Income Funds: Book Value Balance Sheet Information, by Size of End-of-Year Book Value of Total Assets, Filing Year 2006

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

Item	Total	Size of end-of-year book value of total assets			
		Under $1,000,000 [1]	$1,000,000 under $3,000,000	$3,000,000 under $10,000,000	$10,000,000 or more
	(1)	(2)	(3)	(4)	(5)
Number of returns	**1,676**	**1,427**	**138**	**84**	**26**
Total net assets [2]	**1,483,773**	**198,000**	**221,101**	**432,438**	**632,234**
Total liabilities and net assets [3]	**1,599,610**	**198,393**	**221,956**	**435,126**	**744,134**
Total assets [4]	**1,599,610**	**198,393**	**221,956**	**435,126**	**744,134**
Cash	10,778	1,558	1,670	3,335	4,216
Savings and temporary cash investments	79,213	** 13,015	** 13,489	15,502	39,817
Receivables due, inventories, and prepaid expenses [5]	4,079	**	**	* 127	* 1,341
Total investments	1,437,245	141,833	204,121	415,923	675,368
Securities	1,163,438	107,620	193,884	375,385	486,550
Government obligations	231,772	13,030	29,588	56,389	132,765
Corporate stock	460,045	38,542	56,750	151,118	213,635
Corporate bonds	471,621	56,048	107,546	167,878	140,150
Other investments [6]	273,807	34,214	* 10,237	40,538	* 188,818
Other assets [7]	68,294	41,987	* 2,677	* 239	* 23,391
Total liabilities [8]	**115,837**	*** 393**	*** 855**	**2,689**	**111,900**

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

** Data are combined to prevent disclosure of individual taxpayer data. However, the data are included in the appropriate totals.

[1] Includes returns that did not report the end-of-year book value of total assets (Form 5227, Part IV, line 37, column (b)) from the balance sheet, or that reported the amount as zero. Often, these zero amounts are explained by funds filing a final return.

[2] Taken from Form 5227, Part IV, line 46, column (b). This is the excess of total assets over total liabilities. This value may deviate from the calculated value of total assets (line 37, column (b)) less total liabilities (line 43, column (b)) due to taxpayer reporting discrepancies.

[3] Taken from "total liabilities and net assets" (Form 5227, Part IV, line 47, column (b)). This amount may not equal "total liabilities" (line 43, column (b)) plus "total net assets" (line

[4] Taken from Form 5227, Part IV, line 37, column (b).

[5] Calculated as the sum of "accounts receivable" (Form 5227, Part IV, line 27, column (b)), "receivables due from officers, directors, and other disqualified persons" (line 28, column (b)), "other notes and loans receivable" (line 29, column (b)), "inventories for sale or use" (line 30, column (b)), and "prepaid expenses and deferred charges" (line 31,

[6] Calculated as the sum of "investments—land, buildings, and equipment" (Form 5227, Part IV, line 33, column (b)) and "investments—other" (line 34, column (b)).

[7] Calculated as the sum of "charitable purpose land, buildings, and equipment" (Form 5227, Part IV, line 35, column (b)) and "other assets" (line 36, column (b)).

[8] Taken from Form 5227, Part IV, line 43, column (b).

NOTE: Detail may not add to totals due to rounding.

Unrelated Business Income Tax Returns, 2004

by Margaret Riley

The aggregate "unrelated business" income tax (UBIT) liability of nonprofit charitable and other types of tax-exempt organizations rose 66 percent between Tax Years 2003 and 2004. These organizations may engage in activities considered unrelated to their tax-exempt missions, but income produced from these activities is subject to Federal taxation.[1] Of the 38,040 organizations that were required to file Forms 990-T, *Exempt Organization Business Income Tax Returns,* for Tax Year 2004 (Filing Years 2005 and 2006), 48 percent reported positive unrelated business taxable income (UBTI). The number of organizations filing Forms 990-T increased about 5 percent, with the number reporting positive UBTI increasing 16 percent.

Tax-exempt organizations produced a total of $9.5 billion of gross unrelated business income (UBI) for 2004, nearly 13 percent more than the 2003 amount. After offsetting total gross UBI with $9.0 billion of total deductions, the resulting UBTI (less deficit) for 2004 was $0.5 billion. Positive UBTI amounted to $1.3 billion for 2004, a 65-percent increase over 2003, and the associated UBIT was $364.6 million. After adjusting UBIT with certain credits and other taxes, the total tax reported on Form 990-T was $367.7 million. Figure A contains these and other statistics for selected major financial data items reported on Forms 990-T for Tax Years 2003 and 2004.

Total tax takes into account $364.6 million of unrelated business income tax, plus $3.9 million of alternative minimum tax, $4.3 million of "proxy tax" on certain nondeductible lobbying and political expenditures, and $0.1 million of "other" taxes, minus $5.2 million of tax credits.[2] Tax credits included the foreign tax credit ($3.5 million), general business credit ($1.0 million), credit for prior-year minimum tax ($0.4 million), and "other" credits ($0.3 million).

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Figure A

Selected Items from Forms 990-T, Exempt Organization Business Income Tax Returns, Tax Years 2003 and 2004

[Money amounts are in thousands of dollars]

Item	2003	2004	Percentage change
	(1)	(2)	(3)
Number of returns, total	**36,064**	**38,040**	**5.5**
With gross unrelated business income of $10,000 or less [1]	12,681	13,880	9.5
With gross unrelated business income over $10,000 [1]	23,383	24,160	3.3
With unrelated business taxable income	15,580	18,099	16.2
Without unrelated business taxable income [2]	20,484	19,941	-2.7
Gross unrelated business income	**8,436,027**	**9,492,228**	**12.5**
Total deductions [3]	**8,412,822**	**8,979,863**	**6.7**
Unrelated business taxable income (less deficit)	**23,204**	**512,364**	**2,108.1**
Unrelated business taxable income	780,149	1,287,972	65.1
Deficit	756,944	775,607	2.5
Unrelated business income tax	**219,949**	**364,615**	**65.8**
Total tax	**220,916**	**367,698**	**66.4**

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

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

[3] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33. Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services (GPSS). GPSS is a component of gross unrelated business income (upon which the filing requirement is based). Total cost of sales and services was $2.5 billion for 2003 and $2.8 billion for 2004.

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

Background

Definition of Unrelated Business Income

Nonprofit organizations that are granted Federal tax exemption based on their mission-related purposes are allowed to generate income from unrelated business activities; however, the income from these activities is subject to taxation. Unrelated business income is produced from an activity that is both con-

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

[2] See the definition of Proxy Tax in the Explanation of Selected Terms section of this article. The proxy tax of $4.3 million shown in the total tax computation is only that reported by Form 990-T filers with gross unrelated business income above the $1,000 filing threshold, a criterion for selection into the Statistics of Income (SOI) sample. Proxy tax reported by organizations that had no UBI or those that had UBI below the filing threshold is not included. According to IRS Business Returns Transactions File records, total proxy tax of $8.1 million was reported on Forms 990-T for Tax Year 2004.

ducted on a regular basis and not directly related to an organization's tax-exempt mission. The fact that the income may be used for furthering an organization's exempt purposes does not alter the definition.[3] Any profits from an organization's unrelated business activities are taxed at regular corporate or trust income tax rates.[4] Certain activities are excluded from taxation; some examples are engaging in business activities in which substantially all of the work is performed by volunteer labor; selling merchandise that the organization received as a gift or contribution; and operating certain games of chance, as specified in the Internal Revenue Code (IRC).

Form 990-T Filing Requirements

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

Most tax-exempt organizations are required to file an annual Form 990, *Return of Organization Exempt From Income Tax*, or Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax* (used by organizations with annual gross receipts of less than $100,000 and total end-of-year assets of less than $250,000).[5] IRC section 501(c)(3) private foundations and certain charitable trusts file an information return on Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation*. Form 990-T is required only for a tax year in which an organization has unrelated business income.

To report unrelated business income of $1,000 (the filing threshold) or more for Tax Year 2004, IRC section 220(e), 401(a), 408(e), 408A, and 530(a) trusts' required reporting period was Calendar Year 2004, and the Form 990-T filing date was April 15, 2005. For all other organizations, the required reporting period was any accounting period beginning in Calendar Year 2004 (and, therefore, ending between December 2004 and November 2005, for full-year return filers). The associated required due dates for filing Tax Year 2004 Forms 990-T generally spanned May 2005 to April 2006, but extensions of time to file beyond this period were routinely granted to many organizations. Corresponding to the required filing dates, the Tax Year 2004 study sample was drawn from Forms 990-T processed by IRS throughout Calendar Years 2005 and 2006. (See the Data Sources and Limitations section of this article for detailed information on the study sample.) Because of the various accounting periods of the organizations filing a Tax Year 2004 return, the financial activities covered in this article span the period January 2004 through November 2005, although 58 percent of Form 990-T filers had Calendar Year 2004 accounting periods.

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

[3] See the definition of Unrelated Business Activity in the Explanation of Selected Terms section of this article for more information.

[4] The corporate and trust tax-rate schedules for Tax Year 2004 are included in the definition of Unrelated Business Income Tax, found in the Explanation of Selected Terms section of this article.

[5] Churches, which are tax-exempt under Internal Revenue Code section 501(c)(3), are not required to apply for exemption unless they desire to obtain an Internal Revenue Service ruling, and they do not have to file a Form 990 information return. However, these churches are required to file Form 990-T if they received $1,000 or more of gross income from business activities that were considered unrelated to their religious purposes. Internal Revenue Code section 4947(a)(1) "nonexempt charitable trusts" and section 4947(a)(2) "split-interest trusts" are required to report unrelated business income on Form 1041, *Estate and Trust Income Tax Return*, rather than Form 990-T. Published statistical reports on charitable and other nonprofit organizations, private foundations, and split-interest trusts are available from the Tax Stats pages of the IRS Web site at http://www.irs.gov/taxstats.

Reported Tax Liability

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

Key Factors Affecting Unrelated Business Taxable Income and Tax

Unrelated business taxable income and tax declined each tax year from 1998 to 2002, a period when financial markets experienced high volatility.[6] Over the 4-year period, UBTI and UBIT each decreased more than 60 percent. In the period between Tax Years 2002 and 2004, when stocks and other financial vehicles performed favorably, UBTI rose 99 percent, and UBIT rose 88 percent. Key factors affecting the amount of UBTI and UBIT reported each year on Form 990-T include the effect of market fluctuations on organizations with large amounts of unrelated business investment income; the organizational structure of an entity, as either a corporation or trust; each type of organization's applicable tax rates; and the interrelationship between total amounts of gross UBI and allowable deductions. When analyzing changes in overall UBTI and UBIT reported for a given tax year, it is difficult to isolate the contribution of any one factor; rather, a blend of factors work together to affect change.

In general, there is a clear distinction between organizations structured as corporations and trusts, with regard to the proportion of UBI attributable to four primary sources of investment income: net capital gains, combined income from partnerships and S corporations, unrelated debt-financed income, and investment income reported by sections 501(c)(7) recreational and social clubs, 501(c)(9) voluntary employees' beneficiary associations (VEBAs), and 501(c)(17) supplemental unemployment benefit trusts.[7, 8] Based on data from Forms 990-T filed for Tax Years 1998 to 2004, presented in Figure B, the annual ratios of the total of these four investment items to total gross UBI ranged from 9 percent to 16 percent for tax-exempt corporations, compared to a range of 83 percent to 97 percent for tax-exempt trusts. Tax-exempt trusts historically have been subject to higher marginal tax rates than corporate exempt entities, resulting in higher average UBIT liability amounts for the trusts. Annual average UBIT liability amounts of trusts ranged from two times to six times larger than respective annual average UBIT liability amounts of corporations for tax years spanning 1998 to 2004. In addition, because these trusts hold high concentrations of investment assets that generate UBI, the annual aggregate UBTI and UBIT amounts that they report each year have been closely tied to fluctuations in equity and other financial markets.

Ratios of UBTI to Gross UBI for Selected Types of Organizations

For 2004, 85 percent of all Form 990-T filers had a corporate structure; the remainder were formed as trusts. Certain groups of filers, classified by Internal Revenue Code section, are dominated by organizations with one type of the two structures. Three groups that are comprised mostly of trusts are IRC section 401(a) qualified pension, profit-sharing, and stock bonus plans; section 408(e) traditional Individual Retirement Accounts (IRAs); and section 501(c)(9) VEBAs, all of which typically report income from investment activities as a primary source of UBI. Organizations that rely mainly on investments for income usually have higher UBTI-to-gross-UBI (UBTI-to-GUBI) ratios than organizations with more diverse income sources. By the nature of their operations, heavily invested organizations are

[6] See Riley Margaret, "Unrelated Business Income Tax Returns, 2002: Financial Highlights and Special Analyses of Exempt-Organization Reporting Quality," *Statistics of Income Bulletin,* Winter 2005-2006, Volume 25, Number 3. This report, along with statistical tables in Excel format, is available from the Tax Stats pages of the IRS Web site at http://www.irs.gov/taxstats.

[7] See the Explanation of Terms section for definitions of these income sources. In addition to Federal taxation of unrelated business activities of a commercial nature, some organizations are also taxed on their investment incomes. All investment income of sections 501(c)(7), (9), and (17) organizations is considered unrelated business income and taxed accordingly. Other exempt organizations' investment income ordinarily is not taxed, unless the investment was purchased with borrowed funds; i.e., debt-financed.

[8] Rental income is not considered a type of investment income in this article because gross rents from real property were generally excluded in computing unrelated business taxable income (UBTI). The following were considered taxable as UBI: (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. See the definition of Rental Income in the Explanation of Selected Terms section of this article.

Figure B

Selected Unrelated Business Income Tax Data for Tax-Exempt Corporate and Trust Entities, Tax Years 1998-2004

[Money amounts are in thousands of dollars]

Type of organization, tax year	Number of returns	Gross unrelated business income (UBI)	Total investment income [1]	Total deductions [2]	Unrelated business taxable income (less deficit)	Unrelated business taxable income (UBTI)	Deficit	Unrelated business income tax (UBIT)	Total tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All organizations									
1998	46,208	7,584,915	2,329,669	6,484,443	1,100,470	1,669,753	569,283	505,896	464,288
1999	42,151	7,722,135	2,178,006	6,834,850	887,284	1,484,921	597,637	423,065	421,746
2000	38,567	8,413,385	2,063,897	7,703,052	710,333	1,427,441	717,109	405,826	402,904
2001	35,540	7,900,464	1,291,383	7,882,907	17,557	791,963	774,406	226,032	221,532
2002	35,103	7,776,017	1,074,725	7,922,208	-146,191	647,246	793,438	194,074	192,747
2003	36,064	8,436,027	1,499,461	8,412,822	23,204	780,149	756,944	219,949	220,916
2004	38,040	9,492,228	1,961,146	8,979,863	512,364	1,287,972	775,607	364,615	367,698
Tax-exempt corporations									
1998	31,376	6,202,258	1,006,564	5,896,558	305,699	858,720	553,021	261,970	223,351
1999	31,567	6,260,902	768,062	6,200,866	60,035	633,330	573,295	180,371	182,554
2000	31,245	7,219,027	940,870	7,203,007	16,021	714,035	698,014	208,417	208,363
2001	31,697	7,202,952	689,406	7,486,872	-283,920	469,167	753,087	128,571	128,513
2002	31,282	7,276,187	661,777	7,602,148	-325,961	454,613	780,574	126,652	126,074
2003	31,802	7,579,444	724,255	7,763,313	-183,869	544,050	727,919	154,725	156,238
2004	32,191	8,489,586	1,061,041	8,393,253	96,333	843,114	746,781	252,947	255,772
Tax-exempt trusts									
1998	14,831	1,382,656	1,323,105	587,885	794,771	811,033	16,262	243,926	240,937
1999	10,584	1,461,233	1,409,944	633,984	827,249	851,591	24,342	242,695	239,192
2000	7,322	1,194,357	1,123,027	500,045	694,312	713,407	19,095	197,409	194,541
2001	3,843	697,512	601,977	396,035	301,477	322,796	21,319	97,461	93,019
2002	3,821	499,830	412,948	320,060	179,770	192,633	12,863	67,422	66,673
2003	4,262	856,584	775,206	649,510	207,074	236,099	29,025	65,223	64,678
2004	5,850	1,002,642	900,105	586,610	416,031	444,858	28,827	111,668	111,926

[1] Total investment income includes captial gain net income, combined partnership and S corporation income, unrelated debt-financed income, and investment income of Internal Revenue Code section 501(c)(7), (9), and (17) organizations. Other types of exempt organizations' investment income ordinarily is not taxed, unless the investment was purchased with borrowed funds; i.e., debt-financed.

[2] Includes both expenses and deductions reported on Form 990-T, lines 13(B), 29, 31, and 33. Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services (GPSS). GPSS is a component of gross unrelated business income (upon which the filing requirement is based).

NOTE: Column detail may not add to totals because of rounding.

relatively limited in the types and amount of deductions they can claim to offset income. They have lower operating costs because their investment portfolios are usually overseen by only one or two trust managers, and they do not incur the variety of expenses associated with organizations largely engaged in commercial enterprises. As shown in Figure C, sections 401(a), 408(e), and 501(c)(9) organizations had UBTI-to-GUBI ratios of 54 percent, 75 percent, and 38 percent, respectively, for 2004.

Exempt organizations that produce gross UBI from a broad mix of sources, therefore having the opportunity to offset income with a larger range of operational expenses and deductions, include sections 501(c)(3) nonprofit charitable organizations; 501(c)(5) labor, agricultural, and horticultural organizations; 501(c)(4) civic leagues, social welfare organizations, and local associations of employees; 501(c)(6) business leagues, chambers of commerce, and real estate boards; 501(c)(7) recreational and

Figure C

Selected Sources of Gross Unrelated Business Income (UBI), by Selected Types of Organizations Tax-Exempt under the Internal Revenue Code, Tax Year 2004

[Money amounts are in thousands of dollars]

Item	All organizations	Organization tax-exempt under Internal Revenue Code section:								
		401(a)	408(e)	501(c)(3)	501(c)(4)	501(c)(5)	501(c)(6)	501(c)(7)	501(c)(9)	501(c)(19)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Number of returns	**38,040**	**339**	**4,272**	**12,395**	**1,712**	**2,418**	**6,230**	**6,215**	**766**	**1,608**
Total gross unrelated business income (UBI)	**9,492,228**	**167,160**	**45,507**	**5,500,597**	**625,307**	**300,659**	**1,074,449**	**614,775**	**632,103**	**156,286**
Gross profit (less loss) from sales and services	4,854,512	6,798	3,485	3,444,917	297,883	128,808	218,161	459,087	5,749	112,064
Capital gain net income	360,046	58,395	10,993	151,204	0	822	2,798	13,104	115,333	1,257
Income (less loss) from partnerships and S corporations	572,093	75,363	25,985	442,371	5,627	2,543	8,490	d	3,435	0
Unrelated debt-financed income	475,467	5,441	2,028	336,531	6,924	26,560	35,703	N/A	N/A	6,663
Investment income (less loss) of IRC section 501(c)(7), (9), and (17) orgaizations	553,539	N/A	N/A	N/A	N/A	N/A	N/A	56,717	496,823	N/A
Exploited exempt activity income, except advertising	176,462	0	0	82,949	5,960	6,161	76,872	N/A	N/A	1,705
Advertising income	1,417,249	0	0	603,677	141,303	56,989	576,008	N/A	N/A	20,407
Unrelated business taxable income (UBTI)	**1,287,972**	**89,726**	**34,013**	**636,103**	**20,620**	**28,212**	**129,657**	**71,233**	**237,332**	**7,157**
UBTI-to-GUBI Ratio [1]	**13.6**	**53.7**	**74.7**	**11.6**	**3.3**	**9.4**	**12.1**	**11.6**	**37.5**	**4.6**

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

N/A—Not applicable.

[1] Ratio of unrelated business taxable income to gross unrelated business income.

NOTE: Column detail may not add to totals because of rounding. See the Appendix to this article for descriptions of the types of tax-exempt organizations filing Form 990-T, by the Internal Revenue Code section describing them.

social clubs; and 501(c)(19) veterans' organizations.[9] The vast majority of these organizations are structured as corporations, and they are more likely to supplement their mission-related revenues with UBI produced from commercial and, to a lesser extent, investment activities. Within this grouping of organizations, UBTI-to-GUBI ratios ranged from 3 percent to 13 percent.

Relationship Among Gross UBI, Total Deductions, and Taxable Income

Another distinction between tax-exempt corporations and trusts is how the interrelationship between gross UBI and total deductions affects the amount of income that is ultimately taxable. Exempt corporate entities have a higher degree of flexibility in the allocation of administrative and operational expenses to their unrelated business activities, compared to exempt trusts. Historically, corporate Form 990-T filers have accounted for large shares of both total gross UBI and total deductions. For each year in the 1998 to 2004 period presented in Figure B, total deductions reported by corporate Form 990-T filers were between 95 percent and 105 percent of their gross UBI. In comparison, tax-exempt trust filers' total deductions ranged from 42 percent to 76 percent of their gross UBI during the same period.

The synergy of annual rates of change in aggregate income and deductions also contributes, along with other factors, to overall increases or decreases in total UBTI reported each year. While the UBTI of organizations, as a whole, may rise or decline for a given year, the reverse can occur for particular subgroups of Form 990-T filers. Tax Year 2000 is a good example to illustrate this. Aggregate UBTI reported by all organizations declined by 4 percent be-

[9] The terms "nonprofit charitable organizations" and "charities," used in this article, refer to tax-exempt organizations with purposes that are charitable, educational, scientific, literary, or religious in nature, or organizations that test for public safety or prevent cruelty to children or animals.

tween Tax Years 1999 and 2000. However, exempt corporations' UBTI for 2000 rose by 13 percent, and exempt trusts' UBTI declined by 16 percent. The two groups of 31,245 corporate entities and 7,322 trust entities each accounted for half of all UBTI reported for 2000. Aggregate gross UBI and total deductions of all Form 990-T filers increased by 9 percent and 13 percent, respectively, from 1999 to 2000. Corporate filers' experienced a 15-percent growth in total gross UBI and a 16-percent increase in total deductions. In contrast, trust filers experienced declines in both total gross UBI and total deductions, of 18 percent and 21 percent, respectively. For 2000, the ratio of total deductions to gross UBI was virtually 100 percent for tax-exempt corporations and 42 percent for tax-exempt trusts. For organizations reporting positive amounts of UBTI, the ratio was 71 percent for corporate entities, compared to 17 percent for trusts.

Composition of UBI for Selected Types of Organizations

Section 401(a) plans, section 408(e) traditional IRAs, and section 501(c)(9) VEBAs invest their assets to produce income for their beneficiaries. Capital gain net income, combined partnership and S corporation income, and debt-financed income collectively accounted for 83 percent and 86 percent, respectively, of the sections 401(a) and 408(e) trusts' totals of gross UBI, as seen in Figure C. For section 501(c)(9) VEBAs, capital gain net income, combined partnership and S corporation income, and other types of investment income produced 97 percent of their total gross UBI. Other than capital gain net income and combined partnership and S corporation income, all investment income of VEBAs is reported as "investment income" on a special Form 990-T line. Any debt-financed income is included on this line and is not reported separately.[10]

Section 501(c)(3) nonprofit charitable organizations reported $5.5 billion of gross UBI for 2004, of which 74 percent was attributable to gross profit from sales and services and advertising income, two main commercial activities reported on Form 990-T. Another 17 percent was a combined total of capital gain net income, partnership and S corporation income, and debt-financed income. While this investment income comprised a relatively small proportion of charities' total UBI, the amount reported by charities accounted for 66 percent of the total of these three items reported on Form 990-T overall. In addition, for the charities, the total amount of these items rose 73 percent between 2003 and 2004.

Section 501(c)(6) chambers of commerce, business leagues, and real estate boards grossed $1.1 billion of UBI for 2004, with gross profit from sales and services and advertising income accounting for 74 percent, and the total of capital gain net income, partnership and S corporation income (less loss), and debt-financed income accounting for only 4 percent. These organizations, many of which are business associations, also produced 7 percent of their gross UBI from "exploited exempt activities." When an exempt organization exploits its name recognition or reputation of goodwill to produce income, such as selling endorsements for commercial products, the income is subject to unrelated business income taxation. Section 501(c)(6) organizations were responsible for 44 percent of the total of exploited exempt activity income.[11]

Changes in Gross UBI Sources, 2003-2004

A review of gross UBI sources presented in Figure D shows that income from investments made significant gains between 2003 and 2004. Capital gain net income increased by 142 percent, combined income (less loss) from partnerships and S corporations increased by 90 percent, and unrelated debt-financed income increased by 17 percent. The four types of income generated from investment activities–capital gain net income, income (less loss) from partnerships and S corporations, unrelated debt-financed income, and investment income (less loss) of section 501(c)(7), (9), and (17) organizations–together accounted for 21 percent of total gross UBI.

The drop in aggregate investment income (less loss), which is reported only by section 501(c)(7), (9), and (17) organizations, is solely attributable to an organization that reported an atypically large amount of this type of income on its 2003 Form 990-T and

[10] Section 501(c)(7), (9), and (17) organizations report capital gain net income and combined partnership and S corporation income separately, but include debt-financed income and other types of investment income on the "investment income" line specifically designated for these organizations. All other types of exempt organizations report capital gain net income, combined partnership and S corporation income, and debt-financed income separately on Form 990-T.

[11] Another 47 percent of exploited exempt activity income was attributable to section 501(c)(3) charities.

Figure D

Sources of Gross Unrelated Business Income (UBI), Tax Years 2003-2004

[Money amounts are in thousands of dollars]

Item	Tax year 2003	Tax year 2004	Percentage change
	(1)	(2)	(3)
Number of returns	**36,064**	**38,040**	**5.5**
Total gross unrelated business income (UBI)	**8,436,027**	**9,492,228**	**12.5**
Gross profit (less loss) from sales and services	4,501,523	4,854,512	7.8
Capital gain net income	148,657	360,046	142.2
Net capital loss (trusts only)	612	339	-44.6
Net gain (less loss), noncapital assets [1]	13,073	11,980	-8.4
Income (less loss) from partnerships and S corporations	301,520	572,093	89.7
Rental income [2]	274,300	265,970	-3.0
Unrelated debt-financed income	407,164	475,467	16.8
Investment income (less loss) [3]	642,120	553,539	-13.8
Income from controlled organizations [4]	206,355	217,923	5.6
Exploited exempt activity income, except advertising	151,591	176,462	16.4
Advertising income	1,280,994	1,417,249	10.6
Other income (less loss)	509,342	587,324	15.3

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

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

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

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

NOTE: Column detail may not add to totals because of rounding. For explanations of each income source, see the Explanations of Selected Terms section of this article.

a comparatively small amount on its 2004 form. To protect the organization from possible disclosure of identifiable tax information, adjusted totals cannot be provided in Figure D. However, if data from this outlier were excluded, the 2004 amount of aggregate investment income (less loss) would be significantly greater than the 2003 amount.

While not considered an investment-related income source, gross profit (less loss) from sales and services is typically the largest source of income for tax-exempt organizations overall, and its profitability as an unrelated business activity can be favorably affected when financial markets and the economy are strong. Gross profit (less loss) from sales and services increased by 8 percent between 2003 and 2004, from $4.5 billion to $4.9 billion. For 2004, it accounted for just over half of total gross UBI. Advertising services, the second largest source of UBI overall, produced an additional 15 percent of the total.

Nonprofit Charitable Organizations Classified by the National Taxonomy of Exempt Entities

Figure E presents information on categories of section 501(c)(3) nonprofit charitable organizations, based on the National Taxonomy of Exempt Entities (NTEE), a system developed by the National Center for Charitable Statistics, with the collaboration of major nonprofit entities.[12] This figure includes Tax Year 2004 estimates for all charities that filed Form 990/990-EZ "information" returns and the subset of these charities that additionally filed Form 990-T "tax" returns to report unrelated business income (UBI).[13] The NTEE system classifies organizations by institutional purpose and major programs and activities. It is comprised of 26 major groups, which are then aggregated into 10 categories. The organizations were coded on the basis of information provided on Form 990.

Estimates of Form 990-T data for section 501(c)(3) organizations shown in Figure E are lower than the estimates of these organizations' overall Form 990-T filings shown in Figure C and Table 1 at the end of this article because some tax-exempt entities are required to file Form 990-T, but not Form 990/990-EZ. These entities include section 501(c)(3) private foundations, most organizations with receipts less than $25,000, most colleges and universities operated by State and local governments, most churches, and certain other types of religious organizations.

The estimated 9,501 nonprofit charitable organizations with gross unrelated business income represent about 3 percent of the 276,199 section 501(c)(3) organizations that filed Forms 990/990-EZ for 2004. A large variety of organizations with diverse nonprofit purposes are included in the nine aggregated NTEE major categories (excluding "unknown, unclassified") presented. While only 3 percent of charities, overall, produced UBI, the likelihood for engaging in unrelated business activities can vary significantly depending on the asset size of an organization. For example, a special Statistics of Income study using Tax Year 2003 Form 990-T data revealed

[12] For information on the National Taxonomy of Exempt Entities classification system, see the National Center for Charitable Statistics Web site: www.ncc.urban.org.

[13] For a more extensive analysis of all nonprofit charitable organizations classified by NTEE category, see Arnsberger, Paul D., "Charities, Social Welfare, and Other Tax-Exempt Organizations, 2004," *Statistics of Income Bulletin,* Fall 2007, Volume 27, Number 2, pp. 214-215. This report is available from the Tax Stats pages of the IRS Web site at http://www.irs.gov/taxstats.

Figure E

Selected Items for Nonprofit Charitable Organizations Classified by NTEE Category, Tax Year 2004

[Money amounts are in thousands of dollars]

NTEE major category [1]	All nonprofit charitable organizations		Nonprofit charitable organizations with gross unrelated business income						
					Gross unrelated business income				
	Number of returns	Total revenue	Number of returns	Total revenue	Amount	As a percentage of col. (2)	As a percentage of col. (4)	Unrelated business taxable income [2]	Total tax
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**276,199**	**1,152,989,149**	**9,501**	**545,225,473**	**4,440,965**	**0.4**	**0.8**	**309,291**	**94,083**
Arts, culture, and humanities	28,615	25,515,073	1,197	9,120,379	314,706	1.2	3.5	19,894	5,850
Education	48,920	220,139,219	1,319	121,471,445	615,999	0.3	0.5	61,831	20,242
Environment, animals	11,576	11,134,496	596	4,294,098	117,146	1.1	2.7	2,535	577
Health	36,372	655,062,871	2,475	368,054,814	2,481,888	0.4	0.7	140,723	45,476
Human services	104,837	157,653,242	2,611	18,907,536	397,960	0.3	2.1	41,893	11,200
International, foreign affairs	3,486	17,077,324	49	4,003,467	13,989	0.1	0.3	4,066	1,269
Mutual, membership benefit	674	2,849,553	11	305,309	14,861	0.5	4.9	18	5
Public, societal benefit	24,148	55,169,990	811	17,240,869	372,626	0.7	2.2	34,420	8,508
Religion-related	17,416	8,376,063	431	1,827,557	111,789	1.3	6.1	3,911	958
Unknown/unclassified	156	11,317	0	0	0	N/A	N/A	0	0

N/A—Not applicable.

[1] The National Taxonomy of Exempt Entities (NTEE) is a classification system that uses 26 major field areas that are aggregated into the categories shown above. It was developed by the National Center for Charitable Statistics. The codes describe the purposes and activities of the organizations.

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

NOTES: Data are from linked Forms 990, 990-EZ, and 990-T for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000, most colleges and universities operated by State and local governments, as well as most churches, and certain other types of religious organizations. Detail may not add to totals because of rounding.

that only about 1 percent of charities with assets under $100,000 had income from unrelated business activities, compared with 39 percent of organizations with assets of $50,000,000 or more. For other groupings of charities, within four midsize asset classes, the percentages ranged from 2 to 13, increasing progressively as asset size increased.[14]

"Health" was by far the largest category in terms of total income reported, both on Forms 990/990-EZ and Forms 990-T. Organizations within this category accounted for 57 percent of the $1,153.0 billion of revenue reported by all nonprofit charities. They also accounted for 68 percent of the $545.2 billion of total revenue, 56 percent of the $4.4 billion of gross UBI, and 48 percent of the $94.1 million of total tax reported by Form 990/990-EZ filers that also filed Form 990-T. Of the 36,372 charitable organizations in the health category, about 7 percent engaged in unrelated business activities, a larger share than that associated with any other category shown in Figure E, and they filed 26 percent of the 9,501 Forms 990-T on which UBI was reported. Form 990-T filers with mission-based health programs reported gross UBI that was less than 1 percent of their total revenues. The health category includes organizations that promote the wellness of individuals, the general treatment and prevention of disease or illness (including mental health and illness), and the medical rehabilitation of the physically disabled. Examples are hospitals; nursing or convalescent facilities; health care financing activities; substance abuse treatment services; organizations that study ethics or promote the practice of ethical behavior in medical care and research; health associations active in the prevention or treatment of diseases; and medical research.

The major category of "education" ranked second in the amounts of gross UBI and total tax reported and third in the number of returns filed. The shares of total revenue, gross UBI, and total tax attributable to the 1,319 joint Form 990 and Form 990-T filers in this category were 22 percent, 14 percent, and 22 percent, respectively. Unrelated

[14] See Riley, Margaret, "Unrelated Business Income Tax Returns, 2003: Financial Highlights and A Special Analysis of Nonprofit Charitable Organizations' Revenue and Taxable Income," *Statistics of Income Bulletin*, Winter 2006-2007, Volume 26, Number 3. This report is available from the Tax Stats pages of the IRS Web site at http://www.irs.gov/taxstats.

business activities produced less than 1 percent of the $121.5 billion of total revenue reported by joint Forms 990/990-EZ and 990-T filers with educational purposes or programs. The education category includes higher education (excluding colleges and universities operated by State and local governments that are not required to file Form 990), elementary and secondary schools, correspondence schools, libraries, educational testing services, organizations providing opportunities for continuing education outside the framework of formal education, and student services and organizations.

Organizations classified within the NTEE-defined category of "human services" accounted for the largest number of organizations with UBI shown in Figure E, 28 percent of the total, but they were responsible for only 4 percent of total revenue, 9 percent of gross UBI, and 12 percent of total tax reported by nonprofit charitable organizations that filed both Form 990/990-EZ and Form 990-T. Gross UBI represented 2 percent of their $18.9 billion of total revenue. The human services category was comprised of organizations in several classifications performing a variety of services focused on specific needs within the community: housing and shelter programs, including housing, construction, management, and services to assist in locating, acquiring, or sustaining housing; job training and placement services; public safety, disaster preparedness, and relief services, including activities related to mitigating the effects of disasters and providing relief to accident victims; amateur sports activities and recreation and sports programs provided by organizations for camps, parks, and playgrounds; crime prevention and legal services; and multipurpose organizations providing a broad range of social or human services to individuals and families.

Summary

Between Tax Years 2003 and 2004, the "unrelated business" income tax (UBIT) liability of charitable and other types of tax-exempt organizations rose 66 percent. These organizations filed 38,040 Forms 990-T for Tax Year 2004 (Filing Years 2005 and 2006), about 5 percent more than the number filed for Tax Year 2003. They reported gross unrelated business income (UBI) of $9.5 billion and total deductions of $9.0 billion, resulting in unrelated business taxable income (less deficit) of $0.5 billion. Close to half of Form 990-T filers reported positive unrelated business taxable income (UBTI), totaling $1.3 billion, an increase of 65 percent over the 2003 amount. After adjusting $364.6 million of UBIT with certain credits and other taxes, the total tax reported on Form 990-T was $367.7 million.

Key factors affecting the amount of UBTI reported each year on Form 990-T include the effect of market fluctuations on organizations with large amounts of unrelated business investment income; the organizational structure of an entity, as either a corporation or trust; each type of organization's applicable tax rates; and the interrelationship between total amounts of gross UBI and allowable deductions. In general, there is a clear distinction between organizations structured as corporations and trusts, with regard to the proportion of UBI attributable to investment income. The annual ratios of total investment income to total gross UBI reported on Forms 990-T from 1998 to 2004 ranged from 9 percent to 16 percent for tax-exempt corporations, and 83 percent to 97 percent for tax-exempt trusts. Tax-exempt trusts historically have been subject to higher marginal tax rates than corporate exempt entities, resulting in higher average UBIT liability amounts for the trusts. For each tax year from 1998 to 2004, the average UBIT liability of tax-exempt trusts was much larger than that of tax-exempt corporations, by twofold to sixfold. Additionally, tax-exempt corporate entities have a higher degree of flexibility in the allocation of administrative and operational expenses to their unrelated business activities compared to tax-exempt trusts, which, by the nature of their operations, are relatively limited in the types and amount of deductions they can claim to offset income. For each year in the 1998 to 2003 period, aggregate total deductions reported by corporate Form 990-T filers were between 95 percent and 105 percent of their total gross UBI. Tax-exempt trust filers' total aggregate deductions were between 42 percent and 76 percent of their total gross UBI.

For Tax Year 2004, about 3 percent of the 276,199 IRC section 501(c)(3) nonprofit charitable organizations filing Forms 990/990-EZ also filed Forms 990-T. This article presents information on various categories of these filers, based on the National Taxonomy of Exempt Entities (NTEE), which classifies organizations by institutional purpose and major programs and activities. Organizations' tax-exempt missions related to health, education, and human services ranked first, second, and third, respectively, in terms of total revenue reported by all charitable organizations, and also in terms of total revenue, total gross UBI, UBTI, and total tax reported by charitable organizations that filed both Forms 990/990-EZ and 990-T. The proportion of total revenue produced from gross UBI by organizations within each of these three program categories was 2 percent or less.

Data Sources and Limitations

The Tax Year 2004 Statistics of Income (SOI) Form 990-T study incorporated a two-stage sample design consisting of a stratified random sample and a special "integrated" sample. The stratified random sample was designed to represent the entire population of Form 990-T filers reporting unrelated business income. The integrated sample was designed to gather information on "related" (tax-exempt) and "unrelated" (taxable) income and expenses for section 501(c)(3) nonprofit charitable organizations that filed both Form 990 (or Form 990-EZ, the short-form version of this information return) and Form 990-T. This integrated sampling program ensured that the SOI sample of Forms 990-T included any unrelated business income tax returns (with gross UBI of $1,000 or more) filed by organizations whose Form 990 or Form 990-EZ information returns were selected for the separate SOI sample of section 501(c)(3) nonprofit charitable organizations. Organizations exempt under other Code sections were not subjected to the integrated sampling program.

The Form 990-T returns were initially divided into strata, based on gross UBI, and selected using Bernouli sampling. Section 501(c)(3) returns not selected randomly were then linked, by Employer Identification Number (EIN), to returns in the Forms 990/990-EZ sample. These linked returns, along with any randomly selected Forms 990-T that also had counterparts in the Forms 990/990-EZ sample, formed the "integrated" IRC section 501(c)(3) portion of the Form 990-T sample.[15]

Returns in the Form 990-T sample frame were classified into two-dimensional strata, based on the size of gross UBI in the Form 990-T population and the size of total assets in the section 501(c)(3) Form 990/990-EZ population of returns having EINs that matched Form 990-T EINs. As shown in

Figure F

Population and Sample Counts, and Designed and Achieved Sample Rates, by Sample Group, Tax Year 2004

Sample group number	Sample group [1]	Population count	Sample count	Designed sample rate (Percentage)	Achieved sample rate (Percentage)
		(1)	(2)	(3)	(4)
1	Gross unrelated business income (UBI) $1,000 under $20,000 and total assets under $1,000,000, or Gross UBI $1,000 under $20,000 and no matching IRC section 501(c)(3) Form 990 or Form 990-EZ	16,382	578	3.65	3.53
2	Gross UBI $1,000 under $20,000 and total assets $1,000,000 under $2,500,000, or Gross UBI $20,000 under $60,000 and total assets under $2,500,000, or Gross UBI $20,000 under $60,000 and no matching Form 990 or Form 990-EZ	7,187	411	5.11	5.72
3	Gross UBI $1,000 under $60,000 and total assets $2,500,000 under $20,000,000, or Gross UBI $60,000 under $250,000 and total assets under $20,000,000, or Gross UBI $60,000 under $250,000 and no matching Form 990 or Form 990-EZ	8,355	1,346	10.42	16.11
4	Gross UBI $1,000 under $250,000 and total assets $20,000,000 under $50,000,000, or Gross UBI $250,000 under $500,000 and total assets under $50,000,000, or Gross UBI $250,000 under $500,000 and no matching Form 990 or Form 990-EZ	2,425	1,669	78.59	68.82
5	Gross UBI $500,000 or more, or total assets $50,000,000 or more	3,938	3,936	100.00	99.95
	All sample groups [2]	**38,287**	**7,940**	**N/A**	**20.74**

N/A—Not applicable.

[1] The Form 990-T sample included returns that were initially selected based on independent Form 990-T sampling criteria, and additional returns that were not initially selected but were subsequently matched to information returns in the Forms 990 and 990-EZ sample of IRC section 501(c)(3) filers. Gross unrelated business income is obtained from Form 990-T and total assets are obtained from Form 990/990EZ.

[2] After excluding returns that were originally selected for the sample but later rejected, the sample size was 7,905, and the estimated population size was 38,040.

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

Figure F, the designed sampling rates ranged from a minimum of 3.65 percent (Form 990-T gross UBI of $1,000 under than $20,000, with either no Form 990/990-EZ EIN match or an EIN match to a section 501(c)(3) Form 990/990-EZ with total assets under $1,000,000) to a maximum of 100 percent (either Form 990-T gross UBI of $500,000 or more, or Form 990-T with any amount of gross UBI and an EIN match to a section 501(c)(3) Form 990 with total assets of $50,000,000 or more). Other Forms 990-T were selected at designed rates ranging from 5.11 percent to 78.59 percent.

The population from which the Form 990-T sample was drawn consisted of Tax Year 2004 Form 990-T records posted to the IRS Business Master File system during 2005 and 2006. Returns filed after Calendar Year 2006 were not included in the sample, unless a return was considered a large income-size case (over $500,000 or more of gross UBI). A sample of 7,940 returns was selected from a population of 38,287. After excluding returns that were selected for the sample but later rejected, the resulting sample size was 7,905 returns, and the estimated population size was 38,040. Rejected returns included those that had gross UBI below the $1,000 filing threshold; were filed for a part-year 2004 accounting period, and a full-year 2004 return was also filed; or were filed for a part-year accounting period that began in a year other than 2004. For example, a final return filed for the 6-month period of January 2005-June 2005 may have been initially selected for the 2004 sample based on the criterion of an accounting period that ended between December 2004 and November 2005, but it was later rejected because, in actuality, it was a Tax Year 2005 return.

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

Because the data are based on a sample, they are subject to sampling error. In order to use these statistics properly, the magnitude of the sampling error, measured by the coefficient of variation (CV), should be taken into account. Figure G shows CVs for selected financial data estimates derived from the Form 990-T stratified random sample. 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 G

Coefficients of Variation for Selected Form 990-T Items, by Size of Gross Unrelated Business Income, Tax Year 2004

Size of gross unrelated business income	Number of returns	Gross unrelated business income	Total deductions	Unrelated business taxable income	Total tax
	Coefficient of variation (percentage)				
	(1)	(2)	(3)	(4)	(5)
Total	**0.18**	**0.17**	**0.27**	**0.75**	**0.81**
$1,000 under $10,001 [1]	2.03	3.40	15.34	6.74	7.52
$10,001 under $100,000 [1]	2.20	1.88	2.60	5.75	6.46
$100,000 under $500,000	1.23	1.01	1.23	3.60	4.51
$500,000 or more	N/A	N/A	N/A	N/A	N/A

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

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

Explanation of Selected Terms

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

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

Capital Gain Net Income—Generally, organizations required to file Form 990-T (except organizations tax-exempt under Internal Revenue Code sections 501(c)(7), (9), and (17)) were not taxed on net gains from the sale, exchange, or other disposition of property. However, capital gain net income on sales of debt-financed property, certain gains on the cutting of timber (section 1231), and gains on sales of certain depreciable property (described in Internal Revenue Code sections 1245, 1250, 1252, 1254, and 1255) were considered taxable. Also, any gain or loss passed through from a partnership or S corporation, or any gain or loss on the disposition of S corporation stock by a "qualified tax-exempt" (defined in the explanation of Income (Less Loss) from Partnerships and S Corporations), was taxed as a capital gain or loss. (See the explanation of Investment Income (Less Loss) for information regarding investment income of section 501(c)(7), (9), and (17) organizations.)

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

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

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

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

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

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

Gross Profit (Less Loss) from Sales and Services—This was the gross profit (less loss) from any unrelated trade or business regularly carried on that involved the sale of goods or performance of services. Gross profit (less loss) from sales and services is computed as gross receipts from sales or services, less returns and allowances, minus cost of sales and services.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unrelated Business Income Tax—This was the tax imposed on unrelated business taxable income. It was determined based on the regular corporate or trust income tax rates that were in effect for Tax Year 2004, as shown in the following schedules. 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*.

Tax Rates for Corporations

Amount of unrelated business taxable income is:

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

Tax Rates for Trusts

Amount of unrelated
business taxable income is:

Over—	But not over—	Tax is:	Of the amount over—
$ 0	$1,950	15%	$0
1,900	4,600	$292.50 + 25%	1,950
4,500	7,000	955 + 28%	4,600
6,850	9,550	1,627 + 33%	7,000
9,350	--	2,468.50 + 35%	9,550

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

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

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

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

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

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

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)(27)	State-sponsored workers' compensation reinsurance plans	Pooled employers' funds providing reimbursements to employees for losses arising under workers' compensation acts; also, State-created, -operated, and -controlled organizations providing workers' compensation insurance to employers
529(a)	Qualified State Tuition Plans	State- and agency-maintained plans that allow individuals to purchase credits or certificates, or make contributions to an account, to pay for future educational expenses
530(a)	Coverdell Education Savings Accounts	Fiduciary agent for accounts created for the purpose of paying qualified higher education expenses of a designated beneficiary

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

Table 1. Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Type of Tax-Exempt Organization, Tax Year 2004

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

Type of tax-exempt organization, as defined by Internal Revenue Code section	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit) [3]	Unrelated business taxable income (less deficit) [3]—continued	Unrelated business taxable income [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All organizations	**38,040**	**9,492,228**	**37,883**	**8,979,863**	**30,122**	**512,364**	**18,099**	**1,287,972**	**18,022**	**367,698**
220(e) Archer Medical Savings Accounts	0	0	0	0	0	0	0	0	0	0
401(a) Qualified pension, profit-sharing, or stock bonus plans	339	167,160	317	78,509	314	88,652	288	89,726	288	25,092
408(e) Traditional Individual Retirement Accounts	4,272	45,507	4,224	11,564	4,220	33,943	4,174	34,013	4,093	8,802
408(A) Roth Individual Retirement Accounts	* 66	* 4,603	* 65	* 891	* 49	* 3,712	* 49	* 3,712	* 31	* 920
501(c)(2) Title-holding corporations for exempt organizations [6]	348	109,068	348	127,229	307	-18,161	79	6,655	79	2,102
501(c)(3) Religious, educational, charitable, scientific, or literary organizations	12,395	5,500,597	12,384	5,388,374	9,708	112,223	4,793	636,103	4,801	191,291
501(c)(4) Civic leagues and social welfare organizations	1,712	625,307	1,706	632,287	1,075	-6,980	463	20,620	450	7,051
501(c)(5) Labor, agricultural, and horticultural organizations	2,418	300,659	2,418	300,239	1,840	420	775	28,212	776	7,768
501(c)(6) Business leagues, chambers of commerce, and real estate boards	6,230	1,074,449	6,173	1,005,847	4,256	68,602	2,173	129,657	2,260	40,854
501(c)(7) Social and recreational clubs	6,215	614,775	6,207	584,715	5,257	30,060	3,766	71,233	3,666	16,996
501(c)(8) Fraternal beneficiary societies and associations	775	64,363	775	64,575	571	-212	324	5,044	325	1,164
501(c)(9) Voluntary employees' beneficiary associations	766	632,103	760	414,059	494	218,044	354	237,332	356	59,348
501(c)(10) Domestic fraternal beneficiary societies and associations	375	26,297	375	26,823	293	-526	90	1,822	90	363
501(c)(11) Teachers' retirement fund associations	0	0	0	0	0	0	0	0	0	0
501(c)(12) Benevolent life insurance associations and certain mutual companies	270	85,710	270	85,227	230	483	148	9,670	148	2,679
501(c)(13) Cemetery companies	* 51	* 4,383	* 51	* 3,374	* 45	* 1,010	* 37	* 1,066	* 37	* 241
501(c)(14) State-chartered credit unions	161	72,636	161	88,393	151	-15,757	111	4,982	111	1,460
501(c)(15) Mutual insurance companies	d	d	d	d	d	d	d	d	d	d
501(c)(16) Corporations organized to finance crop operations	0	0	0	0	0	0	0	0	0	0
501(c)(17) Supplemental unemployment benefit trusts	0	0	0	0	0	0	0	0	0	0
501(c)(18) Employee-funded pension trusts	* 7	* 2,103	* 7	* 1,934	* 6	* 169	* 6	* 169	* 6	* 54
501(c)(19) War veterans' posts or organizations	1,608	156,286	1,608	160,349	1,273	-4,063	437	7,157	472	1,291
501(c)(21) Black Lung Benefit Trusts [7]	0	0	0	0	0	0	0	0	0	0
501(c)(22) Withdrawal liability payment funds	0	0	0	0	0	0	0	0	0	0

Footnotes at end of table.

Table 1. Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Type of Tax-Exempt Organization, Tax Year 2004—Continued

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

Type of tax-exempt organization, as defined by Internal Revenue Code section	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit) [3]	Unrelated business taxable income (less deficit) [3]—continued	Unrelated business taxable income [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
501(c)(23) Veterans' associations founded before 1880	0	0	0	0	0	0	0	0	0	0
501(c)(24) Trusts described in section 4049 of ERISA	0	0	0	0	0	0	0	0	0	0
501(c)(25) Title-holding companies with no more than 35 shareholders	d	d	d	d	d	d	d	d	d	d
501(c)(26) High-risk health insurance plans	0	0	0	0	0	0	0	0	0	0
501(c)(27) Workers' compensation reinsurance plans	d	d	d	d	d	d	d	d	d	d
529(a) Qualified State Tuition Plans	d	d	d	d	d	d	d	d	d	d
530(a) Coverdell Education Savings Accounts	0	0	0	0	0	0	0	0	0	0

*Estimate should be used with caution because of the small number of sample returns on which it is based.
d—Data deleted to avoid disclosure of information for specific taxpayers. However, data are included in the appropriate totals.

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.8 billion.

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

[3] Excludes data from 7,918 returns with equal amounts of gross UBI and total deductions.

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

[5] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax, but it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $4.3 million.

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

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

NOTE: Detail may not add to totals because of rounding. See the Appendix to this article for descriptions of the types of tax-exempt organizations filing Form 990-T, by the Internal Revenue Code section describing them.

Table 2. Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Gross UBI, Tax Year 2004

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

Size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit) [3]		Unrelated business taxable income [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total	**38,040**	**9,492,228**	**37,883**	**8,979,863**	**30,122**	**512,364**	**18,099**	**1,287,972**	**18,022**	**367,698**
$1,000 under $10,001 [6]	13,880	57,462	13,795	62,425	11,359	-4,963	8,521	18,029	8,463	3,047
$10,001 under $100,000 [6]	13,283	506,918	13,232	502,631	10,418	4,287	5,239	91,964	5,189	16,593
$100,000 under $500,000	8,173	1,757,769	8,158	1,730,337	6,261	27,431	3,270	223,424	3,257	60,594
$500,000 under $1,000,000	1,254	874,200	1,250	856,810	959	17,390	522	100,930	523	30,160
$1,000,000 under $5,000,000	1,150	2,356,084	1,148	2,238,709	887	117,374	426	319,984	449	97,227
$5,000,000 or more	300	3,939,796	300	3,588,950	238	350,845	121	533,640	140	160,078

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.8 billion.

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

[3] Excludes data from 7,918 returns with equal amounts of gross UBI and total deductions.

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

[5] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $4.3 million.

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

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

Table 3. Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), and Total Tax, by Size of Unrelated Business Taxable Income or Deficit, Tax Year 2004

[All figures are estimates based on samplesmoney amounts are in thousands of dollars]

Size of unrelated business taxable income or deficit	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit)		Total tax [3]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	**38,040**	**9,492,228**	**37,883**	**8,979,863**	**30,122**	**512,364**	**18,022**	**367,698**
Deficit	12,023	3,585,960	12,023	4,361,567	12,023	-775,607	69	2,639
Zero [4]	7,918	2,184,388	7,918	2,184,388	0	0	161	1,624
$1 under $1,000	3,956	54,487	3,956	52,645	3,956	1,842	3,891	273
$1,000 under $10,000	7,623	293,164	7,538	263,739	7,623	29,425	7,514	4,737
$10,000 under $100,000	5,009	826,326	4,958	664,437	5,009	161,889	4,885	29,087
$100,000 under $500,000	1,144	777,180	1,129	542,474	1,144	234,707	1,137	73,580
$500,000 under $1,000,000	158	372,313	154	260,058	158	112,255	158	36,027
$1,000,000 or more	209	1,398,410	207	650,556	209	747,854	207	219,731

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.8 billion.

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

[3] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $4.3 million.

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

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

Table 4. Returns with Positive Unrelated Business Taxable Income: Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income, and Total Tax, by Type of Entity and Size of Gross UBI, Tax Year 2004

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

Type of entity and size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income	Total tax [3]	
			Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
ALL ENTITIES							
Total	**18,099**	**3,721,880**	**17,942**	**2,433,908**	**1,287,972**	**17,792**	**363,436**
$1,000 under $10,001 [4]	8,521	31,172	8,436	13,142	18,029	8,407	2,991
$10,001 under $100,000 [4]	5,239	198,915	5,189	106,950	91,964	5,145	16,263
$100,000 under $500,000	3,270	715,402	3,254	491,978	223,424	3,190	60,282
$500,000 under $1,000,000	522	356,833	518	255,903	100,930	509	30,083
$1,000,000 under $5,000,000	426	859,333	424	539,349	319,984	422	96,742
$5,000,000 or more	121	1,560,225	121	1,026,585	533,640	119	157,074
TAX-EXEMPT CORPORATIONS							
Total	**12,938**	**3,067,437**	**12,851**	**2,224,323**	**843,114**	**12,739**	**254,197**
$1,000 under $10,001 [4]	4,413	18,558	4,356	8,491	10,067	4,355	1,518
$10,001 under $100,000 [4]	4,697	178,419	4,681	103,058	75,361	4,643	11,961
$100,000 under $500,000	2,927	639,785	2,913	475,765	164,020	2,855	42,931
$500,000 under $1,000,000	459	313,015	458	247,082	65,932	446	19,942
$1,000,000 under $5,000,000	340	690,847	340	497,868	192,978	336	63,993
$5,000,000 or more	103	1,226,813	103	892,057	334,755	103	113,852
TAX-EXEMPT TRUSTS							
Total	**5,161**	**654,443**	**5,091**	**209,585**	**444,858**	**5,053**	**109,239**
$1,000 under $10,001 [4]	4,109	12,613	4,080	4,651	7,962	4,052	1,474
$10,001 under $100,000 [4]	543	20,496	508	3,892	16,604	502	4,302
$100,000 under $500,000	342	75,617	341	16,212	59,404	335	17,350
$500,000 under $1,000,000	63	43,818	60	8,821	34,998	63	10,141
$1,000,000 under $5,000,000	86	168,486	84	41,481	127,005	86	32,749
$5,000,000 or more	18	333,413	18	134,528	198,885	16	43,223

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For exempt organizations reporting positive unrelated business taxable income, cost of sales and services was $847.2 million, 71 percent of which was attributable to tax-exempt corporations.

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

[3] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting posititve unrelated business taxable income, total proxy tax was $3.6 million.

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

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

Table 5. Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Primary Unrelated Business Activity or Industrial Grouping, Tax Year 2004

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

Primary unrelated business activity or industrial grouping	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Unrelated business taxable income (less deficit) [3]		Unrelated business taxable income [4]		Total tax [5]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
All activities and groupings	**38,040**	**9,492,228**	**37,883**	**8,979,863**	**30,122**	**512,364**	**18,099**	**1,287,972**	**18,022**	**367,698**
Agriculture, forestry, hunting, and fishing	186	64,062	185	29,353	116	34,709	65	36,463	66	12,469
Mining	230	26,823	224	10,007	199	16,816	199	16,816	199	5,097
Utilities	62	36,349	60	25,824	60	10,525	48	11,129	48	3,523
Construction	41	133,012	41	129,036	34	3,976	* 24	* 4,753	* 24	* 1,490
Manufacturing	217	82,229	217	56,758	175	25,471	151	30,151	152	6,642
Wholesale trade	68	30,739	68	6,043	60	24,696	* 41	* 25,434	* 41	* 8,437
Retail trade	1,308	734,810	1,308	769,698	1,109	-34,888	394	28,247	405	7,916
Transportation and warehousing	65	6,508	65	6,736	* 34	* -228	d	d	d	d
Information	753	220,833	752	219,937	541	896	192	24,378	194	7,896
Finance and insurance, total	10,602	1,809,948	10,464	1,331,246	9,310	478,701	8,142	580,579	7,988	161,042
Unrelated debt-financed activities, other than rental of real estate [6]	964	208,745	935	111,217	890	97,529	794	107,894	792	32,963
Investment activities of Code section 501(c)(7), (9), and (17) organizations [6,7]	3,318	664,790	3,305	426,514	2,786	238,276	2,487	258,922	2,453	63,861
Passive income activities with controlled organizations [6]	391	210,050	389	191,205	319	18,845	246	43,371	250	12,555
Other finance and insurance	5,928	726,362	5,834	602,310	5,315	124,051	4,614	170,392	4,493	51,663
Real estate and rental and leasing, total	6,240	1,089,062	6,233	981,884	5,324	107,178	2,870	198,881	2,876	53,810
Rental of personal property	473	68,786	473	66,582	420	2,205	169	5,902	164	1,487
Other real estate and rental and leasing	5,767	1,020,275	5,760	915,302	4,904	104,973	2,702	192,980	2,712	52,324
Professional, scientific, and technical services	7,985	1,913,396	7,985	1,905,874	5,195	7,521	2,423	131,362	2,503	40,915
Management of companies and enterprises	84	41,137	84	26,664	81	14,473	78	15,910	81	5,202
Administrative and support and waste management and remediation services	782	381,278	782	404,622	631	-23,344	222	23,698	226	7,285
Educational services	62	44,117	62	44,288	47	-171	d	d	d	d
Healthcare and social assistance	977	1,271,260	977	1,335,845	778	-64,585	342	73,889	368	24,283
Arts, entertainment, and recreation	4,562	744,440	4,562	785,839	3,281	-41,400	1,524	38,036	1,499	8,615
Accommodation and food services	2,888	616,011	2,887	664,921	2,389	-48,910	918	29,544	912	7,738
Other services	614	152,414	614	157,919	506	-5,505	270	4,544	272	1,058
Exploited exempt activities	250	88,564	250	83,919	219	4,645	138	7,733	139	2,154
Not allocable	* 63	* 5,239	* 63	* 3,451	* 35	* 1,788	d	d	d	d

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

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

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.8 billion.

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

[3] Excludes data from 7,918 returns with equal amounts of gross UBI and total deductions.

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

[5] Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the $1,000 filing threshold, total proxy tax was $4.3 million.

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

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

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

Table 6. Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2004

[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		Sources of gross unrelated business income (UBI) [1]: Capital gain net income	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
Total	**38,040**	**9,492,228**	**15,889**	**4,854,512**	**1,642**	**360,046**
$1,000 under $10,001 [2]	**13,880**	**57,462**	**2,756**	**9,576**	**804**	**2,146**
$10,001 or more, total [2]	**24,160**	**9,434,766**	**13,133**	**4,844,936**	**838**	**357,900**
$10,001 under $100,000	13,283	506,918	6,412	221,936	347	7,223
$100,000 under $500,000	8,173	1,757,769	4,950	918,683	289	39,770
$500,000 under $1,000,000	1,254	874,200	831	465,679	64	22,247
$1,000,000 under $5,000,000	1,150	2,356,084	730	1,247,017	98	93,560
$5,000,000 or more	300	3,939,796	211	1,991,621	39	195,099

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 [3]		Income (less loss) from partnerships and S corporations	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(7)	(8)	(9)	(10)	(11)	(12)
Total	**115**	**339**	**311**	**11,980**	**6,239**	**572,093**
$1,000 under $10,001 [2]	**0**	**0**	*** 97**	*** 123**	**4,239**	**10,987**
$10,001 or more, total [2]	**115**	**339**	**214**	**11,857**	**2,000**	**561,107**
$10,001 under $100,000	* 52	* 142	79	1,282	877	22,523
$100,000 under $500,000	32	93	64	3,280	638	82,942
$500,000 under $1,000,000	9	38	25	2,505	157	41,445
$1,000,000 under $5,000,000	** 22	** 66	** 45	** 4,791	218	152,433
$5,000,000 or more	**	**	**	**	110	261,763

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]—continued: Rental income [4]		Unrelated debt-financed income		Investment income (less loss) [5]	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(13)	(14)	(15)	(16)	(17)	(18)
Total	**4,313**	**265,970**	**3,120**	**475,467**	**5,531**	**553,539**
$1,000 under $10,001 [2]	**1,135**	**6,474**	**855**	**4,200**	**2,522**	**6,810**
$10,001 or more, total [2]	**3,178**	**259,497**	**2,266**	**471,267**	**3,008**	**546,730**
$10,001 under $100,000	2,078	51,295	1,242	37,340	1,442	20,355
$100,000 under $500,000	831	80,836	744	105,481	1,235	57,489
$500,000 under $1,000,000	143	38,485	110	47,857	202	30,267
$1,000,000 under $5,000,000	92	52,485	128	120,456	111	106,402
$5,000,000 or more	34	36,395	42	160,133	18	332,217

Footnotes at end of table.

Table 6. Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2004—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 [6]		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	**1,005**	**217,923**	**895**	**176,462**	**8,207**	**1,417,249**	**5,351**	**587,324**
$1,000 under $10,001 [2]	**219**	**558**	**153**	**804**	**2,675**	**12,422**	**1,284**	**3,363**
$10,001 or more, total [2]	**786**	**217,365**	**743**	**175,658**	**5,531**	**1,404,827**	**4,066**	**583,960**
$10,001 under $100,000	294	7,226	286	7,162	2,896	83,885	1,969	46,831
$100,000 under $500,000	324	28,364	282	29,657	1,980	286,955	1,591	124,405
$500,000 under $1,000,000	54	13,144	67	20,103	293	144,995	218	47,512
$1,000,000 under $5,000,000	75	45,480	86	56,387	286	341,411	223	138,250
$5,000,000 or more	39	123,152	22	62,349	76	547,582	65	226,962

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

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

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

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

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

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

[5] Reported by Internal Revenue Code section 501(c)(7) social and recreational clubs, section 501(c)(9) voluntary employees' beneficiary associations, and section 501(c)(17) supplemental unemployment benefit trusts only.

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

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

Table 7. Unrelated Business Income Tax Returns: Types of Deductions by Size of Gross Unrelated Business Income (UBI), Tax Year 2004

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

Size of gross unrelated business income (UBI)	All organizations			Organizations with gross unrelated business income (UBI) of $1,000 under $10,001 [3]					
	Total number of returns	Total deductions [1, 2]		Total deductions [2, 4]		Net operating loss deduction		Specific deduction	
		Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**38,040**	**37,883**	**8,979,863**	**13,795**	**62,425**	**931**	**2,253**	**9,435**	**8,979**
$1,000 under $10,001 [3]	13,880	13,795	62,425	13,795	62,425	931	2,253	9,435	8,979
$10,001 under $100,000 [3]	13,283	13,232	502,631	N/A	N/A	N/A	N/A	N/A	N/A
$100,000 under $500,000	8,173	8,158	1,730,337	N/A	N/A	N/A	N/A	N/A	N/A
$500,000 under $1,000,000	1,254	1,250	856,810	N/A	N/A	N/A	N/A	N/A	N/A
$1,000,000 under $5,000,000	1,150	1,148	2,238,709	N/A	N/A	N/A	N/A	N/A	N/A
$5,000,000 or more	300	300	3,588,950	N/A	N/A	N/A	N/A	N/A	N/A

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]—continued								
			Deductions directly connected with UBI						
	Total deductions [2, 5]		Total		Allocable to rental income [6]		Allocable to unrelated debt-financed income [6]		Allocable to investment income [6,7]
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns
	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
Total	**24,088**	**8,917,439**	**22,772**	**8,232,857**	**1,582**	**165,435**	**2,174**	**456,902**	**1,097**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	13,232	502,631	12,294	473,760	976	27,053	1,194	40,469	376
$100,000 under $500,000	8,158	1,730,337	7,863	1,625,248	443	53,428	714	107,623	534
$500,000 under $1,000,000	1,250	856,810	1,211	800,957	75	24,933	106	46,546	115
$1,000,000 under $5,000,000	1,148	2,238,709	1,115	2,096,328	63	35,842	122	127,725	66
$5,000,000 or more	300	3,588,950	288	3,236,564	25	24,178	38	134,539	5

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]—continued								
	Deductions directly connected with UBI—continued								
	Allocable to investment income [6, 7]—continued	Allocable to income from controlled organizations [6]		Allocable to exploited exempt activity income, except advertising [6]		Direct advertising costs [6]		Compensation of officers, directors, and trustees	
	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)
Total	**94,449**	**518**	**163,538**	**685**	**159,345**	**5,149**	**987,739**	**1,980**	**58,940**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	4,585	221	6,719	277	6,328	2,739	64,731	849	7,258
$100,000 under $500,000	5,404	181	15,879	247	24,483	1,794	204,284	861	21,443
$500,000 under $1,000,000	1,808	39	8,942	60	18,180	275	103,624	115	5,856
$1,000,000 under $5,000,000	6,339	49	27,742	81	52,182	272	241,637	117	10,176
$5,000,000 or more	76,313	29	104,256	20	58,171	69	373,463	38	14,207

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]—continued							
	Deductions directly connected with UBI—continued							
	Salaries and wages		Repairs and maintenance		Bad debts		Interest	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)
Total	**10,807**	**1,659,256**	**7,926**	**119,687**	**940**	**46,660**	**3,225**	**68,169**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	4,720	94,953	3,609	12,089	184	591	1,291	7,512
$100,000 under $500,000	4,528	419,821	3,256	37,962	437	3,535	1,460	19,056
$500,000 under $1,000,000	723	189,973	504	16,420	117	1,656	240	8,941
$1,000,000 under $5,000,000	658	443,651	434	22,761	141	13,377	168	14,467
$5,000,000 or more	179	510,857	123	30,455	61	27,500	66	18,193

Footnotes at end of table.

Table 7. Unrelated Business Income Tax Returns: Types of Deductions by Size of Gross Unrelated Business Income (UBI), Tax Year 2004—Continued

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

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]—continued							
	Deductions directly connected with UBI—continued							
	Taxes and licenses paid deduction		Depreciation		Depletion		Contributions to deferred compensation plans	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)
Total	**11,475**	**208,875**	**8,197**	**248,450**	**132**	**3,468**	**1,193**	**13,573**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	5,639	21,055	3,697	19,489	* 96	* 602	420	416
$100,000 under $500,000	4,513	82,969	3,345	70,981	* 27	* 831	533	2,766
$500,000 under $1,000,000	632	29,781	516	33,201	* 4	* 288	126	1,708
$1,000,000 under $5,000,000	537	37,214	487	55,930	** 5	** 1,747	** 114	** 8,683
$5,000,000 or more	154	37,856	153	68,848	**	**	**	**

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]—continued							
	Deductions directly connected with UBI—continued						Deductions not directly connected with UBI, total	
	Contributions to employee benefit programs		Net operating loss deduction		Other deductions			
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)
Total	**5,609**	**239,713**	**3,699**	**309,400**	**14,883**	**3,229,259**	**12,651**	**684,581**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	1,920	6,929	1,693	14,424	7,282	138,557	6,783	28,871
$100,000 under $500,000	2,552	39,619	1,443	54,591	5,593	460,572	4,421	105,089
$500,000 under $1,000,000	490	22,534	231	28,968	908	257,598	694	55,854
$1,000,000 under $5,000,000	495	71,317	260	95,129	855	836,009	578	142,381
$5,000,000 or more	152	99,314	72	116,289	245	1,536,522	175	352,387

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of $10,001 or more [3]—continued							
	Deductions not directly connected with UBI—continued							
	Specific deduction		Charitable contributions		Set-asides [7]		Excess exempt-activity expenses [8]	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(52)	(53)	(54)	(55)	(56)	(57)	(58)	(59)
Total	**10,322**	**9,893**	**2,178**	**61,208**	**326**	**288,520**	**2,557**	**324,960**
$1,000 under $10,001 [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
$10,001 under $100,000 [3]	5,751	5,475	1,012	3,212	* 126	* 2,701	1,178	17,483
$100,000 under $500,000	3,489	3,353	833	11,307	131	23,173	969	67,255
$500,000 under $1,000,000	538	526	136	5,014	26	14,075	170	36,239
$1,000,000 under $5,000,000	422	417	129	10,634	34	48,006	187	83,324
$5,000,000 or more	122	122	69	31,041	9	200,564	53	120,659

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

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

N/A—Not applicable.

[1] Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $2.8 billion.

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

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

[4] Excludes $36.2 million of cost of sales and services reported by organizations with gross UBI of $10,000 or less. See footnote 1 for explanation.

[5] Excludes $2.7 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) social and recreational clubs, section 501(c)(9) voluntary employees' beneficiary associations, and section 501(c)(17) supplemental unemployment benefit trusts only.

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

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

A History of the Tax-Exempt Sector: An SOI Perspective

by Paul Arnsberger, Melissa Ludlum, Margaret Riley, and Mark Stanton

The origins of the tax-exempt sector in the United States predate the formation of the republic. Absent an established Governmental framework, the early settlers formed charitable and other "voluntary" associations, such as hospitals, fire departments, and orphanages, to confront a wide variety of issues and ills of the era. These types of voluntary organizations have continued to thrive in the United States for centuries. In 1831, during his historic visit to the United States, Alexis de Tocqueville observed:

> "Americans of all ages, conditions, and dispositions constantly unite together. Not only do they have commercial and industrial associations to which all belong but also a thousand other kinds, religious, moral, serious, futile…Americans group together to hold fetes, found seminaries, build inns, construct churches, distribute books…They establish prisons, schools by the same method…I have frequently admired the endless skill with which the inhabitants of the United States manage to set a common aim to the efforts of a great number of men and to persuade them to pursue it voluntarily."[1]

Voluntary associations comprised two distinct types of organizations—public-serving and member-serving.[2,3] Early public-serving, or charitable, organizations included schools, churches, and other voluntary organizations designed to provide services to the public. The popularity of voluntary charitable organizations in the United States, even in the midst of strengthening State and Federal governments, suggests that perhaps these organizations, with their well-established structures and programs, were able to fill a gap in social welfare programs where the young Government's efforts proved insufficient. Another suggestion is that many early Americans embraced charitable organizations over Government programs because they feared "the rebirth of monarchy, or bureaucracy."[4]

By the end of the 19th century, private philanthropy, as typified by the modern private foundation, had joined voluntary associations as an important component of the public-serving charitable sector of the United States. The foundation originated from the charitable trust, a tool for giving that became widely used in this period.[5] In the early 20th century, a number of American industrialists, wishing to direct their newly acquired wealth toward a broad range of altruistic endeavors, created private foundations that remain prominent today. Unlike other early charitable organizations, private foundations generally were controlled and funded by a single source, such as an individual, corporation, or family. Andrew Carnegie articulated the vision of these early philanthropists in his essay, "The Gospel of Wealth," where he argued that a wealthy individual should "consider all surplus revenues which come to him simply as trust funds, which he is called upon to administer, and strictly bound as a matter of duty to administer in the manner which, in his judgment, is best calculated to produce the most beneficial results for the community…"[6]

Member-serving associations, including fraternal societies, were also popular among early Americans. The Freemasons, for example, have roots in 17th century England and count a number of this Nation's founding fathers as members. By the 19th century, mutual benefit associations, serving members in areas such as banking and insurance, began to flourish. Additionally, labor and agricultural organizations, established to promote the interests of their members, started to take root across the Nation around this time.

Voluntary associations and philanthropic vehicles continue to coexist and forge a relationship with

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[1] Tocqueville, Alexis de, *Democracy in America* (2003), Penguin Books, London, England, p. 596

[2] For the most part, public-serving organizations are those that are now described under section 501(c)(3) of the Internal Revenue Code. Member-serving organizations are those covered under other subsections of 501(c). Appendix A at the end of this article provides detailed information on organizations exempt under section 501(c).

[3] See: Salamon, Lester M. (1992), *America's Nonprofit Sector: A Primer*, The Foundation Center, New York, NY, p. 14.

[4] Ibid., p. 7.

[5] Chester, Ronald (1982), *Inheritance, Wealth, and Society*, Indiana University Press, Bloomington, Indiana, p. 95.

[6] Carnegie, Andrew (2001), "The Gospel of Wealth," *The Nature of the Nonprofit Sector*, editor J. Steven Ott. Westview Press, Boulder, CO, p. 68.

Government that remains into the 21st century. A significant component of this relationship is Government's recognition of the importance of the charitable and voluntary sector, and the support of its organizations in the form of an exemption from income and certain other taxes. This article explores the legislative history of tax exemption and presents historical data that highlight recent financial trends among tax-exempt organizations.

Legislative History of the Tax-Exempt Sector

The structure of tax exemption granted to the charitable and voluntary sector outlined in the United States Tax Code was developed through legislation enacted between 1894 and 1969. Over that 75-year period, Congress established the basic principles and requirements of tax exemption, identified business activities of tax-exempt organizations that were subject to taxation, and defined and regulated private foundations as a subset of tax-exempt organizations. Figure A shows a timeline of major legislative actions relevant to tax-exempt organizations, while a more complete history can be found in Appendix B at the end of this article.

Early Legislation, 1894-1936

The privileged tax treatment that the Government grants to charitable and member-serving organizations can be traced to the earliest versions of United States tax law. Early tax-exemption regulations developed around three major principles. First, organizations that operated for charitable purposes were granted exemption from the Federal income tax. Second, charitable organizations were required to be free of private inurement—that is, a charitable organization's income could not be used to benefit an individual related to the organization. Finally, an income tax deduction for contributions, designed to encourage charitable giving, was developed.

The Wilson-Gorman Tariff Act of 1894, one of the earliest statutory references to the tax-exempt status enjoyed by charitable organizations, established the requirement that tax-exempt, charitable organizations operate for charitable purposes. While establishing a flat 2-percent tax on corporate income, the act stated "nothing herein contained shall apply to… corporations, companies, or associations organized and conducted solely for charitable, religious, or

Figure A

Major Exempt Organization Legislation, 1894-Present

- **Tariff Act of 1894** - Earliest statutory reference to tax exemption for certain organizations.
- **Revenue Act of 1909** - Introduced language prohibiting private inurement.
- **Revenue Act of 1913** - Established income tax system with tax exemption for certain organizations.
- **Revenue Act of 1917** - Introduced individual income tax deduction for charitable donations.
- **Revenue Act of 1918** - Estate tax deduction for charitable bequests added.
- **Revenue Act of 1934** - Set limits on lobbying activities by charitable organizations.
- **Revenue Act of 1936** - Introduced corporate tax deduction for charitable contributions.
- **Revenue Act of 1943** - Required first Forms 990 to be filed.
- **Revenue Act of 1950** - Established unrelated business income tax.
- **Revenue Act of 1954** - Modern tax code established, including section 501(c) for exempt organizations. Also, limits on political activities established.
- **Revenue Act of 1964** - Raised the limitation on deduction for donations to public charities to 30 percent of adjusted gross income (AGI).
- **Tax Reform Act of 1969** - Established private foundation rules, including a minimum charitable payout requirement and a 4-percent excise tax on net investment income, and raised the limitation on the deduction for donations to operating private foundations and public charities to 50 percent of AGI.
- **Revenue Act of 1978** - Reduced the net investment income excise tax for private foundations to 2 percent.
- **Deficit Reduction Act of 1984** - Raised the limitation on the deduction for donations to nonoperating private foundations to 30 percent of AGI and introduced other more favorable rules for donors to these organizations. Also, exempted certain operating foundations from the net investment income tax and reduced the tax to 1 percent for foundations meeting other requirements.
- **Revenue Reconciliation Act of 1993** - Imposed a proxy tax on certain lobbying and political expenditures made by membership organizations.
- **Tax Payer Bill of Rights 2 (1996)** - Introduced intermediate sanction rules for excess benefit transactions.
- **Tax Payer Relief Act of 1997** - Revoked tax exemption of certain organizations providing commercial-type insurance.
- **Pension Protection Act of 2006** - Required section 501(c)(3) organizations to make their Forms 990-T available for public inspection.

NOTE: For more extensive information, see Appendix B.

educational purposes, including fraternal beneficiary associations." Though the law was declared unconstitutional by the Supreme Court in 1895, the exemption language contained in the act would provide the cornerstone for tax legislation involving charitable organizations for the next century.

The Revenue Act of 1909 mirrored and expanded the language from the 1894 act. Under this statute, tax exemption was granted to "any corporation or association organized and operated exclusively for religious, charitable, or educational purposes, no part of the net income of which inures to the benefit of any private stockholder or individual." This important addition set forth the idea that tax-exempt charitable organizations should be free of private inurement—in other words, nonprofit.

Ratification of the Sixteenth Amendment granted Congress the power to levy income tax. The subsequent Revenue Act of 1913 established the modern Federal income tax system. For charitable organizations, the act used identical language as that found in the Tariff Acts of 1894 and 1909 with regard to charitable purpose and private inurement.

The Revenue Act of 1917 established, for the first time, an individual income tax deduction for contributions made to tax-exempt charitable organizations. This deduction was conceived as a way to encourage charitable contributions at a time when income tax rates were rising in order to fund World War I. One year later, the Revenue Act of 1918 provided that charitable bequests were entitled to a similar deduction on estate tax returns. Finally, corporations were able to claim the charitable deduction beginning in 1936.

The Revenue Act of 1950

Before the 1950s, tax-exempt organizations could earn tax-free income from both mission-related activities and commercial business activities that were unrelated to the purpose for which they were exempt, as long as they used the net profits for exempt purposes. However, in the 1940s, concerns grew in Congress over the perception that tax-exempt organizations were permitted an unfair competitive advantage over taxable entities. As a result, Congress established the "unrelated business income tax" (UBIT) as part of the Revenue Act of 1950. For tax years beginning after December 31, 1950, UBIT was imposed on the "unrelated business income" (UBI) of charitable organizations (except churches); labor and agricultural organizations; chambers of commerce, business leagues, and real estate boards; certain trusts; and certain title holding companies.[7]

Income was considered UBI if it was produced from an activity deemed a "trade or business" that was "regularly carried on" and was not "substantially related" to the organization's exempt purpose(s), regardless of whether or not the profits from the unrelated trade or business were used solely for exempt purposes. Passive income and certain gains and losses from the disposition of property were not subject to tax.

The Revenue Act of 1950 addressed several other issues regarding the unrelated activities of tax-exempt organizations. Tax exemption was no longer permitted to "feeder" organizations, which did not conduct any charitable activities, but rather operated commercial enterprises from which they passed income to a charitable organization. In addition, income from debt-financed real estate sale-leaseback activities was subject to UBIT. In these cases, tax-exempt organizations purchased real estate with borrowed funds, leased the property back to the owner, and used the tax-free rental income to pay off the debt.[8]

The Revenue Act of 1950, and additional changes made under the Tax Reform Act of 1969, discussed in the following section, formed the contemporary structure for the unrelated business taxation of tax-exempt organizations.

Tax Reform Act of 1969

By the 1960s, there was a growing perception among lawmakers that private foundations, with their small networks of financers and administrators, were less accountable to the public than traditional charities. These concerns were addressed with the Tax Reform Act of 1969 (TRA69), which introduced sweeping reforms to the charitable sector. TRA69 also significantly expanded the rules governing unrelated business income taxation of tax-exempt entities.

The first explicit definition of private foundations, for tax purposes, was included in TRA69. This legislation defined a foundation as a charitable orga-

[7] In 1951, Congress extended the UBIT to the unrelated business income of State and municipally owned colleges and universities, to correct for an omission from the 1950 act.
[8] Staff report of the Joint Committee on Taxation, "Historical Development and Present Law of Federal Tax Exemption for Charities and Other Tax-Exempt Organizations" (JCX-29-05) (April 19, 2005).

nization that did not engage in inherently public activities, test for public safety, receive substantial support from a wide array of public sources, or operate in support of any organization that met any of these three requirements.[9] Further, the legislation created two subclasses of private foundations—nonoperating and operating. Nonoperating foundations, which represented the majority of all private foundations, were defined as primarily grantmaking organizations. Conversely, operating foundations were those that operated charitable programs in a manner similar to that of public charities.

TRA69 established an array of more stringent requirements specific to private foundations. These "private foundation rules" outlined two annual requirements and a variety of "prohibited activities" that were considered to be contrary to the public interest. First, TRA69 established an annual excise tax on investment income. This provision was intended to compel private foundations to "share some of the burden of paying the cost of government," particularly the enforcement of regulations related to the tax-exempt sector.[10] Second, nonoperating foundations were required to distribute a minimum amount for charitable purposes each year. Further, private foundations that failed to meet the minimum charitable distribution requirement or engaged in certain prohibited activities were subject to taxes and other sanctions.

TRA69 also increased the existing charitable deduction limits for individual donors and sharpened the definitions of the organizations to which contributions were deductible. Under the Revenue Act of 1964, individuals could deduct contributions made to public charities up to 30 percent of adjusted gross income (AGI). The new regulations enacted under TRA69 increased the maximum deduction limitation for cash and ordinary income contributions to 50 percent for public charities and operating foundations. Most nonoperating private foundations remained subject to a lower 20-percent limitation.[11]

TRA69 also expanded the tax on unrelated business income, extending the tax to all tax-exempt organizations described in IRC sections 501(c) and 401(a) (except United States instrumentalities), and including churches for the first time. Additionally, TRA69 expanded the taxation of debt-financed income to include forms of income other than rents from real estate sale-leaseback arrangements.[12] Since 1969, Congress has made a number of changes to the UBIT statutes. However, the rules on unrelated business taxation of tax-exempt organizations established by the Revenue Act of 1950 and TRA69 have remained largely intact.

Other Legislation, 1970-2007

While the underlying structure of tax exemption for the charitable and voluntary sector has changed little since the passage of TRA69, subsequent legislation has introduced a number of modifications. These include adjustments to the private foundation net investment income tax rates and to the excise tax rates on charitable organizations that engage in prohibited activities. Further changes have provided new exceptions to UBIT taxation for specified activities, tightened the rules pertaining to the taxation of payments received from subsidiaries, and required unrelated business income tax returns filed by IRC section 501(c)(3) organizations to be made publicly available.

Overview of the Statistics of Income Exempt Organization Program

The Internal Revenue Service provides, by Congressional mandate, statistics and microdata derived from information and tax returns filed with IRS. To fulfill this requirement, the Statistics of Income (SOI) division has conducted annual studies of organizations exempt under IRC section 501(c)(3) for every tax year since 1985.[13] Currently, SOI collects information from stratified random samples of Forms 990, 990-PF, 990-T, and the population of Forms 4720.

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[9] Organizations that conduct "inherently public activities" include churches, schools, hospitals, and Governmental units of the United States. For additional information, see Richardson, Virginia G. and John Francis Reilly, "Public Charity or Private Foundation Status Issues under 509(a)(1)-(4), 4942(j)(3), and 507, Fiscal Year 2003," Exempt Organizations Continuing Professional Education. This article is available at www.irs.gov/pub/irs-tege/eotopicb03.pdf.

[10] Staff report of the Joint Committee on Taxation, "General Explanation of the Tax Reform Act of 1969" (JCS-16-70) (December 3, 1970), p. 29.

[11] Deduction limitations for cash and ordinary income contributions to nonoperating foundations later were increased to 30 percent of AGI as part of the Deficit Reduction Act of 1984.

[12] TRA69 expanded taxable debt-financed income to include interest, dividends, other rents, royalties, and certain gains and losses from any type of property, if produced from financial vehicles acquired with borrowed funds.

[13] The first SOI exempt organization studies were based on Forms 990 filed by tax-exempt organizations for Tax Years 1943 and 1946. Data from Forms 990-PF filed by private foundations were first collected for Tax Year 1974.

Keeping Pace with Technology

Since 1918, Statistics of Income (SOI) has collected, compiled, and published information from tax returns for its statistical research studies. Over the years, SOI has made incremental improvements in data processing methods to keep pace with technological advances. The relatively small size of the statistical samples used for SOI's exempt organization (EO) research studies has made these studies ideal for piloting major innovations in return processing, which have been subsequently adopted by other SOI studies.

The first modern SOI exempt organization study was of private foundation information returns, Forms 990-PF, filed for Tax Year 1974. Abstracting and editing data from these information returns relied on a tedious process. First, IRS tax examiners recorded data items from the returns on preprinted forms, called edit sheets. Next, data from these edit sheets were transcribed, read into a mainframe computer, and subjected to data quality and consistency tests. Items that failed the tests were recorded on paper listings, called error registers, which were returned to tax examiners. Based on instructions provided by SOI analysts, tax examiners made handwritten corrections on the listings. These corrections were transcribed, and the data were subjected to further testing. The process was repeated until errors were no longer present. These procedures were quite time-consuming and costly compared to present-day processing.

The Tax Year 1982 Form 990-PF study was a pilot for developing a new online, interactive system of editing, testing, and error resolution. With the new system, tax examiners keyed return information directly into a database via computer screens that were facsimiles of the Form 990-PF. Failed quality and consistency tests were communicated to the user at the time of entry, and corrections were made and retested immediately. The online system streamlined the edit process and improved production rates, and, eventually, all SOI studies adopted similar applications.

continued on page 122

Tax-exempt organizations, other than private foundations, file Form 990, *Return of Organization Exempt from Income Tax*; private foundations file Form 990-PF, *Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation*. Forms 990 and 990-PF are used by these organizations to report standard financial information, as well as information regarding compliance with the regulations that govern their tax-exemption. Charitable and other types of tax-exempt organizations report any unrelated business income and taxes on Form 990-T, *Exempt Organization Business Income Tax Return*. Private foundations, public charities, and split-interest and charitable trusts use Form 4720, *Return of Certain Excise Taxes on Charities and Other Persons under Chapters 41 and 42 of the Internal Revenue Code*, to calculate and pay taxes on prohibited activities and, for private foundations, failure to meet the minimum annual distribution requirement. SOI produces a variety of statistical tables and articles annually for all of the tax-exempt organization programs. Also annually, microdata files that include all information collected from the Form 990 and Form 990-PF samples are made available to the public on the IRS Web site, www.irs.gov/taxstats. Microdata derived from Forms 4720 and the majority of Forms 990-T cannot be disclosed to the public.[14]

SOI samples approximately 10 percent of all Forms 990 and 990-PF, and about 20 percent of all Forms 990-T filed for a given tax year.[15] For any designated tax year, tax-exempt organizations have various 12-month fiscal periods that collectively span 2 calendar years. To ensure complete coverage of a

[14] Under the Pension Protection Act of 2006, IRC section 501(c)(3) public charities and private foundations reporting unrelated business income were required to make their Forms 990-T, *Exempt Organization Business Income Tax Returns*, available for public inspection. However, IRS was not authorized under the Pension Act to disclose this information to the public. The Tax Technical Corrections Act of 2007 corrected for this oversight and authorized IRS to disclose Form 990-T information reported by section 501(c)(3) organizations, retroactive to returns filed after August 17, 2006, the date of enactment of the Pension Act.

[15] For detailed information on Statistics of Income sampling methodology for producing population estimates, see the general Appendix, located near the back of this issue of the *SOI Bulletin*.

single tax year, SOI draws samples of Form 990-series returns over a 2-year timeframe. For example, the Tax Year 2004 studies include returns filed for Tax Year 2004 in Calendar Years 2005 and 2006. The SOI study of Forms 4720 includes data collected for the population of Forms 4720 filed over a calendar year, which may include various tax years.

The SOI files contain most financial items from each return, as well as a number of additional fields dedicated to information about the organizations' structures and activities. The SOI staff enter data into an online system, which identifies filer and other errors that are corrected during the data entry process. Often, supplemental information is included on schedules and other attachments. Where appropriate, information from these attachments is used to adjust or supplement data reported by the filer.

The following sections provide highlights of historical data for charitable and other tax-exempt organizations based on the information and tax returns they filed. The data represent every year for which continuous SOI data are available. This includes Tax Years 1985 through 2004 for public charities and private foundations, filing Forms 990, and 990-PF, respectively. For organizations that file the Form 990-T, data are presented for Tax Years 1990 through 2004. Data are also shown for excise taxes reported on Forms 4720 for Calendar Years 2003 through 2006.

Public Charity and Private Foundation Historical Data, 1985-2004

The charitable sector, comprising both public charities and private foundations exempt from income tax under IRC section 501(c)(3), is a substantial and growing portion of the overall economy. The aggregate book value of assets, as reported by charitable organizations that filed IRS information returns for Tax Year 2004, was $2.5 trillion, a real increase of 222 percent over the total reported for Tax Year 1985.[16] These organizations also reported 171 percent more revenue for Tax Year 2004 than for Tax Year 1985. Public charities and private foundations directed much of this additional revenue into charitable expenditures such as program service activities and grants. Total charitable expenditures reported by these organizations for Tax Year 2004 were 182 percent larger than those reported for Tax Year 1985 and experienced a real annual rate of growth of nearly 6 percent.[17] In contrast, Gross Domestic Product grew at a real annual rate of 3 percent over the period.[18] Figure B shows the cumulative growth in charitable expenditures and GDP for Tax Years 1985 through 2004.

The Seattle-based Bill and Melinda Gates Foundation, currently the largest foundation in the world, was founded in Tax Year 1999 with an initial endowment of $15.8 billion. By Tax Year 2004, the foundation's assets were valued at $28.8 billion, or nearly 6 percent of the aggregate fair market value of total assets held by all private foundations. The $1.3 billion in contributions, gifts, and grants that the foundation distributed in Tax Year 2004 represented 4 percent of the aggregate amount of contributions, gifts, and grants distributed by all private foundations for the year.

Public Charities

Public charities filed over 276,000 information returns for Tax Year 2004. These organizations held more than $2.0 trillion in assets and reported nearly $1.2 trillion in revenue, 70 percent of which came from program services. The statistics reported in this section are based on data compiled from Form 990 and Form 990-EZ, the short form version of the information return that may be completed by smaller organizations.

In order to qualify for tax-exempt status, an organization must show that its purpose serves the public good, as opposed to a private interest. The activities of public charities are limited in that they must further one or more of the purposes for which they were granted tax-exempt status. Organizations that are exempt under IRC section 501(c)(3) are those whose purposes are religious, charitable, scientific, literary, or educational. In practice, these categories cover a broad range of activities. Examples of the varied

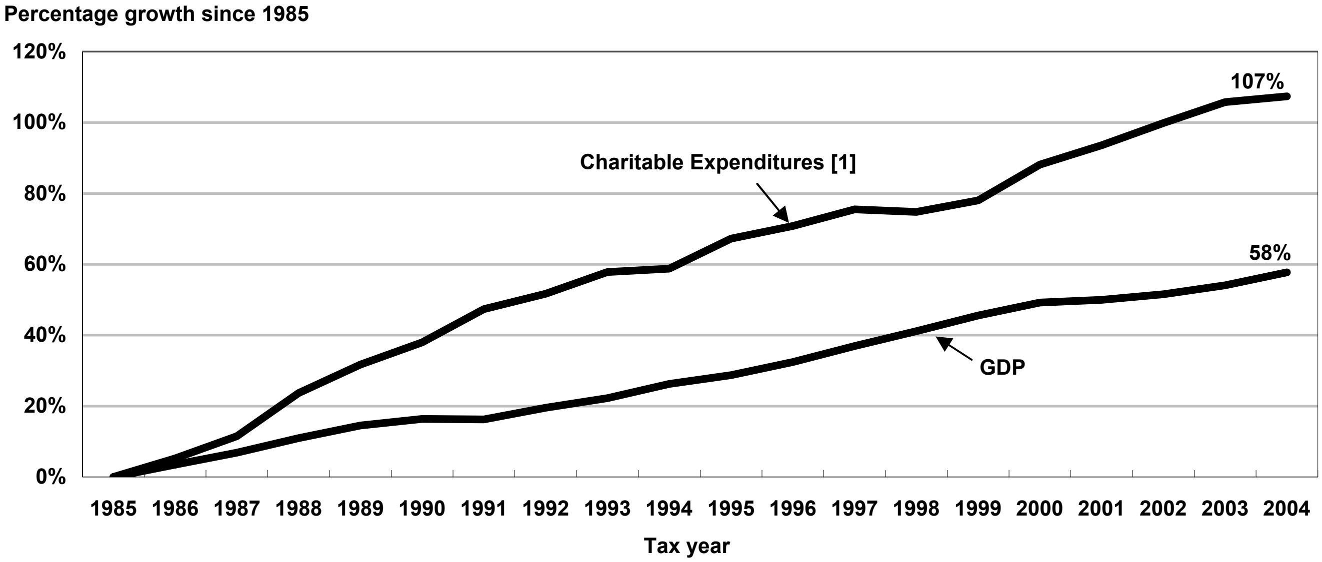
[16] Data presented in constant dollars were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis (BEA). Tax Year 2004 is used as the base year for these adjustments. The indexes are available from BEA's Web site, www.bea.gov.

[17] For purposes of analysis, "charitable expenditures" are defined as the sum of program service expenses from Form 990 and disbursements for charitable purposes from Form 990-PF.

[18] Growth rates were derived from the exponential formula for growth, $y=b*m^x$.

Figure B

Real Growth in Gross Domestic Product and Charitable Expenditures, Cumulative Percentage, Tax Years 1985-2004



[1] Charitable expenditures are defined as the sum of program service expenses from Form 990 and charitable expenses (disbursements for charitable purposes) from Form 990-PF. Public charity data exclude Form 990-EZ filers, most organizations with gross receipts less than $25,000 in current dollars, as well as most churches, and certain other religious organizations.

NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

exempt purposes of these public charities include nonprofit hospitals, educational institutions, youth organizations, community fundraising campaigns, local housing organizations, historical societies, and environmental preservation groups.

The universe of public charities has changed dramatically over the past 2 decades. Figure C shows that, in 1985, the IRS Master File listed approximately 335,000 active public charities, tax-exempt under IRC section 501(c)(3). By 2004, this number had nearly tripled to 933,000. Not all public charities are included in this figure because most churches and certain other religious organizations need not apply for recognition of tax exemption, unless they specifically request an IRS ruling.

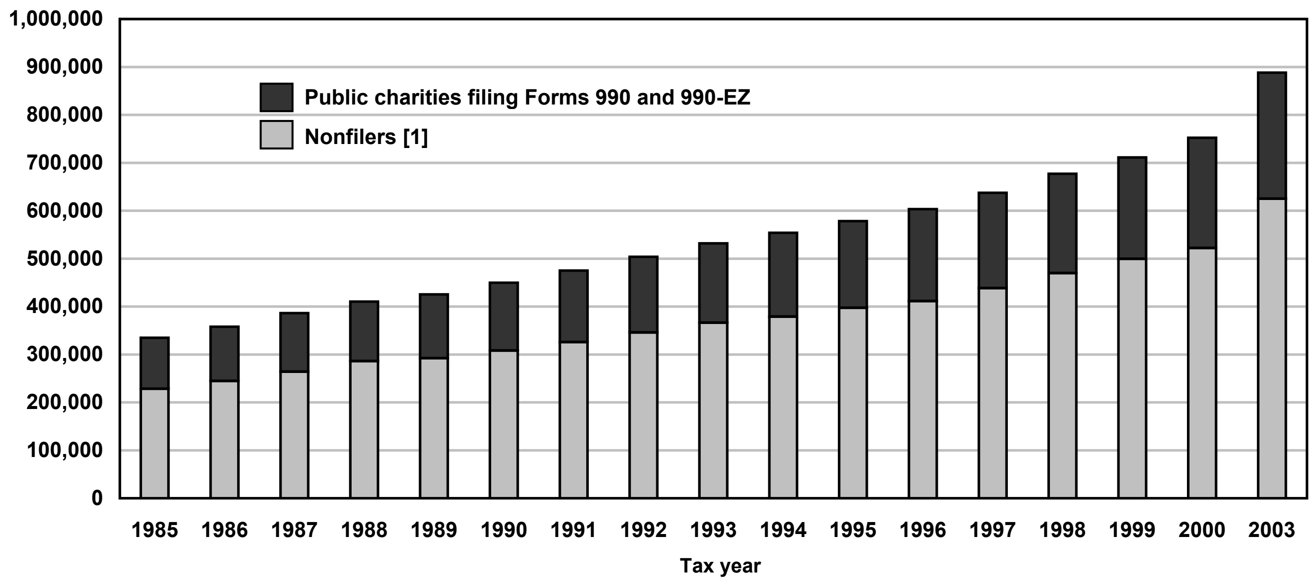
Of the public charities on the IRS Master File, only a fraction must report financial data to the IRS. In addition to churches, organizations with gross receipts less than $25,000 are not required to file annual Forms 990 or 990-EZ. Public charities filed 276,191 information returns with the IRS for Tax Year 2004, 159 percent more than for Tax Year 1985. The difference between the number of active public charities on the IRS Master File and those that filed information returns for Tax Years 1985 through 2004 is illustrated in Figure C.

Public Charity Growth

The 20-year period between Tax Years 1985 and 2004 was one of significant and steady growth for IRC section 501(c)(3) public charities. Figure D shows that, with one notable exception, all of the major financial categories on Forms 990 and 990-EZ—total assets, total liabilities, total revenue, and total expenses—increased in real terms in each of the years during this period. The lone decrease, between Tax Years 1997 and 1998, can be attributed to the absence of Teachers Insurance and Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), two very large teachers' pension organizations that lost their tax exemption as a result of the Taxpayer Relief Act of 1997.

For the most part, components of the major financial categories featured in Figure D also showed steady increases over the 20-year period. Table 2, located at the end of this article, shows that the two major sources of revenue for public charities—program service revenue and contributions, gifts, and

Figure C

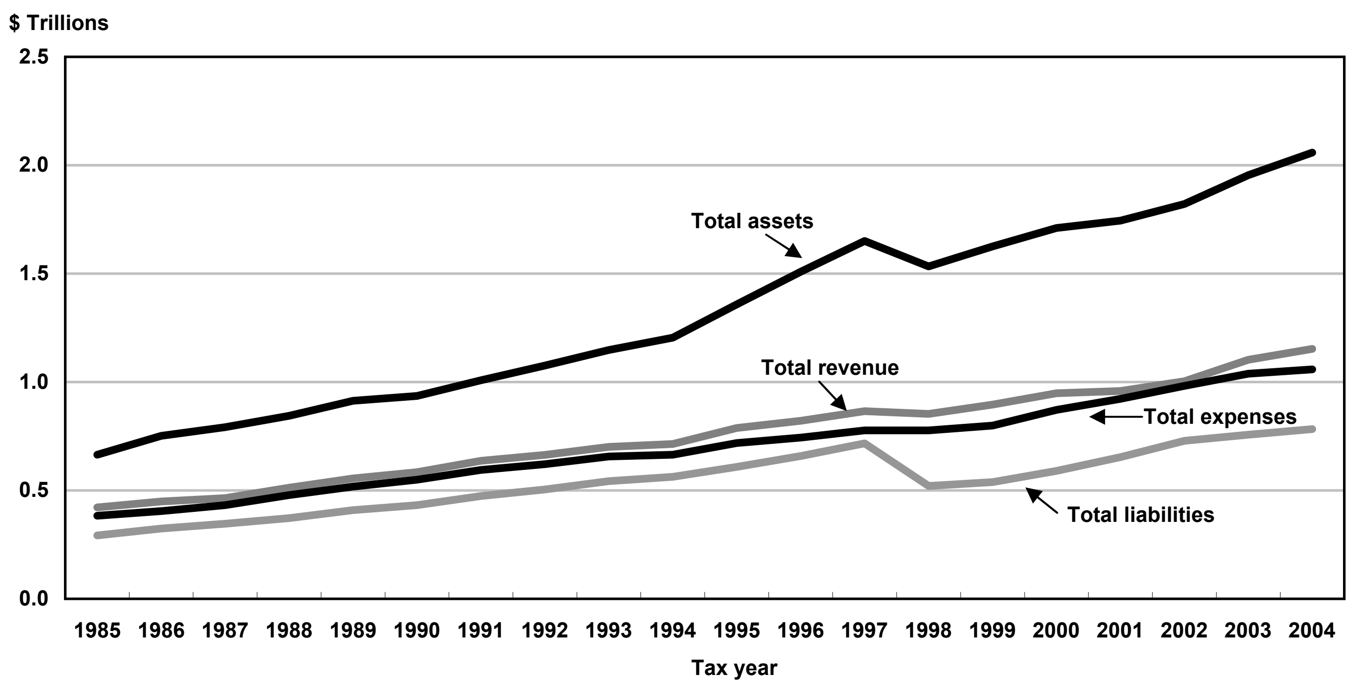


[1] Nonfilers include organizations on the IRS Master file with gross receipts below the $25,000 filing threshold, churches and certain other religious organizations which are not required to file, as well as noncompliant organizations.

NOTE: The number of organizations on the IRS Master File figure was supplied by IRS Tax Exempt Government Entities and does not include private foundations which are required to file Forms 990-PF. The number of organizations filing Forms 990 and 990-EZ are SOI estimates based on samples.

Figure D

Public Charity Growth, Selected Financial Items, in Constant Dollars, Tax Years 1985-2004



NOTES: Data are from Forms 990 (and, beginning with Tax Year 1989, Forms 990-EZ) for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000 in current dollars, as well as most churches, and certain other types of religious organizations. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

grants—increased, in real terms, between each of Tax Years 1985 through 2004. However, other components of revenue were more volatile. For example, investment income, which includes interest from short-term investments and dividends and interest from securities, showed a net increase of 27 percent over the 20-year period, despite a decline of 38 percent between Tax Years 1999 and 2002.

Even though they are considered nonprofit, public charities use net income, the difference between total revenue and total expenses, to expand future programs and increase endowments. Total revenue reported by public charities exceeded total expenses for each tax year between 1985 and 2004, resulting in annual amounts of positive net income. However, unlike other financial variables, net income did not increase steadily over this period. The highest aggregate real net income was reported for Tax Year 1999, over $96 billion. This was followed by a 3-year period in which total expenses increased at a rate faster than total revenue. The result was a 20-year low for aggregate net income: less than $22 billion for Tax Year 2002.

Table 2 at the end of this article presents selected data, in both current and constant dollars, from Forms 990 and 990-EZ filed by public charities for Tax Years 1985 and 2004. Total assets held by these public charities grew, in real terms, by 210 percent, from $665.0 billion in 1985 to $2.1 trillion in 2004. Total revenue and total expenses showed similar trends over the 20-period, with real increases of 174 percent and 176 percent, respectively

The Top Ten Public Charities

Figure E shows the top ten public charities, in terms of total assets, for Tax Years 1985 and 2004. For Tax Year 1985 the top ten organizations reported $107.7 billion in assets. This figure represented over 16 percent of the total assets reported by all IRC section 501(c)(3) public charities for that year. By a significant margin, the largest two organizations for Tax Year 1985 were TIAA and CREF, reporting $36.3 billion and $37.9 billion in assets, respectively, a combined 11 percent of total assets. The remaining organizations include nonprofit hospitals and universities, as well as Commonfund, an organization that manages nonprofit endowments. The top ten for Tax Year 2004 includes many of the same organizations on the 1985 list, with the notable exception of TIAA and CREF, which were no longer tax-exempt. These ten organizations reported $183.4 billion in assets, or 9 percent of the total of all reporting organizations for Tax Year 2004.[19]

Private Foundation Growth

Tax Years 1985 through 2004 also represented a period of significant growth for the private foundation segment of the tax-exempt sector. The wealth realized during the technological revolution of the mid-to-late 1990s was used by a number of philan-

Figure E

Top Ten Public Charities, by Size of Total Assets, in Constant Dollars, Tax Years 1985 and 2004

[All figures are shown in billions of constant 2004 dollars]

1985 Organization	1985 Assets	2004 Organization	2004 Assets
CREF	37.9	Harvard University	55.3
TIAA	36.4	Stanford University	19.0
Harvard University	8.4	Yale University	18.3
Yale University	4.6	Howard Hughes Medical Institute	16.7
Stanford University	4.5	Commonfund	16.6
Columbia University	3.4	Princeton University	13.3
Princeton University	3.3	Kaiser Foundation Hospitals	13.1
Kaiser Foundation Hospitals	3.2	Massachusetts Institute of Technology	10.9
Cornell University	3.1	Shriner's Hospital for Children	9.3
Commonfund	3.0	Columbia University	8.8

NOTES: Data are from Forms 990 for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

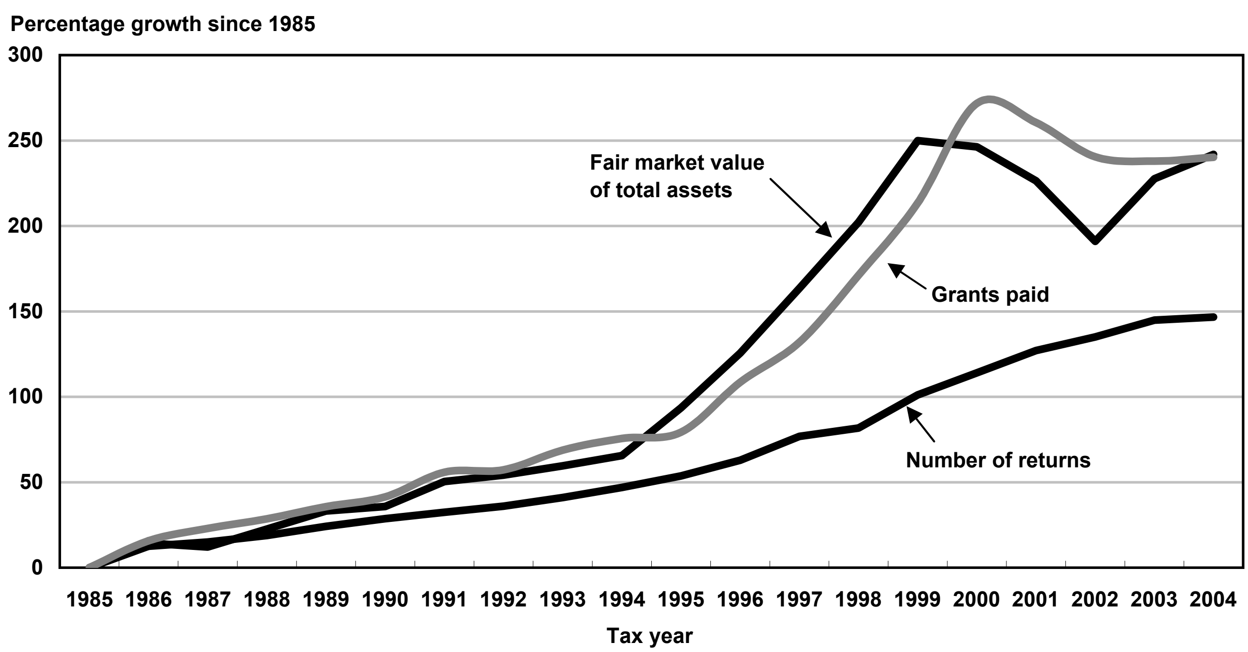
[19] When TIAA and CREF are excluded from the data for Tax Year 1985, the assets of the revised top ten, which included Emory and Vanderbilt Universities, accounted for $38.9 billion, or 7 percent of the total.

thropists to establish and fund new foundations. Additionally, flourishing investment markets benefited existing foundations, particularly those with diverse and sizeable portfolios. This prosperity led to a period of substantially increased giving levels.

Between Tax Years 1985 and 2004, real growth in foundation assets and giving outpaced the number of new foundations that entered the charitable sector. Figure F shows the percentage change in the number of returns filed, fair market value of total assets, and grants paid for each year in the period.[20] The number of private foundations increased substantially, more than doubling between 1985 and 2004. While 31,170 private foundations filed Forms 990-PF for Tax Year 1985, the number of returns filed for Tax Year 2004 was 76,897. The number of new foundations entering the sector grew at the highest rates in Tax Years 1986 and 1999. In 1986, nearly 13 percent more foundations filed Forms 990-PF than for 1985. This increase likely reflected the adoption of several provisions, enacted under the Deficit Reduction Act of 1984 (DEFRA), which allowed more favorable tax treatment for donations to private nonoperating foundations. One provision introduced in DEFRA, which permitted contributors to deduct the full fair market, rather than a reduced value, for donations of certain appreciated stock to nonoperating private foundations, expired in 1994, but was frequently extended until its permanent adoption under the Tax and Trade Relief Extension Act of 1998. Due in part to the economic growth of the mid and late-1990s and, perhaps to some extent, the adoption of the permanent provision for donations of certain appreciated stock, the largest number of new foundations was recorded for Tax Year 1999, when the number of new filers increased by 11 percent from 1998. Meanwhile, the fair market value of total assets more than tripled over the 20-year period. Asset values grew at their highest rates, 15 percent or more, annually, between Tax Years 1995 and 1999, before declining between Tax Years 2000 and 2002. Growth in foundation giving, as measured by grants paid by private foun-

Figure F

Domestic Private Foundations: Growth in Number of Returns Filed, and Real Growth in Fair Market Value of Total Assets, and Grants Paid, Cumulative Percentages, Tax Years 1985-2004



NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

[20] Data used in these analyses are for domestic private foundations and exclude Forms 990-PF filed by foundations that were organized outside of the United States.

dations for charitable purposes, nearly mirrored that of assets, also more than tripling over the 20-year period. Tax Years 1996 through 2000 represented the period of the largest growth in grants paid over the 20-year period.

Foundation Giving

Figure G shows the aggregate values of total charitable expenses and their components, in constant dollars, that private foundations reported for Tax Years 1985-2004. Total charitable expenses included grants paid, as well as operating and administrative expenses. Total charitable expenses increased from $9.7 billion, in constant dollars, to $32.1 billon over the 20-year period. Total charitable expenses experienced double-digit increases in each of Tax Years 1996-2000, growing at a real annual rate of 15 percent over the 5-year period. The real value of these expenses peaked in Tax Year 2000 before leveling off between Tax Years 2001 and 2004.

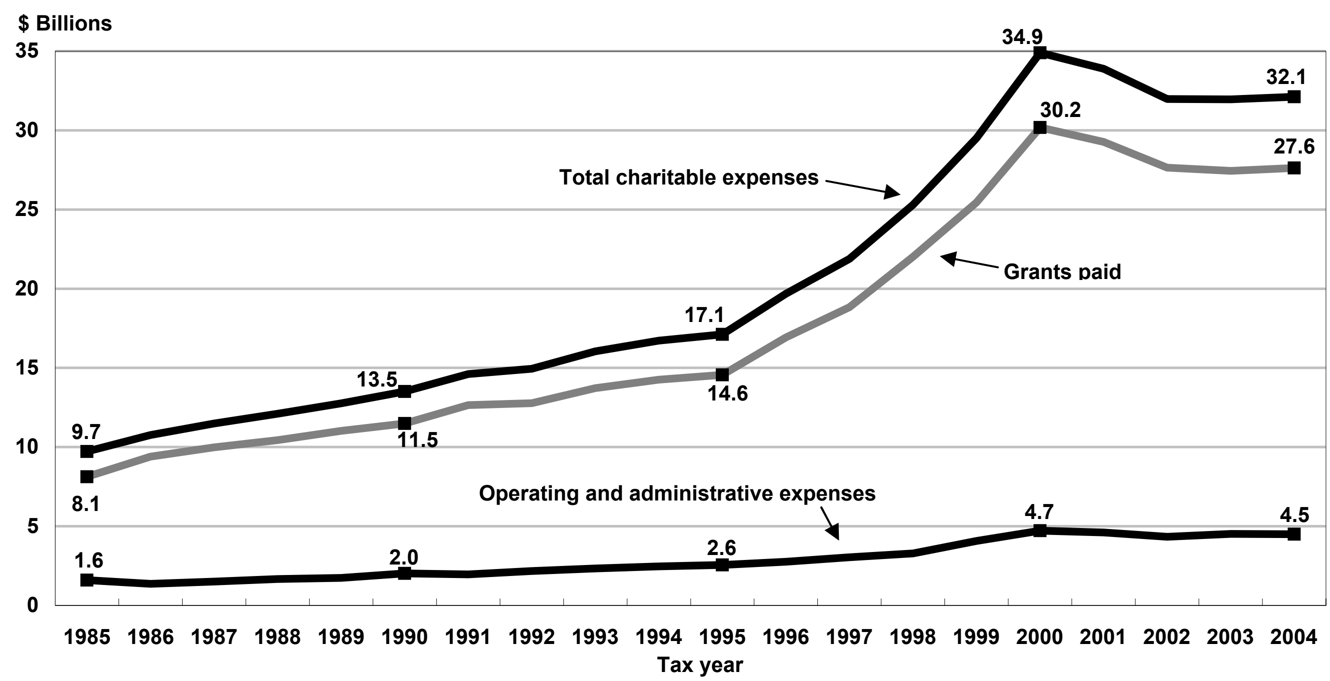
To further their charitable purposes, most private foundations pay grants to charities that operate charitable programs. Grants paid were the largest component of charitable expenditures, representing 84 percent or more of total charitable expenses for each of Tax Years 1985-2004. The aggregate amount of grants paid by private foundations was more than three times larger for Tax Year 2004 than for Tax Year 1985. Like total charitable expenses, the real value of grants paid peaked between Tax Years 1996 and 2000; the real annual growth rate for the 5-year period was 16 percent. Giving for the typical foundation, as measured by the median value of grants paid, also increased, in real terms, over the 20-year period, from $14,130 in Tax Year 1985 to $24,375 in Tax Year 2004.

Foundation Investments and Income

Foundations financed charitable giving primarily with income derived from assets, particularly investment assets, over the 20-year period. The real fair market value of foundations' total investments more than tripled between Tax Years 1985 and 2004, growing from $137.8 billion in Tax Year 1985 to $481.2 billion in Tax Year 2004 (see Figure H). Similarly, the median fair market value of investments held

Figure G

Domestic Private Foundations: Charitable Expenses and Components, in Constant Dollars, Tax Years 1985-2004



NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

Figure H

Domestic Private Foundations: Investment Assets, Revenue, Net Investment Income, and Excise Tax on Net Investment Income, in Constant Dollars, Tax Years 1985 and 2004

[Money amounts are in thousands of dollars]

Item	Tax Year 1985	Tax Year 2004	Real annual rate of growth [1]	Percentage change
	(1)	(2)	(3)	(4)
Total investment assets	137,777	481,177	6.8	249.2
Total revenue	25,423	58,668	4.5	130.8
Net investment income	15,692	34,019	4.2	116.8
Excise tax on net investment income	263	469	3.1	78.1

[1] Growth rates were derived from the exponential formula for growth $y=b*m^x$.

NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

by private foundations more than doubled over the period, growing from $159,349 in Tax Year 1985 to $333,798 in Tax Year 2004. Investment growth was most pronounced in Tax Years 1995 through 1999, when real investment values grew by more than 15 percent, annually.

Net investment income is the realized income that private foundations receive from their investments. In accordance with the regulations enacted under TRA69, private foundations pay an annual tax on this amount. For most domestic foundations, the tax equals 2 percent of net investment income.[21] Net investment income more than doubled, in real terms, between Tax Years 1985 and 2004, increasing from $15.7 billion to $34.0 billion during the period. The associated tax on net investment income also increased, but at a slower rate, growing from $263.1 million in Tax Year 1985 to $468.7 million in 2004. Net investment income and the associated tax reached their highest levels in Tax Year 1999, when they equaled $63.9 billion and $816.0 million, respectively.

Private Foundations' Excise Taxes 2003-2006

The "private foundation rules" outlined in TRA69 prohibit private foundations from engaging in "self-dealing," which is defined as conducting activities that benefit foundation managers, officers, substantial contributors, and other foundation "insiders." Foundations are also prohibited from holding excess interests in a business enterprise, investing in a manner that jeopardizes their charitable purpose, or making "taxable expenditures," which include grants to most noncharitable entities, outlays for lobbying and political activities, and other expenditures that are inconsistent with a foundation's charitable purpose. Private foundations, other charitable organizations, and individuals that engage in prohibited activities or private foundations that fail to meet the annual minimum charitable distribution requirement are required to pay a penalty excise tax on the amount of money involved using Form 4720.

Initial tax rates and tax limits for excise taxes remained constant from 2003 to 2006. Taxes on self-dealing can be imposed on both self-dealers and foundation managers. Acts of self-dealing are taxed at 5 percent of the amount involved for self-dealers, and managers pay 2.5 percent, up to a maximum of $10,000. There is a 10-percent tax imposed on private foundations that make taxable expenditures, while foundation managers pay 2.5 percent up to a maximum of $2,500. Foundations that fail to distribute a minimum amount for charitable purposes are taxed at 15 percent of the undistributed amount. Excess business holdings that are not disposed of within 90 days are taxed at a rate of 5 percent of the taxable amount of excess business holdings. For tax years beginning after August 17, 2006, the Pension Protection Act has doubled the rates and amounts of these excise taxes.

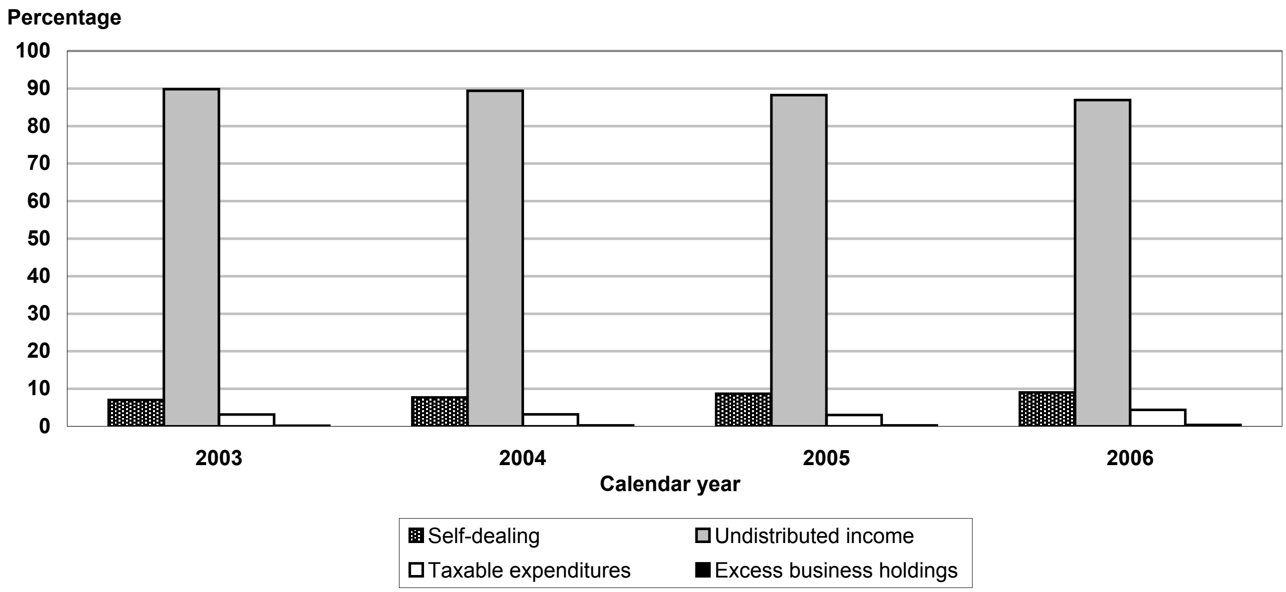
For Calendar Year 2006, private foundations reported $5.3 million in total tax liability on Form 4720, and tax on undistributed income accounted for nearly $3 million.[22] Figures I and J show that, between Calendar Years 2003 and 2006, taxes on

[21] Two reductions for the net investment income tax are available. First, foundations that demonstrate growth in their charitable giving may be eligible for a reduced 1-percent tax rate. Second, operating foundations that meet certain requirements outlined in IRC section 4940 are eligible for a total exemption from the excise tax.

[22] Data in this section represent information from Forms 4720 filed by organizations that identified themselves as Form 990-PF filers. Data for Form 990-PF filers that filed Form 4720 generally represent private foundations, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

Figure I

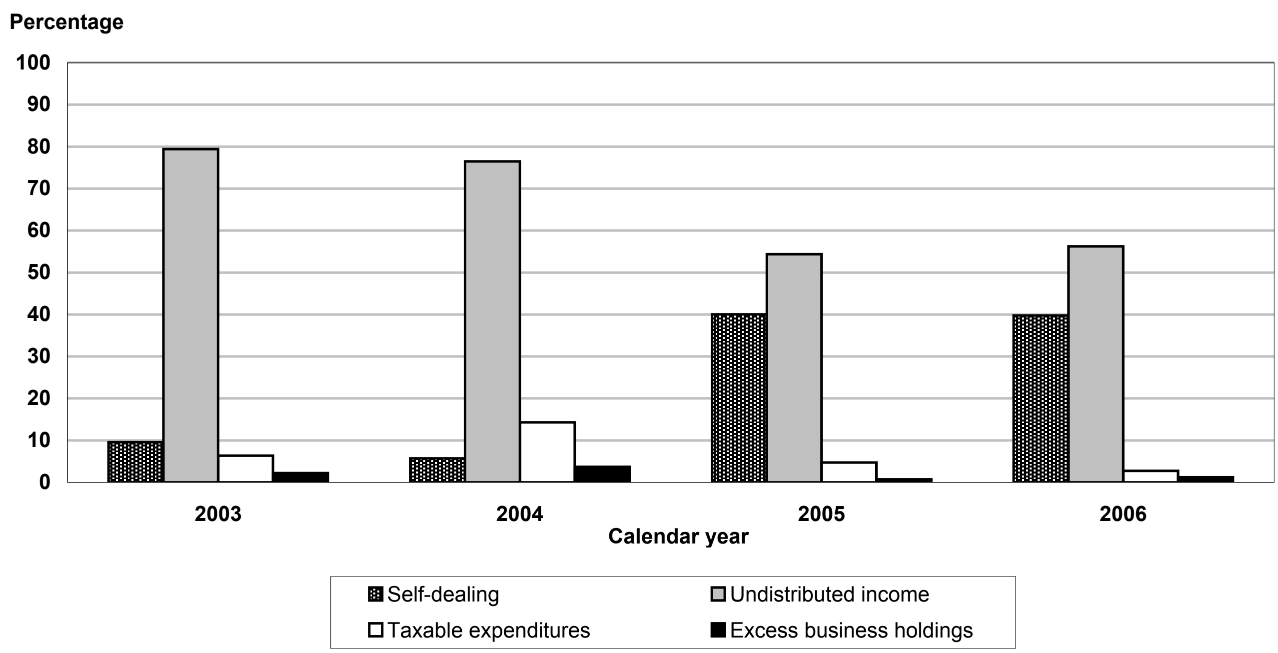
Forms 4720 Filed by Private Foundations, by Taxable Activity, Calendar Years 2003-2006



NOTE: Data represent information from Forms 4720 filed by organizations or associated individuals who identified themselves as Form 990-PF filers. These data generally represent private foundations and associated individuals, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

Figure J

Tax Reported by Private Foundations on Form 4720, by Tax Type, Calendar Years 2003-2006



NOTE: Data represent information from Forms 4720 filed by organizations or associated individuals who identified themselves as Form 990-PF filers. These data generally represent private foundations and associated individuals, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

undistributed income accounted for the majority of total taxes reported on Form 4720 and were the most frequently reported excise tax. From 2003 to 2006, undistributed income fell from $3.5 million to $3 million. The number of filers fell slightly from 1,549 in 2003 to 1,529 in 2006. In 2003, undistributed income accounted for nearly 80 percent of total excise tax reported and 90 percent of filings. By 2006, tax reported for undistributed income accounted for only 56 percent of total excise tax reported. The change in undistributed income as a percentage of total excise tax was a result of a rise in self-dealing taxes reported.

In 2003, self-dealing accounted for $400,000 of the $4.1 million total of reported excise taxes. By 2006, the amount had increased to $2.1 million of the $5.3 million total. As a percentage of total excise tax reported, self-dealing quadrupled from 10 percent to 40 percent. A small number of filers were responsible for this increase. From 2003 to 2006, the median tax on self-dealing actually fell. The number of filers increased from 119 in 2003 to 159 in 2006, although, as a percentage of total filings, self-dealing increased less than a single percentage point each year from 2003 to 2006.

Unrelated Business Income Taxation of Exempt Entities

Tax-exempt organizations may enter into a wide range of tax-free commercial activities, as long as the activities are substantially related to their tax-exempt missions; however, income from unrelated business activities is taxable. Exempt-organization business income taxation was designed to place the unrelated activities of exempt organizations on an equal footing with similar activities carried out by taxable entities. Organizations that are described in IRC sections 501(c)(2)-(27), as well as certain other types of tax-exempt organizations, must file a Form 990-T if they received $1,000 or more of gross income from business activities that were considered unrelated to the purposes for which they received tax-exempt status.[23]

Unrelated Business Income and Tax Historical Data, 1990-2004

During the 15-year period encompassing Tax Years 1990-2004, gross unrelated business income (UBI) of tax-exempt organizations increased overall, in constant dollars, but with periods of decline from 1990 to 1991 and 2000 to 2001. In real terms, the associated aggregate unrelated business income tax (UBIT) of $364.6 million reported by these organizations for 2004 was nearly three times more than the amount reported for 1990. However, between 1990 and 2004, there were periods of erratic swings in annual amounts of UBIT reported. Figures K and L present data for UBI and UBIT, grouping filers into two broad categories, tax-exempt corporations and tax-exempt trusts.[24]

Historically, exempt corporations have represented the majority of Form 990-T filers, accounting for large percentages of total gross UBI amounts reported annually. For 2004, for example, corporate entities made up 85 percent of the Form 990-T filing population and reported nearly 90 percent of total gross UBI. Exempt trusts, despite being much smaller in number and annual shares of total gross UBI reported on Form 990-T, had UBIT exceeding that of corporations for several of the years in the 1990-2004 period.

As a group, tax-exempt trust filers generally comprise pension, profit-sharing, and stock bonus plans; traditional Individual Retirement Arrangements; and voluntary employees' beneficiary associations, all of which typically report investments as their primary source of UBI. For 2004, these three types of organizations accounted for 91 percent of all tax-exempt trust Form 990-T filers. Because a high percentage of tax-exempt trust filers engage primarily in unrelated investment activities, year-to-year changes in time-series data for trust UBI and UBIT appear to closely track financial market performance, rising and falling in tandem with market fluctuations.[25] In addition, because most of

[23] See Appendix A for additional information on the types of organizations exempt under section 501(c). In addition to the organizations described under sections 501(c)(2)-(27), Archer medical savings accounts, exempt under section 220(e); qualified pension, profit-sharing, or stock bonus plans, exempt under section 401(a); traditional and Roth Individual Retirement Arrangements, exempt under sections 408(e) and 408A, respectively; State-sponsored health plans, exempt under section 529(a); and Coverdell education savings accounts, exempt under section 530(a), are also subject to unrelated business income taxation and must file Form 990-T to report gross income from business activities of $1,000 or more.

[24] "Outliers," returns which contained unique characteristics that were considered anomalous to the general population of returns filed for a given year, or returns that contained very large dollar amounts and were not filed consistently over the 15-year period, have been excluded from Figures K and L and are not taken into consideration in the historical analyses presented in this section. In all, there were nine tax-exempt entities that filed at least one return during the 1990-2004 period that was considered to be an outlier. While excluded from the gross UBI and UBIT time series shown in these figures, they are included in the data presented in Tables 6 and 7 at the end of this article.

[25] The Wilshire 5000 Total Market Index and Standard and Poor (S&P) 500 pricing information were used for analyzing possible effects of financial markets on unrelated business taxable income and tax. The Wilshire index can be accessed from www.wilshire.com/quote.html. Historical S&P 500 pricing information can be accessed from www.finance/yahoo.com.

their UBI is from investments, tax-exempt trusts were more limited than most exempt corporations in both the types and amounts of deductions they could claim to offset income, meaning that the proportion of an exempt trust's UBI that is taxable is usually higher than that for corporations. Moreover, from 1990 to 2000, trust income was subject to higher marginal tax rates than UBI earned by corporate exempt entities.[26]

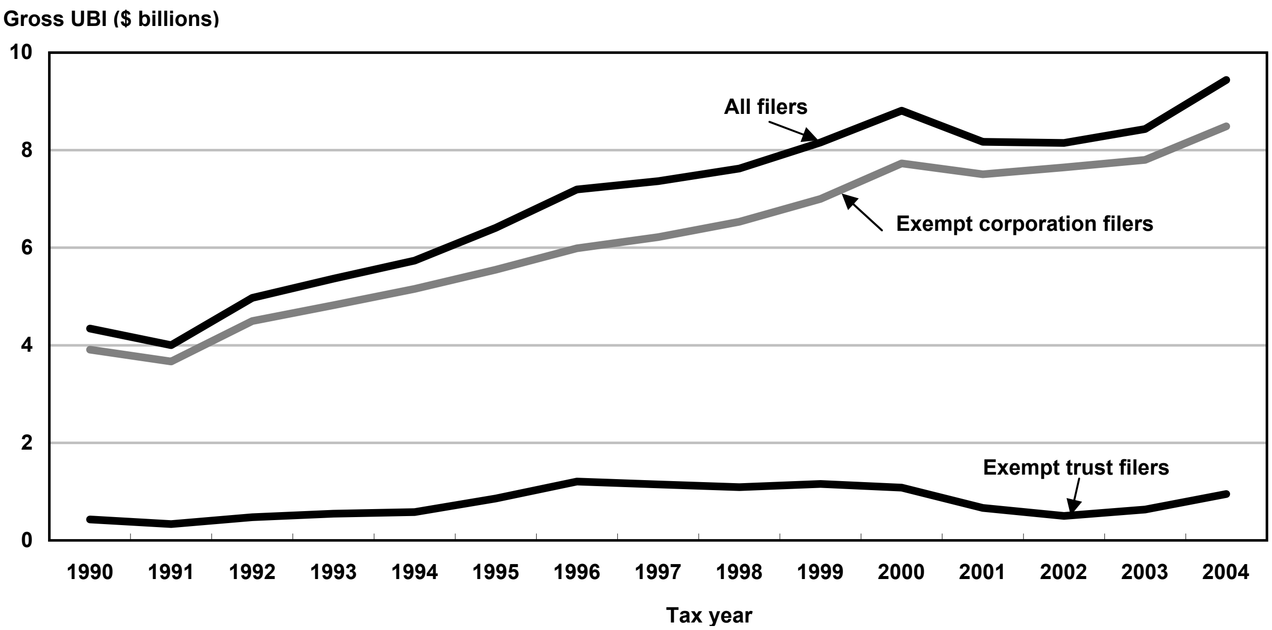
Groups of tax-exempt organizations with typically high concentrations of corporate entities include charitable organizations; civic leagues and social welfare organizations; labor, agricultural, and horticultural organizations; business leagues, chambers of commerce, and real estate boards; recreational and social clubs; and veterans' organizations. Within each of these groups, the percentage of corporate filers ranged from 97 percent for charities to 100 percent for veterans' organizations.

Figure K shows that, overall, gross UBI increased, in constant dollars, almost every year between 1990 and 2004, growing 117 percent over the 15-year period. Similarly, gross UBI reported by tax-exempt corporations, which contributed the majority of the total, experienced fairly consistent year-to-year growth, also increasing 117 percent between 1990 and 2004. In contrast, tax-exempt trusts consistently reported much smaller annual amounts of gross UBI. While the overall increase in exempt trust UBI between 1990 and 2004 was 121 percent, annual amounts were much more volatile, primarily due to fluctuations in investment markets.

Although the amount of aggregate gross UBI reported by tax-exempt organizations increased at a relatively stable rate between 1990 and 2004, the annual UBIT liability amounts shown in Figure L were much more variable.[27] While the total constant-dollar amount of UBIT reported for Tax Year 2004 was 212 percent higher than that reported for 1990, UBIT actually exceeded the 2004 amount for several of the intervening years. In addition, although exempt corporations consistently reported more gross UBI

Figure K

Gross Unrelated Business Income (UBI), in Constant 2004 Dollars, Tax Years 1990-2004



NOTE; Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

[26] The unrelated business income tax was determined based on the regular corporate or trust income tax rates in effect for an organization's tax year. Corporate and trust tax-rate schedules are provided each year in the Form 990-T return instructions.

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

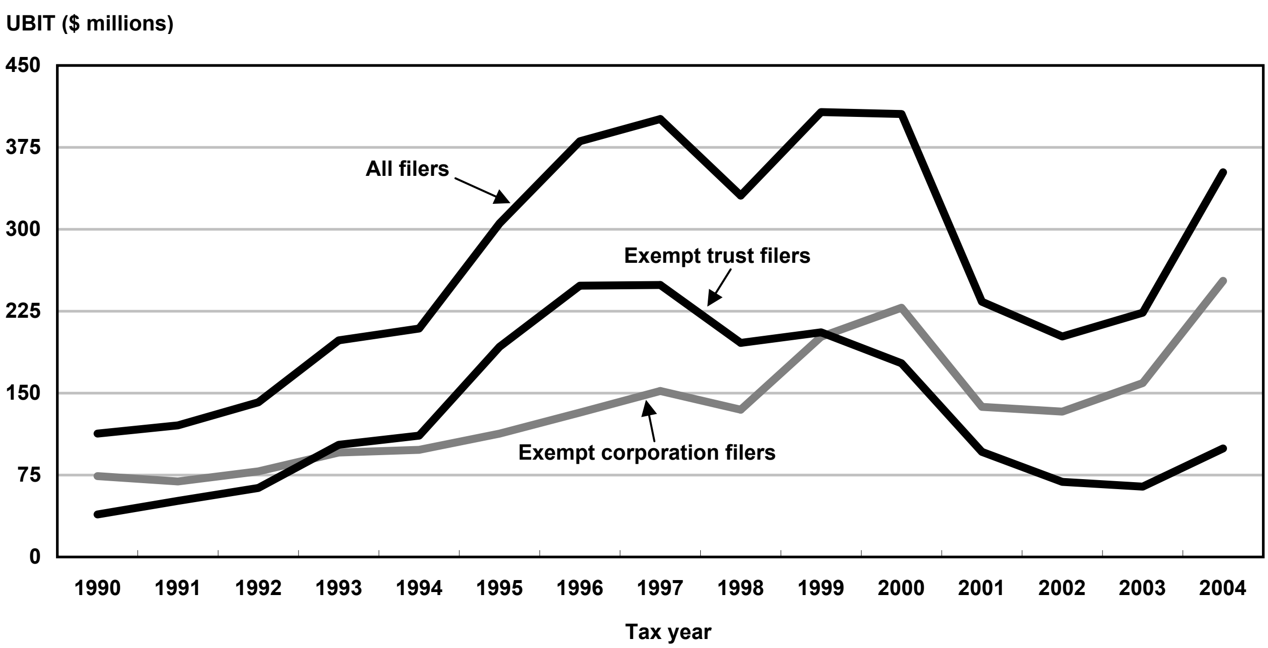
than exempt trusts, this pattern did not hold for UBIT reported by these two types of entities. Corporate UBIT exceeded trust UBIT for the years 1990-1992 and 2000-2004, but trust UBIT was greater from 1993-1999.

Sharp declines in UBIT, in real terms, occurred for Tax Years 1998 and 2001 for all types of organizations shown in Figure L, reflecting a number of factors, primarily volatility in financial markets. Between 1997 and 1998, tax-exempt corporations and trusts both reported aggregate total deductions that increased at rates higher than those at which aggregate gross UBI increased. Further, real capital gain net income (less loss) decreased during the period by 31 percent for tax-exempt corporations and 16 percent for tax-exempt trusts. This contributed to respective declines in tax-exempt corporate and trust UBIT of 11 percent and 21 percent. Due, in part, to an overall decline in gross UBI, the amount of reported UBIT dropped even more sharply between 2000 and 2001, one of only three annual periods of decline in UBI shown in Figure K. Three major slides in stock prices from late 2000 through September of 2001 may have contributed to a drop in capital gain net income (less loss) of 77 percent for exempt corporations and 52 percent for exempt trusts between Tax Years 2000 and 2001. Overall, UBI declined 3 percent for tax-exempt corporations between 2000 and 2001, while deductions increased by 1 percent; trust UBI and deductions fell by 39 percent and 26 percent, respectively. In addition, marginal tax rates applicable to the income of tax-exempt trusts were reduced for 2001, effectively lowering the UBIT of these organizations.

Between 2003 and 2004 the real value of UBIT of all types of organizations shown in Figure L rose steeply, increasing by 59 percent for tax-exempt corporations and 54 percent for tax-exempt trusts. Relatively stable growth in equity prices between 2003 and 2004 likely contributed to increases in capital gain net income (less loss) and combined income from partnerships and S corporations reported by both types of organizations between these years. For tax-exempt corporations, capital gain net income (less loss) increased 105 percent, while combined partnership and S corporation income increased 111 percent. Together, these sources of income accounted for 6 percent of corporate total

Figure L

Unrelated Business Income Tax (UBIT), in Constant Dollars, Tax Years 1990-2004



NOTE: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments.

UBI for 2004. For tax exempt trusts, capital gain net income (less loss) and combined partnership and S corporation income increased 123 percent and 48 percent, respectively, and together accounted for 38 percent of trust gross UBI.

Internal Revenue Code Section 501(c)(3) Charitable Organizations

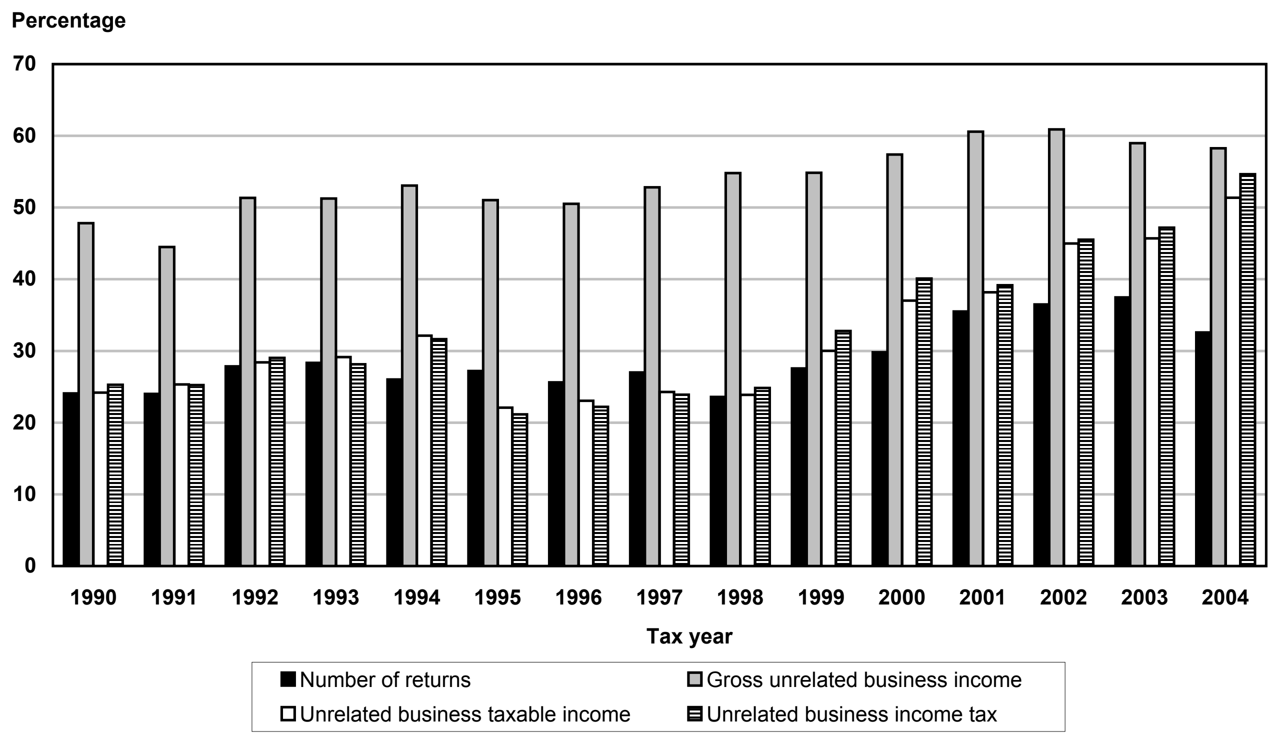
IRC section 501(c)(3) charitable organizations, including public charities and private foundations, generally command more public interest than any other type of organization granted exemption from Federal income tax by the IRS. Compared to other types of Form 990-T filers, classified by IRC section, charitable organizations were responsible for the single largest proportions of gross UBI reported each year from 1990 to 2004. As illustrated by Figure M, in which outliers have been removed, these organizations consistently made up between 25 percent and 35 percent of all 990-T filers and accounted for more than half of the reported amount of gross UBI almost every year. Throughout the 15-year period, however, these charities offset gross UBI with sizable deductions, resulting in much smaller amounts of taxable income. The share of total unrelated business income tax reported by charitable organizations increased over the period, and exceeded 45 percent of overall UBIT liability for each of Tax Years 2002-2004. For 2004, these organizations were liable for more than half of the UBIT reported by all Form 990-T filers. Of those charities that filed Form 990-T for 2004, the majority, 97 percent, were organized as corporations. These corporate charitable organizations represented 37 percent of all tax-exempt corporate entities filing Form 990-T for that year.

Conclusion

Voluntary charitable and member-serving organizations have flourished in the United States since the country's genesis. In the early 20th century, legislation that established the modern income tax system and concurrently granted tax-exempt status to certain organizations codified the relationship between

Figure M

Percentage of Selected Unrelated Business Financial Items Attributable to Internal Revenue Code Section 501(c)(3) Charitable Organizations, Tax Years 1990-2004



the tax-exempt sector and Government. Later, a variety of additional legislation placed important restrictions on tax-exempt organizations, including the taxation of unrelated business income of tax-exempt organizations and the application of more stringent tax regulations to private foundations.

Today, the legislation enacted between 1917 and 1969 remain the cornerstone of tax exemption in the United States. However, the tax-exempt sector has grown substantially over the past 2 decades, and SOI's datasets have tracked and described this growth. The activities of tax-exempt organizations have also broadened, and new types of tax-exempt organizations have emerged. Congress frequently has updated the tax code to reflect this growth and evolution, and the SOI datasets have been a vital tool for policymakers and researchers to measure growth and examine emerging trends throughout the tax-exempt sector, as well as assess the role and impact of the Nation's tax-exempt organizations.

Keeping Pace with Technology—Continued

from page 109

An online data quality review system was introduced for the Form 990 Study for Tax Year 1991. This system, which is still used today, selected an automated, random sample of a tax examiner's completed returns for input by a second tax examiner. It produced a computerized comparison of the original and second versions and a listing of any of discrepancies between the two. After review, a supervisor provided guidance to the tax examiners, and the errors were corrected.

The Tax Year 1999 Form 990-PF study was used as one of the pilots for upgrading the original online editing system to a mouse-driven, graphical user interface (GUI) for navigating through data entry screens. Prior to this upgrade, onscreen navigation was accomplished using the keyboard, with tax examiners forced to navigate through edit screens one item at a time. Because the new GUI system allowed faster navigation through edit screens, it improved user satisfaction and increased production rates of tax examiners, and other SOI projects quickly adopted the technology.

A further advancement to SOI edit systems involved the use of digital images created from paper-filed returns. This upgrade was piloted for the Tax Year 2002 Form 990-PF study. Using wide-aspect computer monitors, the data entry forms were displayed on one side of the screen, and a digital image of the return was displayed on the other. This split-screen method of return processing, which has been well-received by the tax examiners, has significantly reduced resource costs associated with the retrieving, controlling, and handling of paper returns.

The advent of electronically filed returns prompted the latest technological innovation adopted by EO edit systems. Since Tax Year 2003, IRS has allowed tax-exempt organizations to file Forms 990 electronically in Extensible Markup Language (XML). Beginning in 2005, the IRS established a mandatory schedule for electronic filing of Forms 990 and 990-PF by charities and private foundations. For tax years ending on or after December 31, 2006, all public charities with $10 million or more in assets that file at least 250 returns annually, and all private foundations and nonexempt charitable trusts, regardless of asset size, that file 250 or more returns annually are required to file electronically.[28] SOI has incorporated these returns into its data collection systems by creating digital images based on the electronic data, and integrating those images into its existing split-screen edit system. Beginning with Tax Year 2006, SOI will extract data items directly from electronically filed XML data, significantly reducing the amount of data transcription required.

[28] Excise and employment tax returns, as well as wage and income statements required for each employee, are included in the 250-return threshold.

Appendix A
Types of Organizations Exempt under Internal Revenue Code Section 501(c)

IRC section	Description of organization	General nature of activities
501(c)(1)	Corporations organized under an Act of Congress	U.S. instrumentality
501(c)(2)	Title-holding corporations for exempt organizations	Holding title to property for exempt organizations
501(c)(3)	Religious, educational, charitable, scientific, or literary organizations; organizations that test for public safety. Also, organizations that prevent cruelty to children or animals, or foster national or international amateur sports competition	Activities of a nature implied by the description of the class of organization
501(c)(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
501(c)(5)	Labor, agricultural, and horticultural organizations	Educational or instructive groups whose purpose is to improve conditions of work, products, and efficiency
501(c)(6)	Business leagues, chambers of commerce, real estate boards, and like organizations	Improving conditions in one or more lines of business
501(c)(7)	Social and recreational clubs	Pleasure, recreation, and social activities
501(c)(8)	Fraternal beneficiary societies and associations	Lodges providing for payment of life, health, accident, or other insurance benefits to members
501(c)(9)	Voluntary employees' beneficiary associations (including Federal employees' voluntary beneficiary associations formerly covered by section 501(c)(10))	Providing for payment of life, health, accident, or other insurance benefits to members
501(c)(10)	Domestic fraternal beneficiary societies and associations	Lodges, societies, or associations devoting their net earnings to charitable, fraternal, and other specified purposes, without life, health, or accident insurance benefits to members
501(c)(11)	Teachers' retirement fund associations	Fiduciary associations providing for payment of retirement benefits
501(c)(12)	Benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, and like organizations	Activities of a mutually beneficial nature implied by the description of the class of organization
501(c)(13)	Cemetery companies	Arranging for burials and incidental related activities
501(c)(14)	State-chartered credit unions and mutual insurance or reserve funds	Providing loans to members or providing insurance of, or reserve funds for, shares or deposits in certain banks or loan associations
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
501(c)(16)	Corporations organized to finance crop operations	Financing crop operations in conjunction with activities of a marketing or purchasing association
501(c)(17)	Supplemental unemployment benefit trusts	Fiduciary agent for payment of supplemental unemployment compensation benefits
501(c)(18)	Employee-funded pension trusts (created before June 25, 1959)	Providing for payments of benefits under a pension plan funded by employees
501(c)(19)	Posts or organizations of past or present members of the armed forces	Providing services to veterans or their dependents; advocacy of veteran's issues; and promotion of patriotism and community service programs
501(c)(21)	Black Lung Benefit Trusts	Providing funds to satisfy coal mine operators' liability for disability or death due to black lung disease
501(c)(22)	Withdrawal liability payment funds	Providing funds to meet the liability of employers withdrawing from a multiple-employer pension fund
501(c)(23)	Associations of past and present members of the armed forces founded before 1880	Providing insurance and other benefits to veterans or their dependents
501(c)(24)	Trusts described in section 4049 of the Employee Retirement Income Security Act of 1974	Providing funds for employee retirement income
501(c)(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
501(c)(26)	State-sponsored high-risk health insurance plans	Providing coverage for medical care on a not-for-profit basis to residents with pre-existing medical conditions that resulted in denied or exorbitantly priced traditional medical care coverage
501(c)(27)	State-sponsored workers' compensation reinsurance plans	Pooled employers' funds providing reimbursements to employees for losses arising under workers' compensation acts; also, State-created, -operated, and -controlled organizations providing workers' compensation insurance to employers

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

Appendix B

Legislation of Note, 1894-Present

- **The Wilson-Gorman Tariff Act of 1894** established a flat, 2-percent tax on corporate income, but excluded ". . . corporations, companies, or associations organized and conducted solely for charitable, religious, or educational purposes, including fraternal beneficiary associations." The law was declared unconstitutional by the Supreme Court in 1896.

- **The Revenue Act of 1909** established an excise tax on corporate income and included tax exemption in language similar to that introduced in the 1894 act. The 1909 act included the important concept of private inurement, meaning that a charitable organization's income could not be used to benefit an individual related to the organization.

- **The Revenue Act of 1913** established the modern income tax system and included tax exemption and private inurement in language similar to that in the 1909 act.

- **The Revenue Act of 1917** included the introduction of the charitable income tax deduction for individual donors.

- **The Revenue Act of 1918** added organizations operated "for the prevention of cruelty to children or animals" to the list of tax-exempt public charities and added the estate tax charitable deduction for charitable bequests.

- **The Revenue Act of 1921** added both "literary" groups and "any community chest, fund, or foundation" to the list of tax-exempt organizations.

- **The Revenue Act of 1934** set forth limits on lobbying by charitable organizations, stating that "no substantial part" of the organizations' activities can involve "propaganda" or attempts "to influence legislation."

- **The Revenue Act of 1936** expanded the charitable income tax deduction to corporate donors.

- **The Revenue Act of 1943** required certain tax-exempt organizations to file the Form 990 information return with the IRS. A number of organizations, including religious organizations, most schools, and publicly supported charitable organizations, were exempt from this filing requirement.

- **The Revenue Act of 1950** introduced the unrelated business income taxation of tax-exempt organizations.

- **The Revenue Code of 1954** introduced a number of changes to the tax-exempt organization tax law. Most notably, the current structure of the Internal Revenue Code was developed, with section 501(c) describing tax-exempt organizations. Charitable organizations were described under section 501(c)(3) and now included organizations operated for the purpose of "testing for public safety." Following passage of the Revenue Code of 1954, charities were not allowed to "participate in, or intervene in (including the publishing or distributing of statements), a political campaign on behalf of any candidate for public office."

- **The Revenue Act of 1964** increased the charitable income tax deduction for contributions made to publicly supported organizations to 30 percent of adjusted gross income (AGI). Previously, the charitable income tax deduction had been limited to 20 percent of AGI for publicly supported organizations. Prior to the 1964 act, only specific organizations, including churches and many schools, were subject to the 30-percent limitation.

- **The Tax Reform Act of 1969** (TRA69) included significant legislation regarding charitable organizations.

  - TRA69 introduced the first definition of private foundations, for tax purposes, expanded filing requirements for these newly defined organizations, and established the "private foundation rules." Foundations were required to pay an annual excise tax equaling 4 percent of their net investment income. With certain exceptions, taxes were imposed on a nonoperating foundation that failed to distribute, for charitable purposes, the greater of its adjusted net income, excluding long-term capital gains, or its minimum investment return, defined as 6 percent of investment assets, annually. The legislation also prohibited self-dealing, defined as conducting activities that benefit foundation managers, officers, substantial contributors, and other foundation "insiders," and imposed taxes on individuals who engaged in self-dealing activities. Further, in cases of "willful repeated acts or a willful and

Appendix B

Legislation of Note, 1894-Present—Continued

flagrant act" of self-dealing, a foundation could be subject to termination. TRA69 also imposed sanctions on foundations that engaged in a variety of other activities, such as holding excess interests in a business enterprise or investments that jeopardized the foundation's charitable purpose, making taxable expenditures, or violating other requirements.

- TRA69 expanded the tax on unrelated business income, extending the tax to all tax-exempt organizations described in IRC sections 501(c) and 401(a) (except United States instrumentalities), and including churches for the first time.

- The legislation expanded the filing requirements for many tax-exempt organizations. Under the new requirements, all tax-exempt organizations were required to complete annual returns; however, TRA69 exempted certain organizations and activities from this requirement. Churches and their integrated auxiliary organizations were not subject to the new filing requirements. Organizations that normally had gross receipts of $5,000 or less and that previously were not required to file Form 990 were also exempted. Additionally, the "exclusively religious activities of any religious order" were not subject to the reporting requirements, although certain religious organizations were required to report activities that were not religious in nature. Finally, TRA69 permitted additional exclusions to the reporting requirement, to be determined at the discretion of the Treasury Department.

- TRA69 also increased the individual charitable income tax deduction limitation from 30 percent to 50 percent of AGI for contributions made to most charitable organizations. Contributions to nonoperating private foundations generally remained subject to the 20-percent limitation.

- Additionally, TRA69 introduced two important concepts regarding unrelated business taxation of tax-exempt organizations. First, a trade or business activity does not lose its identity as a trade or business merely because it was carried on within a larger aggregate of similar activities or within a larger complex of other endeavors that are related to the exempt purposes of the organization (called the "fragmentation" rule). Second, in order to be considered "related," there had to be a causal relationship between an organization's engaging in a trade or business activity and the performance of the organization's exempt functions. This relationship had to be substantial, and the activities that generated the income must have contributed importantly to the accomplishment of the organization's exempt purpose(s).

- Under TRA69, certain payments of interest, annuities, royalties, and rents from taxable subsidiaries to a tax-exempt parent were subject to UBIT. These types of payments from tax-exempt subsidiaries were taxed to the extent that the subsidiaries' payments were generated from unrelated business income.

- **The Tax Reform Act of 1976** redefined the minimum investment return calculation for private foundations to 5 percent of investment assets.

- **The Revenue Act of 1978** reduced the net investment income tax rate for private foundations to 2 percent.

- **The Economic Recovery Tax Act of 1981** changed the basis for the minimum charitable distribution required of nonoperating foundations from the greater of adjusted net income or minimum investment return to minimum investment return only.

- **The Deficit Reduction Act of 1984** (DEFRA) raised the limit on individual deductions for contributions to nonoperating private foundations from 20 percent to 30 percent of AGI; gifts of capital gain property to nonoperating private foundations remained subject to the 20-percent limitation. DEFRA included a provision to permit nonoperating foundations' donors to carry over contributions that exceeded the 20- or 30-percent limitation for up to 5 years. For a 10-year period ending December 31, 1994, contributors were permitted to deduct the full fair market, rather than a reduced value, for donations of certain appreciated stock to private nonoperating foundations. Additionally, operating foundations that met certain additional criteria were exempted from the excise tax on net investment income. To encourage foundations to make charitable distributions at levels above the minimum required amount, DEFRA included a provision that

Appendix B

Legislation of Note, 1894-Present—Continued

allowed foundations that showed improvement in the amount of charitable distributions made over a 5-year period to be eligible for a 1-percent reduction in the excise tax. Additionally, DEFRA set an upper limit on the amount of administrative expenditures incurred for grantmaking activities that private foundations could count toward the minimum charitable distribution. This limitation was effective for a 5-year period to allow the Treasury Department to study its effects on foundations' charitable distributions. Subsequent research showed that the limitation had little effect on charitable distributions, and the regulation expired at the end of Tax Year 1990.

- **The Revenue Reconciliation Act of 1993** imposed a tax on certain nondeductible lobbying and political expenditures made by membership organizations tax-exempt under IRC sections 501(c)(4), (5), and (6). These organizations were liable for the tax if they did not notify members of the shares of their dues allocated to the nondeductible lobbying expenditures or if they failed to include in the notice the entire amount of dues allocated to the expenditures.

- **The Taxpayer Bill of Rights 2, enacted for 1996**, added "intermediate sanctions" as an alternative to the revocation of an organization's tax-exempt status in instances when a person with substantial influence over the affairs of the organization was found to have engaged in an excess benefit transaction. The rules, which apply to organizations exempt under IRC sections 501(c)(3) and 501(c)(4), require reimbursement of the excess benefit to the organization and payment of excise taxes and interest penalties by disqualified persons and/or organization managers.

- **The Taxpayer Relief Act of 1997** (TRA97) terminated exceptions granted to specific organizations under a Tax Reform Act of 1986 provision that revoked the tax-exempt status of any organization if a substantial part of its activities consisted of providing commercial-type insurance. Under TRA97, tax exemption for the two largest public charities at the time was revoked: the Teachers Insurance Annuity Association and the College Retirement Equities Fund (collectively known as TIAA-CREF). Additionally, TRA97 amended UBIT rules, effective after December 31, 1997, to exempt from unrelated business taxation certain "qualified" sponsorship payments solicited or received by tax-exempt organizations, and to allow charitable organizations and pension, profit-sharing, and stock-bonus plans exempt from tax under section 501(a) to hold shares in an S corporation without the S corporation losing its status as such.

- **The Tax and Trade Relief Extension Act of 1998** made permanent the provision that permitted contributors to deduct the full fair market, rather than a reduced value, for donations of certain appreciated stock to nonoperating private foundations.

- **The Pension Protection Act of 2006** introduced a number of regulatory changes. IRC section 501(c)(3) public charities and private foundations reporting unrelated business income were required to make their Forms 990-T, *Exempt Organization Business Income Tax Returns*, available for public inspection. Organizations with gross receipts less than $25,000 (the Form 990/990-EZ filing threshold) were required to file the Form 990-N, an annual electronic notice also known as the "e-Postcard." Additional filing requirements were placed on supporting organizations, donor-advised funds, and credit counseling organizations. The legislation also doubled excise tax rates on the prohibited activities of private foundations and public charities.

- **Tax Technical Corrections Act of 2007** required the Internal Revenue Service to make available for public inspection all Forms 990-T filed by IRC section 501(c)(3) public charities and private foundations after August 17, 2006, the date the Pension Protection Act of 2006 was enacted. The Pension Act required section 501(c)(3) organizations to publicly disclose their Forms 990-T, but it failed to include language authorizing IRS to do so.

Table 1. Public Charities: Selected Financial Data, in Current Dollars, Tax Years 1985-2004

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

Tax year	Number of returns	Total assets	Total liabilities	Total revenue					Total expenses	Net income
				Total	Program service revenue	Contributions, gifts, and grants received	Investment income [1]	Other		
1985	106,449	423,544	186,390	268,390	167,893	55,771	13,933	30,792	244,214	24,175
1986	113,072	489,180	210,879	292,483	187,934	60,115	13,855	30,579	263,468	29,015
1987	122,018	529,514	231,765	310,766	211,904	61,686	15,194	21,982	288,681	22,085
1988	124,233	583,573	257,645	354,647	239,293	69,062	19,258	27,034	330,815	23,832
1989	133,157	655,426	293,819	398,628	272,134	76,973	21,954	27,567	371,508	27,120
1990	141,757	697,315	321,984	435,567	306,899	85,332	22,697	20,639	409,447	26,120
1991	149,544	777,471	365,706	491,106	344,446	87,462	23,404	35,794	458,739	32,367
1992	157,941	849,324	398,177	523,793	374,804	94,992	23,106	30,891	490,245	33,548
1993	165,599	926,847	438,451	566,067	402,760	103,053	23,227	37,027	530,210	35,857
1994	174,918	993,381	464,034	589,102	422,413	110,724	25,741	30,225	548,166	40,936
1995	180,931	1,143,079	512,383	663,371	443,052	127,743	31,060	61,516	604,645	58,725
1996	192,059	1,293,439	564,566	704,346	467,559	137,666	34,057	65,064	637,917	66,429
1997	198,957	1,438,977	624,978	754,616	486,407	146,171	37,040	84,998	677,143	77,473
1998	207,272	1,351,541	459,188	752,044	502,832	161,751	28,562	58,898	684,566	67,478
1999	211,615	1,453,675	481,444	800,676	518,111	174,992	30,466	77,107	714,487	86,189
2000	230,159	1,562,536	539,367	866,208	579,081	199,076	29,136	58,916	796,434	69,775
2001	240,569	1,631,719	611,390	896,974	630,817	212,427	23,678	30,052	862,721	34,253
2002	251,676	1,733,852	693,576	955,267	691,791	214,484	20,518	28,474	934,672	20,595
2003	263,353	1,899,857	735,600	1,072,171	754,585	229,987	23,594	64,005	1,009,675	62,496
2004	276,191	2,058,610	782,510	1,152,989	801,199	248,570	27,830	75,391	1,058,489	94,500

[1] Includes "interest on savings and temporary cash investments," "dividends and interest from securities," and "other investment income (loss)" from Form 990 and "investment income (loss)" from Form 990-EZ which was introduced for Tax Year 1989.

NOTES: Data are from Forms 990 (and, beginning with Tax Year 1989, Form 990-EZ) for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000 in current dollars, as well as most churches, and certain other types of religious organizations. Detail may not add to totals because of rounding.

Table 2. Public Charities: Selected Financial Data, in Constant Dollars, Tax Years 1985-2004

[All figures are estimates based on samples—money amounts are in millions of constant 2004 dollars]

Tax year	Number of returns	Total assets	Total liabilities	Total revenue					Total expenses	Net income
				Total	Program service revenue	Contributions, gifts, and grants received	Investment income [1]	Other		
1985	106,449	664,965	292,632	421,372	263,592	87,560	21,875	48,344	383,416	37,956
1986	113,072	751,380	323,910	449,254	288,667	92,337	21,281	46,970	404,687	44,567
1987	122,018	791,623	346,489	464,595	316,796	92,221	22,715	32,863	431,578	33,017
1988	124,233	843,847	372,555	512,820	346,018	99,864	27,847	39,091	478,358	34,461
1989	133,157	913,008	409,290	555,289	379,083	107,223	30,582	38,401	517,511	37,778
1990	141,757	935,100	431,781	584,095	411,551	114,430	30,437	27,676	549,068	35,027
1991	149,544	1,007,602	473,955	636,473	446,402	113,351	30,331	46,389	594,526	41,948
1992	157,941	1,076,094	504,490	663,646	474,877	120,355	29,275	39,139	621,140	42,505
1993	165,599	1,147,437	542,802	700,791	498,617	127,580	28,755	45,840	656,400	44,391
1994	174,918	1,204,971	562,873	714,581	512,386	134,308	31,223	36,663	664,925	49,656
1995	180,931	1,357,977	608,711	788,084	526,346	151,758	36,899	73,081	718,319	69,765
1996	192,059	1,508,150	658,284	821,267	545,174	160,518	39,710	75,865	743,811	77,456
1997	198,957	1,650,506	716,850	865,544	557,909	167,658	42,485	97,493	776,683	88,861
1998	207,272	1,533,999	521,179	853,569	570,714	183,588	32,418	66,849	776,982	76,587
1999	211,615	1,625,209	538,254	895,155	579,248	195,641	34,061	86,205	798,796	96,359
2000	230,159	1,710,977	590,607	948,498	634,093	217,988	31,904	64,513	872,095	76,403
2001	240,569	1,744,308	653,576	958,865	674,343	227,084	25,312	32,126	922,249	36,616
2002	251,676	1,822,278	728,948	1,003,986	727,072	225,423	21,564	29,926	982,340	21,645
2003	263,353	1,954,953	756,933	1,103,264	776,468	236,656	24,278	65,861	1,038,955	64,308
2004	276,191	2,058,610	782,510	1,152,989	801,199	248,570	27,830	75,391	1,058,489	94,500

[1] Includes "interest on savings and temporary cash investments," "dividends and interest from securities," and "other investment income (loss)" from Form 990 and "investment income (loss)" from Form 990-EZ which was introduced for Tax Year 1989.

NOTES: Data are from Forms 990 (and, beginning with Tax Year 1989, Form 990-EZ) for nonprofit charitable organizations that are tax-exempt under Internal Revenue Code section 501(c)(3) and exclude private foundations, most organizations with receipts less than $25,000 in current dollars, as well as most churches, and certain other types of religious organizations. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments. Detail may not add to totals because of rounding.

Table 3. Domestic Private Foundations, Selected Financial Data, in Current Dollars, Tax Years 1985-2004

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

Type of foundation and tax year	Number of returns	Total assets (book value)	Total assets (fair market value)			Total revenue	Net investment income	Total expenses
			Total	Investment assets	Securities			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All private foundations								
1985	31,171	71,394	94,996	87,756	73,294	16,193	9,995	7,141
1986	35,081	85,096	110,978	102,339	85,145	19,801	12,252	8,148
1987	35,847	91,411	111,837	103,492	85,355	16,834	11,234	8,928
1988	37,057	102,007	126,437	118,009	97,544	16,112	10,378	9,549
1989	38,719	112,490	142,545	133,646	112,892	19,388	12,022	10,467
1990	40,105	122,412	150,997	142,598	114,969	19,006	11,931	11,285
1991	41,276	134,718	173,121	162,737	136,222	20,194	13,209	12,676
1992	42,383	144,079	181,426	171,439	141,336	22,508	14,078	13,569
1993	43,956	155,626	192,277	180,813	147,594	24,460	15,093	14,579
1994	45,801	169,287	203,644	191,278	158,934	26,503	14,978	15,708
1995	47,917	195,570	242,917	227,077	190,739	30,814	20,355	17,189
1996	50,774	232,565	288,588	268,327	225,087	48,247	26,189	19,852
1997	55,113	280,920	342,689	323,004	272,412	55,460	34,801	22,414
1998	56,658	325,672	397,084	380,531	317,900	59,735	39,313	25,902
1999	62,694	384,565	466,863	444,151	363,442	83,286	57,142	33,876
2000	66,738	409,524	471,646	447,437	361,418	72,780	48,830	37,434
2001	70,787	413,577	455,423	416,715	329,353	45,264	25,719	36,661
2002	73,255	383,516	413,007	377,439	294,385	27,775	17,648	34,392
2003	76,348	418,510	474,952	448,773	344,314	48,391	25,193	35,099
2004	76,897	445,534	509,924	481,177	361,158	58,668	34,019	36,552
Nonoperating private foundations								
1985	28,599	62,561	84,433	80,582	67,401	14,542	9,131	6,275
1986	32,315	75,289	98,926	94,387	78,937	17,819	11,282	7,237
1987	32,688	81,841	100,792	95,963	79,779	15,301	10,443	8,132
1988	33,829	91,497	113,991	108,619	90,839	14,580	9,676	8,702
1989	35,652	101,614	129,241	123,590	105,674	17,809	11,226	9,636
1990	36,880	110,443	136,428	131,138	107,190	16,738	11,126	10,236
1991	37,801	121,277	156,808	151,046	127,354	18,323	12,278	11,548
1992	38,576	129,286	163,768	157,408	131,873	20,310	13,073	12,270
1993	40,166	139,953	173,996	166,588	138,090	22,173	14,068	13,247
1994	41,983	151,151	182,544	174,897	146,979	22,935	13,079	13,945
1995	43,966	174,866	218,343	210,407	177,615	27,543	18,862	15,358
1996	46,066	210,439	262,739	250,170	210,520	44,430	24,421	17,980
1997	50,541	256,409	314,368	300,693	256,081	51,030	32,390	19,990
1998	52,460	297,759	365,036	355,295	299,711	54,711	36,778	23,375
1999	58,840	349,131	426,316	412,420	340,942	74,327	52,367	31,029
2000	61,501	374,990	432,707	417,850	341,662	66,185	45,654	33,565
2001	63,650	379,018	416,810	392,037	311,416	41,214	24,483	32,603
2002	67,101	352,163	377,672	355,263	279,699	24,500	16,666	30,608
2003	70,004	384,941	436,296	419,322	327,980	44,285	24,023	31,929
2004	70,613	410,658	469,389	451,114	344,740	54,072	32,289	33,207
Operating private foundations								
1985	2,571	8,833	10,563	7,174	5,893	1,651	864	866
1986	2,766	9,807	12,052	7,952	6,208	1,982	971	911
1987	3,159	9,570	11,045	7,529	5,576	1,534	791	796
1988	3,227	10,510	12,447	9,390	6,706	1,532	702	847
1989	3,066	10,877	13,304	10,057	7,218	1,579	796	831
1990	3,226	11,969	14,569	11,460	7,779	2,268	805	1,049
1991	3,474	13,442	16,313	11,691	8,868	1,871	932	1,128
1992	3,807	14,793	17,658	14,031	9,463	2,198	1,006	1,299
1993	3,790	15,674	18,281	14,224	9,504	2,287	1,026	1,332
1994	3,818	18,136	21,100	16,381	11,955	3,568	1,899	1,763
1995	3,951	20,705	24,574	16,669	13,124	3,272	1,494	1,831
1996	4,708	22,126	25,849	18,157	14,566	3,817	1,768	1,872
1997	4,572	24,511	28,321	22,311	16,331	4,430	2,411	2,424
1998	4,198	27,912	32,048	25,236	18,189	5,024	2,535	2,526
1999	3,854	35,434	40,547	31,731	22,500	8,959	4,775	2,848
2000	5,238	34,534	38,939	29,587	19,756	6,595	3,177	3,868
2001	7,137	34,559	38,613	24,678	17,937	4,050	1,236	4,058
2002	6,154	31,354	35,335	22,177	14,686	3,275	982	3,785
2003	6,344	33,569	38,655	29,451	16,334	4,106	1,170	3,171
2004	6,284	34,876	40,534	30,063	16,418	4,596	1,731	3,345

Footnotes at end of table.

Table 3. Domestic Private Foundations, Selected Financial Data, in Current Dollars, Tax Years 1985-2004—Continued

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

Type of foundation and tax year	Excess of revenue over expenses	Charitable expenses			Net investment income excise tax	Noncharitable-use assets [1]	Qualifying distributions
		Total	Contributions, gifts, and grants paid	Operating and administrative expenses			
	(9)	(10)	(11)	(12)	(13)	(14)	(15)
All private foundations							
1985	9,053	6,188	5,171	1,017	168	80,425	6,552
1986	11,653	7,004	6,116	888	195	100,938	7,654
1987	7,906	7,685	6,676	1,009	173	108,092	8,117
1988	6,563	8,372	7,218	1,154	141	112,420	8,837
1989	8,921	9,160	7,911	1,249	165	127,695	9,676
1990	7,721	10,069	8,560	1,509	155	136,404	10,520
1991	7,518	11,272	9,762	1,511	170	152,075	11,930
1992	8,939	11,794	10,080	1,714	187	163,984	12,437
1993	9,881	12,952	11,072	1,880	203	176,123	13,705
1994	10,795	13,788	11,755	2,033	188	181,942	14,538
1995	13,626	14,412	12,256	2,156	279	210,033	15,305
1996	28,395	16,881	14,519	2,362	369	245,287	17,850
1997	33,046	19,076	16,421	2,655	502	297,356	19,985
1998	33,833	22,288	19,394	2,894	523	346,059	23,389
1999	49,410	26,402	22,763	3,639	730	407,220	27,604
2000	35,346	31,874	27,564	4,311	625	448,812	33,454
2001	8,602	31,698	27,383	4,315	305	424,028	33,067
2002	-6,618	30,423	26,303	4,120	234	388,845	31,712
2003	13,292	31,058	26,667	4,392	328	408,973	32,780
2004	22,116	32,125	27,625	4,500	469	451,199	33,486
Nonoperating private foundations							
1985	8,267	5,484	5,105	379	163	73,802	5,651
1986	10,582	6,447	6,028	419	191	93,386	6,676
1987	7,169	7,062	6,593	469	169	100,509	7,248
1988	5,878	7,683	7,132	551	137	104,548	7,935
1989	8,173	8,479	7,836	642	161	119,237	8,688
1990	6,503	9,185	8,483	703	151	127,726	9,406
1991	6,775	10,376	9,558	818	165	141,936	10,745
1992	8,040	10,764	9,870	893	182	153,196	11,146
1993	8,926	11,854	10,919	935	199	164,841	12,167
1994	8,990	12,422	11,417	1,005	183	169,190	12,712
1995	12,185	13,034	11,902	1,132	269	194,955	13,379
1996	26,450	15,456	14,183	1,273	357	229,452	15,832
1997	31,040	17,231	15,855	1,376	487	279,163	17,727
1998	31,335	20,569	18,966	1,603	501	326,067	21,189
1999	43,299	24,367	22,335	2,033	686	382,028	25,057
2000	32,619	29,056	26,552	2,505	601	421,273	29,845
2001	8,611	28,882	26,526	2,356	297	397,969	29,785
2002	-6,107	27,911	25,487	2,423	225	368,839	28,727
2003	12,356	28,826	26,116	2,710	316	386,964	29,811
2004	20,865	29,803	27,074	2,729	456	427,732	30,493
Operating private foundations							
1985	785	704	67	637	5	6,624	901
1986	1,071	557	89	469	4	7,552	979
1987	738	623	83	540	4	7,584	868
1988	686	689	86	603	3	7,873	902
1989	748	681	74	607	4	8,458	988
1990	1,219	883	77	806	4	8,679	1,114
1991	743	896	204	692	4	10,139	1,185
1992	899	1,031	210	821	5	10,788	1,291
1993	955	1,098	153	944	5	11,282	1,537
1994	1,805	1,367	339	1,028	5	12,752	1,825
1995	1,440	1,378	354	1,024	10	15,078	1,926
1996	1,945	1,426	336	1,089	12	15,835	2,018
1997	2,006	1,845	566	1,279	15	18,193	2,258
1998	2,498	1,719	428	1,290	22	19,993	2,199
1999	6,111	2,035	428	1,606	43	25,192	2,547
2000	2,727	2,818	1,012	1,806	24	27,539	3,608
2001	-8	2,815	857	1,959	8	26,059	3,282
2002	-510	2,513	816	1,697	9	20,006	2,984
2003	936	2,232	551	1,681	11	22,009	2,969
2004	1,251	2,323	551	1,771	12	23,467	2,993

[1] Noncharitable-use assets, also known as net investment assets, are calculated based on the value of assets not used for charitable purposes.

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

Table 4. Domestic Private Foundations, Selected Financial Data, in Constant Dollars, Tax Years 1985-2004

[All figures are estimates based on samples—money amounts are in millions of constant 2004 dollars]

Type of foundation and tax year	Number of returns	Total assets (book value)	Total assets (fair market value)			Total revenue	Net investment income	Total expenses
			Total	Investment assets	Securities			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All private foundations								
1985	31,171	112,089	149,143	137,777	115,072	25,423	15,692	11,211
1986	35,081	130,707	170,462	157,192	130,783	30,414	18,819	12,515
1987	35,847	136,659	167,196	154,721	127,605	25,168	16,794	13,347
1988	37,057	147,503	182,828	170,641	141,049	23,298	15,007	13,807
1989	38,719	156,699	198,565	186,169	157,259	27,008	16,747	14,581
1990	40,105	164,155	202,487	191,224	154,174	25,487	16,000	15,133
1991	41,276	174,595	224,365	210,907	176,544	26,171	17,119	16,428
1992	42,383	182,548	229,866	217,213	179,072	28,517	17,837	17,192
1993	43,956	192,666	238,039	223,846	182,721	30,281	18,685	18,049
1994	45,801	205,346	247,020	232,020	192,787	32,149	18,169	19,054
1995	47,917	232,337	288,585	269,767	226,597	36,608	24,182	20,420
1996	50,774	271,171	336,494	312,870	262,451	56,256	30,536	23,147
1997	55,113	322,216	393,064	370,486	312,457	63,613	39,917	25,708
1998	56,658	369,637	450,691	431,902	360,817	67,799	44,621	29,399
1999	62,694	429,943	521,953	496,561	406,328	93,114	63,885	37,874
2000	66,738	448,429	516,452	489,944	395,752	79,694	53,469	40,990
2001	70,787	442,113	486,847	445,469	352,078	48,387	27,494	39,191
2002	73,255	403,076	434,070	396,689	309,398	29,191	18,548	36,146
2003	76,348	430,647	488,725	461,787	354,299	49,794	25,924	36,117
2004	76,897	445,534	509,924	481,177	361,158	58,668	34,019	36,552
Nonoperating private foundations								
1985	28,599	98,221	132,559	126,513	105,820	22,831	14,336	9,852
1986	32,315	115,643	151,950	144,978	121,248	27,370	17,328	11,115
1987	32,688	122,352	150,685	143,465	119,270	22,875	15,612	12,157
1988	33,829	132,305	164,830	157,063	131,353	21,082	13,991	12,583
1989	35,652	141,548	180,032	172,161	147,205	24,808	15,638	13,423
1990	36,880	148,104	182,950	175,857	143,741	22,446	14,920	13,726
1991	37,801	157,175	203,223	195,756	165,051	23,746	15,912	14,966
1992	38,576	163,806	207,494	199,436	167,083	25,733	16,563	15,546
1993	40,166	173,261	215,408	206,236	170,955	27,450	17,416	16,400
1994	41,983	183,347	221,425	212,151	178,285	27,821	15,865	16,915
1995	43,966	207,740	259,391	249,964	211,007	32,721	22,408	18,245
1996	46,066	245,372	306,353	291,698	245,467	51,806	28,475	20,965
1997	50,541	294,101	360,580	344,895	293,725	58,531	37,151	22,928
1998	52,460	337,957	414,316	403,260	340,172	62,096	41,743	26,531
1999	58,840	390,328	476,622	461,086	381,173	83,098	58,546	34,690
2000	61,501	410,614	473,814	457,546	374,120	72,472	49,991	36,754
2001	63,650	405,170	445,569	419,088	332,903	44,058	26,172	34,853
2002	67,101	370,123	396,933	373,381	293,964	25,750	17,516	32,169
2003	70,004	396,104	448,949	431,483	337,492	45,569	24,719	32,855
2004	70,613	410,658	469,389	451,114	344,740	54,072	32,289	33,207
Operating private foundations								
1985	2,571	13,868	16,584	11,264	9,252	2,592	1,356	1,359
1986	2,766	15,064	18,512	12,214	9,536	3,044	1,491	1,399
1987	3,159	14,307	16,512	11,256	8,335	2,293	1,182	1,190
1988	3,227	15,198	17,998	13,578	9,696	2,216	1,016	1,224
1989	3,066	15,151	18,532	14,009	10,054	2,199	1,109	1,157
1990	3,226	16,050	19,537	15,368	10,432	3,041	1,079	1,407
1991	3,474	17,420	21,142	15,151	11,493	2,425	1,207	1,462
1992	3,807	18,743	22,372	17,777	11,989	2,785	1,274	1,646
1993	3,790	19,404	22,632	17,610	11,766	2,831	1,270	1,649
1994	3,818	21,999	25,595	19,870	14,502	4,328	2,303	2,138
1995	3,951	24,597	29,194	19,803	15,591	3,887	1,775	2,175
1996	4,708	25,799	30,140	21,172	16,984	4,450	2,061	2,182
1997	4,572	28,114	32,484	25,591	18,732	5,081	2,766	2,780
1998	4,198	31,681	36,375	28,643	20,645	5,703	2,877	2,868
1999	3,854	39,615	45,331	35,475	25,155	10,016	5,338	3,184
2000	5,238	37,815	42,638	32,398	21,633	7,222	3,479	4,236
2001	7,137	36,944	41,278	26,381	19,175	4,329	1,322	4,338
2002	6,154	32,953	37,137	23,308	15,435	3,442	1,032	3,978
2003	6,344	34,543	39,776	30,305	16,807	4,225	1,204	3,263
2004	6,284	34,876	40,534	30,063	16,418	4,596	1,731	3,345

Footnotes at end of table.

Table 4. Domestic Private Foundations, Selected Financial Data, in Constant Dollars, Tax Years 1985-2004—Continued

[All figures are estimates based on samples—money amounts are in millions of constant 2004 dollars]

Type of foundation and tax year	Excess of revenue over expenses	Charitable expenses			Net investment income excise tax	Noncharitable-use assets [1]	Qualifying distributions
		Total	Contributions, gifts, and grants paid	Operating and administrative expenses			
	(9)	(10)	(11)	(12)	(13)	(14)	(15)
All private foundations							
1985	14,213	9,715	8,119	1,596	263	126,268	10,287
1986	17,900	10,758	9,394	1,364	299	155,040	11,757
1987	11,820	11,489	9,980	1,509	259	161,598	12,134
1988	9,491	12,106	10,438	1,668	204	162,560	12,778
1989	12,427	12,760	11,020	1,740	230	177,879	13,478
1990	10,354	13,502	11,479	2,023	208	182,918	14,107
1991	9,743	14,609	12,651	1,958	220	197,090	15,461
1992	11,326	14,943	12,772	2,172	237	207,768	15,757
1993	12,232	16,034	13,707	2,327	251	218,041	16,966
1994	13,095	16,725	14,259	2,466	228	220,696	17,634
1995	16,187	17,121	14,560	2,561	332	249,519	18,182
1996	33,109	19,683	16,929	2,754	431	286,005	20,813
1997	37,904	21,881	18,835	3,046	576	341,067	22,922
1998	38,401	25,297	22,012	3,284	594	392,777	26,546
1999	55,240	29,518	25,449	4,069	816	455,272	30,861
2000	38,704	34,902	30,182	4,720	684	491,449	36,632
2001	9,196	33,885	29,273	4,612	326	453,286	35,349
2002	-6,955	31,975	27,645	4,330	246	408,676	33,329
2003	13,677	31,959	27,440	4,519	337	420,833	33,731
2004	22,116	32,125	27,625	4,500	469	451,199	33,486
Nonoperating private foundations							
1985	12,979	8,610	8,014	595	256	115,868	8,872
1986	16,255	9,902	9,258	644	294	143,441	10,254
1987	10,717	10,558	9,856	701	253	150,261	10,836
1988	8,499	11,109	10,313	796	199	151,176	11,474
1989	11,385	11,811	10,916	895	224	166,097	12,103
1990	8,720	12,317	11,375	942	202	171,280	12,613
1991	8,780	13,447	12,387	1,061	214	183,950	13,926
1992	10,187	13,637	12,506	1,132	231	194,099	14,122
1993	11,050	14,675	13,517	1,158	246	204,073	15,063
1994	10,905	15,067	13,849	1,219	222	205,228	15,420
1995	14,476	15,484	14,140	1,344	320	231,606	15,894
1996	30,841	18,021	16,537	1,484	416	267,541	18,460
1997	35,603	19,764	18,186	1,578	559	320,200	20,333
1998	35,565	23,346	21,526	1,820	569	370,086	24,050
1999	48,408	27,243	24,970	2,273	767	427,107	28,014
2000	35,718	31,817	29,074	2,743	658	461,294	32,681
2001	9,205	30,875	28,357	2,519	318	425,428	31,840
2002	-6,419	29,334	26,787	2,547	236	387,649	30,193
2003	12,714	29,662	26,873	2,789	326	398,186	30,676
2004	20,865	29,803	27,074	2,729	456	427,732	30,493
Operating private foundations							
1985	1,233	1,105	105	1,001	7	10,400	1,415
1986	1,645	856	136	720	5	11,600	1,503
1987	1,103	931	124	807	6	11,337	1,298
1988	991	997	125	872	5	11,384	1,304
1989	1,042	949	104	845	6	11,782	1,376
1990	1,634	1,185	104	1,081	6	11,638	1,494
1991	963	1,162	265	897	5	13,140	1,536
1992	1,139	1,306	266	1,040	6	13,669	1,635
1993	1,182	1,359	190	1,169	6	13,968	1,903
1994	2,190	1,658	411	1,247	6	15,468	2,214
1995	1,711	1,637	420	1,217	12	17,912	2,288
1996	2,268	1,662	392	1,270	14	18,464	2,353
1997	2,301	2,116	649	1,467	17	20,867	2,590
1998	2,835	1,951	486	1,464	25	22,692	2,496
1999	6,832	2,275	479	1,796	49	28,164	2,847
2000	2,986	3,085	1,108	1,977	26	30,155	3,951
2001	-9	3,010	916	2,094	9	27,857	3,508
2002	-536	2,641	857	1,784	9	21,027	3,137
2003	963	2,297	567	1,730	12	22,647	3,055
2004	1,251	2,323	551	1,771	12	23,467	2,993

[1] Noncharitable-use assets, also known as net investment assets, are calculated based on the value of assets not used for charitable purposes.

NOTES: Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments. Detail may not add to totals because of rounding.

Table 5. Excise Tax Data Reported by Private Foundations and Associated Individuals, Calendar Years 2003-2006, in Current Dollars

[All money amount are in current whole dollars]

Item	2003		2004		2005		2006	
	Number of returns [1]	Amount	Number of returns [1]	Amount	Number of returns [1]	Amount	Number of returns [1]	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total tax [2]	**1,681**	**4,156,692**	**1,651**	**7,246,679**	**1,658**	**7,726,515**	**1,759**	**5,316,852**
Individual tax on self-dealing	119	400,275	127	413,501	144	3,094,172	159	2,113,878
Tax on undistributed income	1,549	3,538,275	1,476	5,542,236	1,463	4,200,471	1,529	2,990,274
Tax on taxable expenditures	53	277,420	53	1,035,659	50	364,082	77	145,874
Tax on excess business holdings	4	96,081	4	269,112	4	56,948	7	65,682

[1] The total number of returns may not equal the sum of the number of returns for each tax, as an organization or individual filer may report more than one type of tax per return. Additionally, individual filers may be included on returns filed by organizations.

[2] The total amount of tax may not equal the sum of the amounts for each tax, as certain excise taxes have been excluded to prevent disclosure of individual taxpayer data.

NOTE: Data represent information from Forms 4720 filed by organizations or associated individuals who identified themselves as Form 990-PF filers. These data generally represent private foundations and associated individuals, but include information reported by nonexempt charitable trusts that are treated as private foundations for tax purposes.

Table 6. Exempt Organization Business Income Tax Returns, Selected Financial Data, in Current Dollars, Tax Years 1990-2004

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

Tax year	Number of returns	Gross unrelated business income (UBI)	Total deductions	Unrelated business taxable income (less deficit)	Unrelated business taxable income (UBTI)	Deficit	Unrelated business income tax (UBIT)	Total tax [1]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All organizations								
1990	31,091	3,511	3,513	-2	389	391	99	99
1991	32,690	3,385	3,333	52	431	379	117	117
1992	31,122	4,069	3,960	109	486	377	132	132
1993	32,638	4,694	4,479	215	604	388	180	181
1994	35,657	5,380	5,117	263	643	380	191	195
1995	36,394	6,280	5,787	493	893	400	277	277
1996	40,621	7,295	6,619	676	1,170	494	372	373
1997	39,302	7,809	6,903	906	1,375	469	418	423
1998	46,208	7,585	6,484	1,100	1,670	569	506	464
1999	42,151	7,722	6,835	887	1,485	598	423	422
2000	38,567	8,413	7,703	710	1,427	717	406	403
2001	35,540	7,900	7,883	18	792	774	226	222
2002	35,103	7,776	7,922	-146	647	793	194	193
2003	36,064	8,436	8,413	23	780	757	220	221
2004	38,040	9,492	8,980	512	1,288	776	365	368
Public charities and private foundations								
1990	7,493	1,803	1,886	-83	116	199	33	33
1991	7,846	1,643	1,717	-74	141	215	40	41
1992	8,666	2,312	2,392	-80	162	242	47	47
1993	9,246	2,540	2,618	-78	187	266	55	55
1994	9,277	3,120	3,188	-68	219	287	65	65
1995	9,903	3,583	3,672	-89	202	291	61	59
1996	10,407	4,017	4,049	-32	299	331	94	94
1997	10,614	4,179	4,194	-15	337	352	105	103
1998	10,898	4,127	3,907	220	655	435	216	175
1999	11,614	4,002	4,053	-50	389	439	119	119
2000	11,497	4,780	4,829	-49	469	518	149	146
2001	12,618	4,812	5,080	-268	292	560	86	85
2002	12,803	4,721	5,006	-285	289	574	87	86
2003	13,511	4,833	5,001	-168	352	520	103	102
2004	12,395	5,501	5,388	112	636	524	192	191

[1] Total tax takes into account the unrelated business income tax, minus any tax credits, plus any other types of tax due.

NOTES: Forms 990-T with gross unrelated business income below $1,000 in current dollars, the filing threshold, are excluded from these statistics. Detail may not add to totals because of rounding.

Table 7. Exempt Organization Business Income Tax Returns: Selected Financial Data, in Constant Dollars, Tax Years 1990-2004

[All figures are estimates based on sample—money amounts are in millions of constant 2004 dollars]

Tax year	Number of returns	Gross unrelated business income (UBI)	Total deductions	Unrelated business taxable income (less deficit)	Unrelated business taxable income (UBTI)	Deficit	Unrelated business income tax (UBIT)	Total tax [1]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
All organizations								
1990	31,091	4,708	4,711	-3	522	524	133	133
1991	32,690	4,387	4,320	67	559	491	152	152
1992	31,122	5,155	5,017	138	616	478	167	167
1993	32,638	5,811	5,545	266	748	480	223	224
1994	35,657	6,526	6,207	319	780	461	232	237
1995	36,394	7,461	6,875	586	1,061	475	329	329
1996	40,621	8,506	7,718	788	1,364	576	434	435
1997	39,302	8,957	7,918	1,039	1,577	538	479	485
1998	46,208	8,609	7,359	1,249	1,895	646	574	527
1999	42,151	8,633	7,642	992	1,660	669	473	472
2000	38,567	9,212	8,435	777	1,563	785	445	441
2001	35,540	8,445	8,427	19	847	827	242	237
2002	35,103	8,173	8,326	-153	680	833	204	203
2003	36,064	8,681	8,657	24	803	779	226	227
2004	38,040	9,492	8,980	512	1,288	776	365	368

Tax year	Number of returns	Gross unrelated business income (UBI)	Total deductions	Unrelated business taxable income (less deficit)	Unrelated business taxable income (UBTI)	Deficit	Unrelated business income tax (UBIT)	Total tax [1]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Public charities and private foundations								
1990	7,493	2,418	2,529	-111	156	267	44	44
1991	7,846	2,129	2,225	-96	183	279	52	53
1992	8,666	2,929	3,031	-101	205	307	60	60
1993	9,246	3,241	3,241	-97	232	328	68	68
1994	9,277	3,785	3,867	-82	266	348	79	79
1995	9,903	4,257	4,362	-106	240	346	72	70
1996	10,407	4,684	4,721	-37	349	386	110	110
1997	10,614	4,793	4,811	-17	387	404	120	118
1998	10,898	4,684	4,434	250	743	494	245	199
1999	11,614	4,474	4,531	-56	435	491	133	133
2000	11,497	5,234	5,288	-54	514	567	163	160
2001	12,618	5,144	5,431	-286	312	599	92	91
2002	12,803	4,962	5,261	-300	304	603	91	90
2003	13,511	4,973	5,146	-173	362	535	106	105
2004	12,395	5,501	5,388	112	636	524	192	191

[1] Total tax takes into account the unrelated business income tax, minus any tax credits, plus any other types of tax due.

NOTES: Forms 990-T with gross unrelated business income below $1,000 in current dollars, the annual filing threshold, are excluded from these statistics. Data were adjusted based on the chain-type price index for Gross Domestic Product as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Tax Year 2004 is used as the base year for these adjustments. Detail may not add to totals because of rounding.

Ninety Years of Individual Income and Tax Statistics, 1916-2005

by Scott Hollenbeck and Maureen Keenan Kahr

Since 1916, the Internal Revenue Service (IRS) has been publishing income and tax statistics based on information reported on Federal tax returns filed by U.S. individual taxpayers. These publicly available, annual Statistics of Income (SOI) reports were created shortly after enactment of the modern income tax in 1913. Detailed data for Tax Year (TY) 1916 were reported in the first volume of the annual SOI report, along with a few statistics for 1913-1915.

This article focuses on the regular annual SOI individual income tax return program and the data that have been published over the past 90 years. The article includes a brief history of the Statistics of Income program, as well as a summary of the major tax law changes that have affected individual taxpayers. The article also includes some analysis of the changes, over time, in individual return filings, total income, average tax rate, and the alternative minimum tax. Finally, the article presents historical tabulations, which summarize the individual income tax data that have been reported by SOI over the past 90 years.

Background and History

During the beginning years of the SOI program, the individual income tax tabulations that were included in reports were relatively uncomplicated and few in number. The data that could be presented were largely limited by data items that were reported on the simple tax forms and the lack of modern data processing equipment and technology. Until the late 1920s, the individual income statistics particularly emphasized the tax, the amount of income producing the tax, and the location in which the returns were filed. A major portion of each report was dedicated to showing the number of returns, income, and tax, classified by the size of income for each State. The number of returns filed in each county, city, and town were available for the first 21 years.

The number of users of SOI data increased as many Federal, State, and private economic research organizations were created. As the needs of these new users increased, along with those of tax administrators and the estimators of future tax revenue, many new data items were requested. As a result of meeting these requests, the number of basic tables included in the annual SOI report increased, largely with the introduction of crosstabulations. Added data included items such as detailed sources of income, tax payments, number of exemptions, and standard and itemized deductions, including types of itemized deductions. New classifiers were also added to the reports, including the size of specific income sources and net income.

As technology advanced and computer processing was introduced, more sophisticated tables could be produced. These newer, more complex tables were added to the SOI reports, in order to meet customer needs. The reports were improved to show added detail for the number of returns filed, sources of income, marital status, and for taxable and nontaxable returns. There was more information for types of dependents, types of tax computation, and for several types of tax credits. New classifiers included taxpayers age 65 and older, marginal tax rates, and alternative income concepts. More recently, new classifiers have been added to provide greater detail for taxpayers with higher incomes. In earlier reports, taxpayers with an adjusted gross income (AGI) of $1 million or more were all grouped together. The TY 2000 report was expanded by adding several income classes, up to a new top bracket of taxpayers with AGI of $10 million or more. Additionally, the reports were expanded to show data on new adjustments available to taxpayers, such as deductions for Health Savings Accounts (HSA), tuition and fees, and interest paid on student loans. Details on recent tax credits were added to the reports, including the child tax credit, adoption credit, and education credits.

In the future, the SOI reports will continue to expand to meet the needs of data users. Among the users of SOI data are the Treasury Department's Office of Tax Analysis, the Joint Committee on Taxation of the U.S. Congress, the Bureau of Economic Analysis and the Bureau of the Census (both in the Department of Commerce), private nonprofit research organizations, universities and businesses, as well as many State and local Government agencies. Many SOI statistics are available on the SOI Web site (www.irs.gov/taxstats/) in order to provide data

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on a more timely basis. Some of the material on the Web site has replaced what was previously published in paper reports.

The *Statistics of Income Bulletin* was introduced as a quarterly publication on June 26, 1981. The first report (Volume 1, Number 1) was produced in accordance with the mandate of Internal Revenue Code section 6108 that requires the preparation and publication of statistics reasonably available with respect to the operation of the internal revenue laws. The first *Bulletin* presented preliminary statistics for individual tax returns for 1979 and the first detailed statistics on both sole proprietorships and partnerships for 1978. Each of these three subjects was previously released in a separate report as statistical tables with little underlying analysis. However, the introduction of the *Bulletin* presented a unique opportunity with which timely analytical tax law statistics would be made available to Federal and State governments, academics, and private researchers. More than 25 years later, the *Bulletin* has grown in content and statue to include far-ranging subjects related to individual income tax returns. Such subjects include individual income tax rates and shares, sole proprietorship and farm proprietorship returns, high-income tax returns, individual foreign-earned income and foreign tax credit, and accumulation and distribution of individual retirement arrangements.

Changes in the Law

Since 1913, there has been a fairly steady increase in the number of returns filed, an increase in the amount and types of income reported, as well as more individual income taxes being collected by the IRS. In addition to growth in the U.S. population, real growth in the economy, and price inflation, the driving factors behind these increases have included several major changes in the tax law.

In general, the increased demands for additional revenue in order to finance World War I, World War II, and the Korean conflict resulted in rapid and numerous changes in the tax law. There were many important tax law changes shortly after the enactment of the modern income tax in 1913. Some of the notable changes were the elimination of collection of taxes at the source (1916), credit for dependents and deduction for charitable contributions (1917), and adoption of preferential tax rates on long-term capital gains and introduction of the gross income filing requirements (1921). In 1939, the Internal Revenue Code was created, and all revenue laws in effect at that time were consolidated into a single statute.

The most drastic revisions to the tax laws occurred in the early 1940s when the individual income tax was broadened to cover most of the working population. Prior to that period, exemptions were high enough that most taxpayers did not earn enough to fall into even the lowest tax bracket. Starting in the 1960s, there were several tax law changes affecting individuals that, in addition to revenue objectives, reflected a concern with social objectives. A few examples of tax law changes with social objectives are the earned income credit (EIC), education credits, and deductions for health savings accounts. A brief summary of the major tax law changes affecting individual income tax returns beginning in 1943 is provided in Figure A.

Number of Returns

The number of individual tax returns filed for 1913 through 2005 is displayed in Figure B. During the first 4 years of the modern income tax, the number of individual tax returns filed ranged from approximately 330 thousand to 440 thousand. As a result of the previously mentioned tax law changes in 1916 and 1917, the number of returns filed rose to nearly 3.5 million in 1917. Over the following 22 years, the number of returns ranged from approximately 4.1 million to 7.7 million.

The introduction of lower income filing requirements for 1940 caused the number of returns to nearly double to 14.7 million. The number of returns filed surpassed 50 million for the first time in 1946 and increased to a little more than 60 million by 1959. During the 1960s and again in the 1970s, the number increased by an average of approximately 16 million returns to reach almost 94 million in 1980. In 1985, the number of individual filers increased to more than 100 million. Since that time, the steady growth in the number of returns has mirrored the general population growth of the U.S., reaching a new high of more than 134 million returns in 2005.

Total Income

Statistics of Income reports currently present annual data based on the concept of adjusted gross income

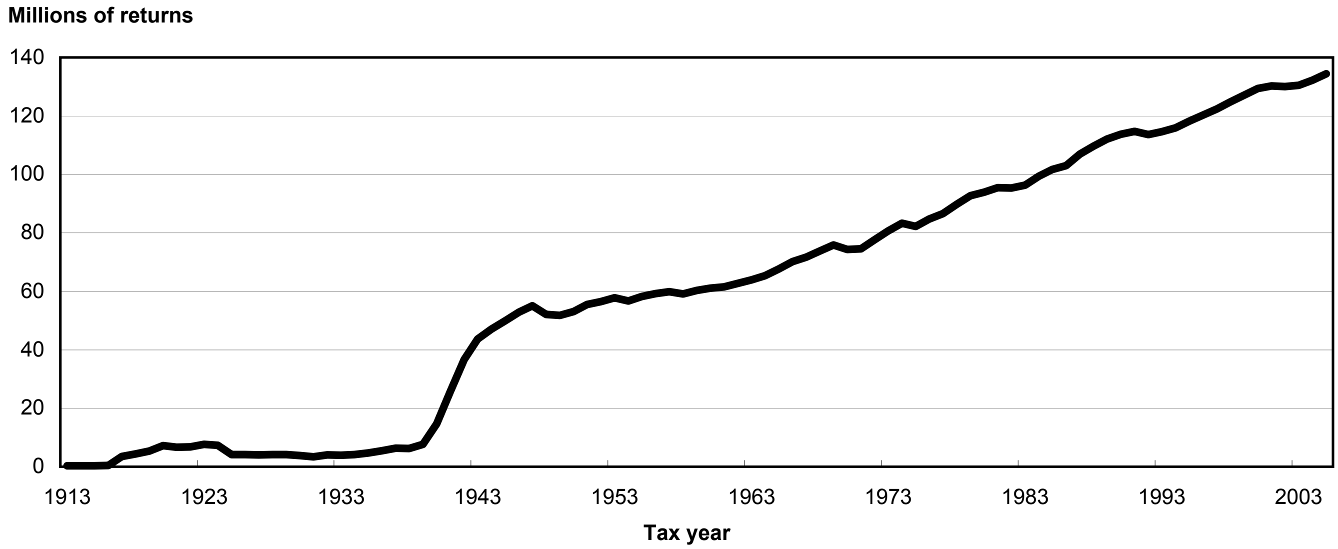
Figure A

Major Tax Law Changes Affecting Individuals, 1943-2005

1943 -	Reenactment of income tax withholding on wages and salaries (originally enacted in 1913, but repealed in 1916).
1944 -	Adoption of the standard deduction and per capita personal exemption of $600.
1948 -	Introduction of "income splitting" for married couples.
1954 -	A complete revision of the Internal Revenue Code, including changes to tax rates, institution of retirement income credit, credit for dividends, credit for partially tax-exempt interest, and major modifications to the definition of adjusted gross income and itemized deductions.
1960 -	Liberalization of allowable medical and dental expense deductions for taxpayers' parents.
1963 -	Introduction of a deduction for contributions to a self-employed retirement plan.
1964 -	Institution of statutory adjustments for employee moving expenses and employee business expenses, institution of income averaging tax computation, increase in dividend exclusion, and introduction of minimum standard deduction.
1965 -	Tax rates were reduced.
1966 -	Introduction of a system of graduated rates for taxes withheld from salaries and wages.
1967 -	Deduction of part of the premiums paid for medical care insurance, and application of the exclusion of 1 percent of adjusted gross income for drug expenses and 3 percent of adjusted gross income for all medical and dental expenses to persons age 65 or over formerly exempt from those limitations.
1968 -	Imposition of a 10-percent income tax surcharge beginning April 1, 1968, and liberalization of rules governing self-employed retirement plan deductions.
1969 -	Establishment of a new minimum tax on individuals. Extension of the 10-percent income tax surcharge to cover all of Calendar Year 1969.
1970 -	Introduction of a new minimum standard deduction or low-income allowance, increase in the deduction allowed for each exemption, liberalization of the tax return filing requirements, changes in tax withholding, introduction of a tax on specified "tax preferences," imposition of higher tax rates on capital gains, and limitations on capital loss deductions.
1971 -	Introduction of a maximum tax on earned income and an increase in the exemption amount to $675.
1972 -	Increase in the exemption amount to $750, introduction of work incentive (WIN) credit, and Presidential Campaign Fund check-box.
1974 -	Comprehensive revisions to pension and employee benefit plan rules, and a tax rebate for 1974.
1975 -	Increase in standard deduction, establishment of personal exemption credit, earned income credit, and purchase-of-residence credit. Establishment of deduction for contributions to individual retirement accounts.
1976 -	Change in standard deduction, institution of child care credit, general tax credit, credit for the elderly, and extension of earned income credit through 1977.
1977 -	Establishment of the "zero bracket amount" and new jobs credit and implementation of disability pay exclusion.
1978 -	Change in treatment of capital gains, institution of residential energy and business energy investment credits, and alteration of treatment of income earned abroad.
1979 -	Repeal of political contributions deduction, and nonbusiness State and local gasoline tax deduction. Increase in the amount of political contributions credit, personal exemption amount, and the zero-bracket amount. Widening of tax brackets and lowering of some tax rates. Introduction of a tax on certain unemployment compensation, expiration of the general tax credit, and introduction of the advance earned income credit and the alternative minimum tax.
1981 -	Reduction in marginal tax rates by 23 percent, phased in over three years. Increase in the combined (for 1981 only) interest and dividend exclusion. Introduction of an alternative tax on net capital gains. Provided new deduction for two-earner married couples.
1982 -	Scheduled increases in accelerated depreciation deductions were repealed, a 10-percent withholding on dividends and interest paid to individuals was instituted, and the floor for medical expense deductions was raised from 3 percent to 5 percent of AGI.
1983 -	Portions of social security benefits and railroad retirement benefits made taxable beginning in 1984.
1984 -	Reduced long-term capital gain holding period from 1 year to 6 months.
1986 -	Lowered top marginal tax rate to 28 percent, increase in standard deduction to $5,000 for married couples, increase of personal exemption to $2,000, and increased earned income tax credit. Repealed two-earner deduction, long-term capital gains exclusion, State and local general sales tax deduction, income averaging, and exclusion of unemployment benefits. Limited IRA eligibility, consumer interest deduction, deductibility of passive losses, medical expenses deduction, deduction for business meals and entertainment, pension contributions, and miscellaneous expense deduction.
1990 -	Increased top marginal tax rate to 31 percent and increased the AMT rate to 24 percent. Capped the capital gains rate at 28 percent. Limited the value of high-income itemized deductions. Created a temporary phase-out of personal exemptions for high-income taxpayers. Expansion of the earned income tax credit and created a low-income credit for costs of health insurance.
1993 -	Introduction of new higher tax rates of 36 percent and 39.6 percent. Increased exemption amounts and tax rates under AMT. Expanded the earned income tax credit to single workers with no children earning $9,000 or less.
1997 -	Introduction of a child credit of $500 per child per year. Introduction of the HOPE and Lifetime Learning nonrefundable education credits. Reduced capital gains tax rates to 20 percent and 10 percent. Extended AGI phase-outs for deductible IRAs, allowed tax-free withdrawals for first-time home purchases, created new Roth and Education IRAs.
2001 -	Reduction of tax rates and introduction of new 10-percent rate. Doubled the child tax credit to $1,000 per child and made a portion of it refundable. Lowered the "marriage penalties" by making the standard deduction and 15-percent tax bracket twice the size as for a single taxpayer. Phased-in both the repeal of the personal exemption phase-out (PEP) and the repeal of the Pease cutback in itemized deductions, over 5 years.
2003 -	Accelerated provisions from 2001 tax law change. Tax rate reductions scheduled for 2006, begin in 2003. Accelerated increase in standard deduction for joint filers to 2003, rather than gradually to 2009. Increased AMT exemptions. Reduction in adjusted net capital gains rates and beginning of taxation of dividends at the adjusted net capital gains rates.
2005 -	Increased exemption amounts for AMT.

Figure B

Number of Individual Income Tax Returns, 1913-2005



(AGI), positive sources of income less negative income and statutory adjustments. AGI has been used as the basis for grouping individual tax data since 1944. Prior to 1944, individual tax statistics were based on the concept of net income, positive sources of income less negative amounts and allowable deductions.[1] The differences in these two concepts make direct comparisons difficult. However, a concept of "total income," positive sources of income less negative amounts (as provided in the tax law for a particular year), can be constructed for the entire 90-plus-year period of the individual income tax.[2] Table 1 shows total income, as well as major sources of income, and tax items from 1913-2005.

Taxpayers reported $3.9 billion in total income for the first year of the income tax in 1913. In the 92 years since 1913, total income has climbed to more than $7.5 trillion for 2005, the most recent year for which SOI has statistics. For most years, total income reported in current dollars has grown. As expected, total income declined for a few years in a row, 1929-1932, due to the Great Depression that began in the United States with the stock market crash of 1929. However, in the 73-year period since 1932, total income has grown in all but 4 years, 1938, 1949, 2001, and 2002. For the 2 most recent years during which total income fell, 2001 and 2002, the decline was mainly due to large declines in net capital gain (less loss).

Table 1A presents total income, major sources of income, and tax items from 1913-2005 in constant dollars.[3] The constant-dollar total income amounts provided in Table 1A show that, in real terms, total income reported on individual income tax returns has grown throughout the majority of the last 90-plus years. Total income in real terms fell in only 19 of the last 90 years, including 4 consecutive years during the Great Depression. In Figure C, total income in current dollars is compared with total income in constant dollars from 1915 to 2005. Generally, Figure C shows that total income during that 90-year period has grown steadily in both real and current dollars. However, when looking at year-to-year changes in total income, constant-dollar total income more clearly depicts the changes in the U.S. economy. For example, the recessions of 1973-1975, 1991, and 2001 are apparent when looking at total income in real terms.[4]

[1] In general, allowable deductions included, but were not limited to, items such as interest paid, taxes paid, charitable contributions, losses from fires and storms, and bad debts. See appropriate SOI reports for those deductions allowable in a specific year.

[2] For each tax year, the total income figure was derived by adding the positive amounts of income less the net loss amounts of income for data shown in the applicable SOI report.

[3] U.S. Department of Labor, Bureau of Labor Statistics, Monthly Labor Review. The Consumer Price Index (CPI-U) for each calendar year represents an annual average of monthly indices (2005=100).

[4] Business Cycle Expansions and Contractions (see http://www.nber.org/cycles/).

Figure C

Total Income in Current and Constant Dollars, 1915-2005

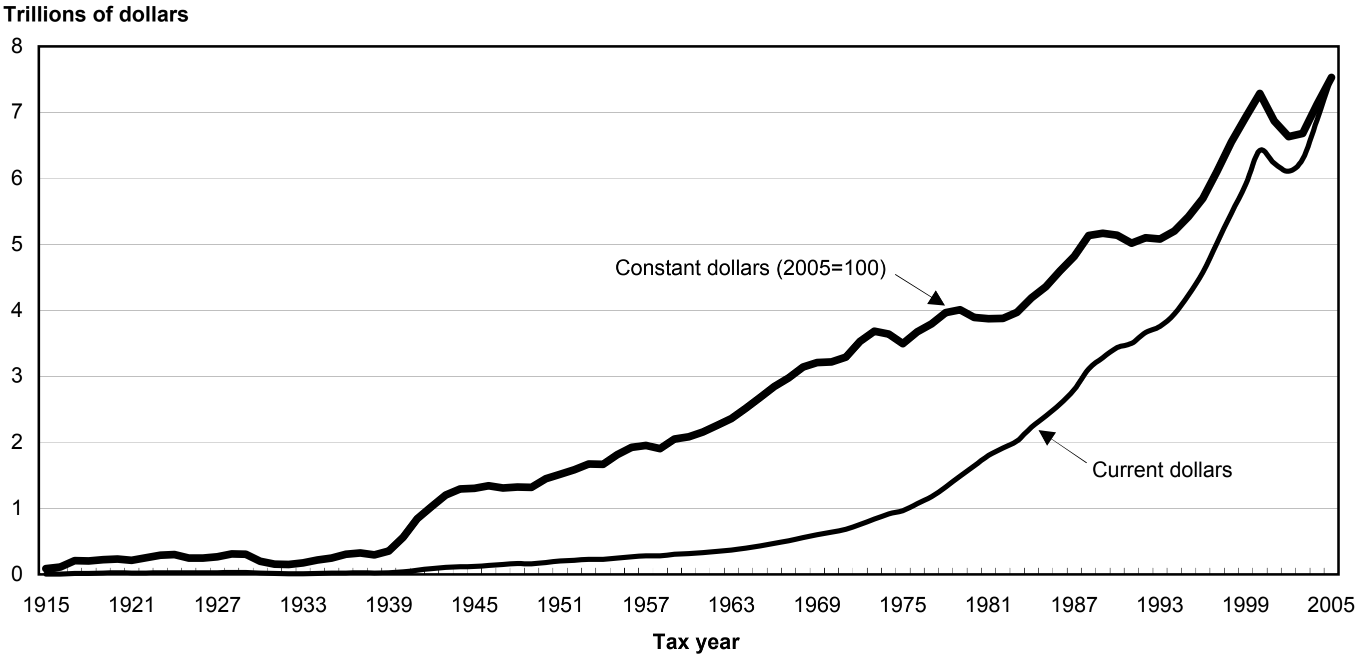
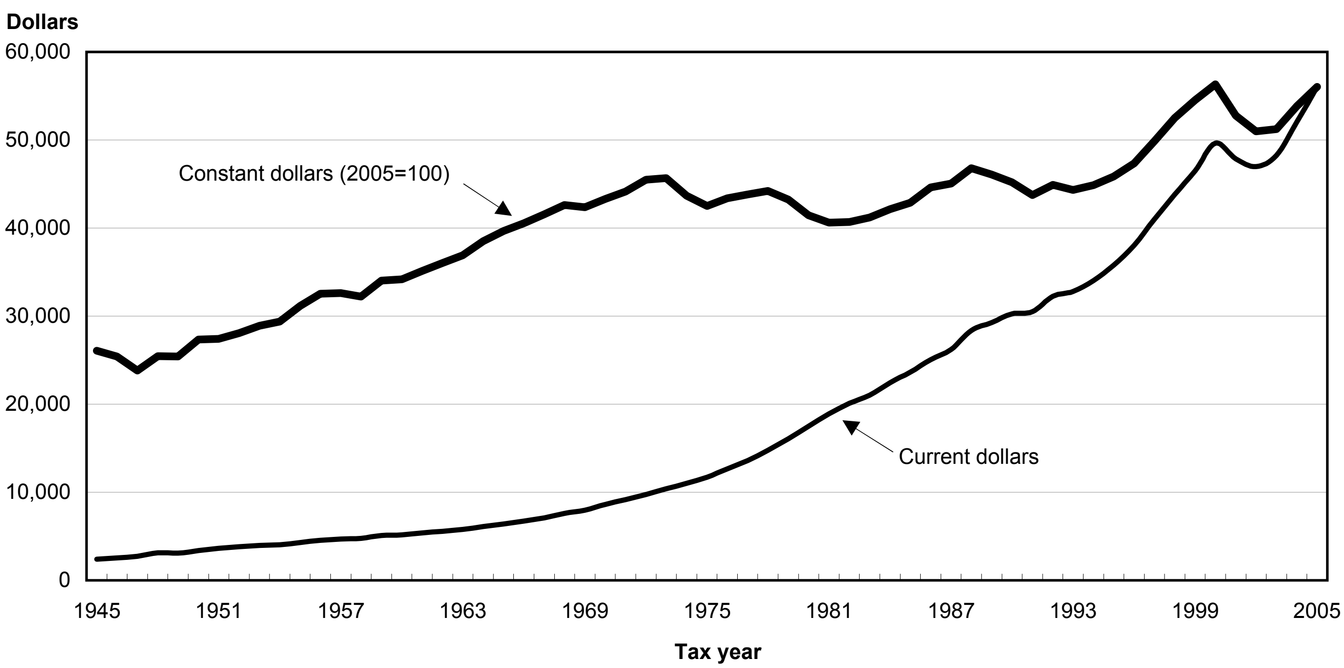


Figure D

Average Income in Current and Constant Dollars, 1945-2005



Average total income from 1945 to 2005 in current versus constant dollars is shown in Figure D. Average income for this article is calculated by dividing total income by the number of returns for a particular year. For the period 1945 to 2005, the lowest average income, in constant dollars, was $23,800 for 1947. One of the main reasons for the decline in average income before 1947 was the increase in the number of returns filed with lower income due to lower income filing requirements introduced for 1940. Prior to that period, only upper income people were taxed. The graph of constant-dollar average income shows that average income generally increased from the late 1940s through the early 1970s. Then, in the period from the mid 1970s to the early 1990s, average income stayed in the low- to mid-$40,000 range before climbing again for 7 straight years from 1994 through 2000. Average income for 2000 reached $56,315, the highest average income during the 1945 to 2005 period.

Sources of Income

The main items that make up total income have largely stayed the same throughout the years. Salaries and wages have been the largest component of total income in every year except the first year of SOI statistics, 1916. In 1916, both dividends and business income were larger than salaries and wages. Even with salaries and wages as the largest component of total income in every year since 1917, salaries and wages as a percentage of total income has varied from a low of 26.7 percent of total income in 1917 to a high of 83.2 percent in 1970. For the majority of the years in the 1950s, 1960s, 1970s, and early 1980s, salaries and wages as a percentage of total income stayed in the low 80-percent range. While salaries and wages are still by far the largest source of total income, in the last 20 years, there has been a downward trend in their percentage of total income.[5] At almost $5.2 trillion for 2005, salaries and wages made up only 68.4 percent of total income (Figure E). Along with the decline in the share of salaries and wages in total income, there has been an upward trend in the share of business income, capital gains, and other income in total income. The percentage of total income that these sources of income represent is still small in comparison to salaries and wages.

[5] Note that, prior to the Tax Reform Act of 1986, because of a 60-percent deduction, taxpayers only had to report 40 percent of their long-term capital gains in excess of short-term losses.

Figure E

Major Sources of Individual Total Income for Tax Years 1917, 1970, and 2005

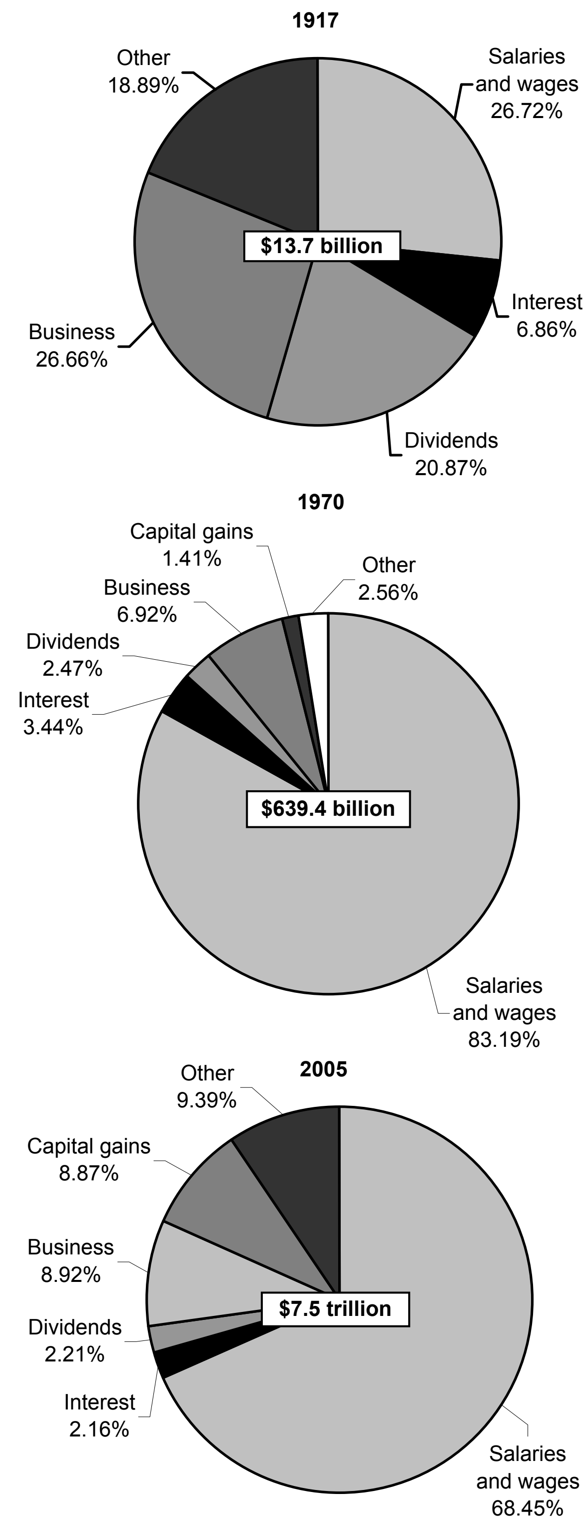
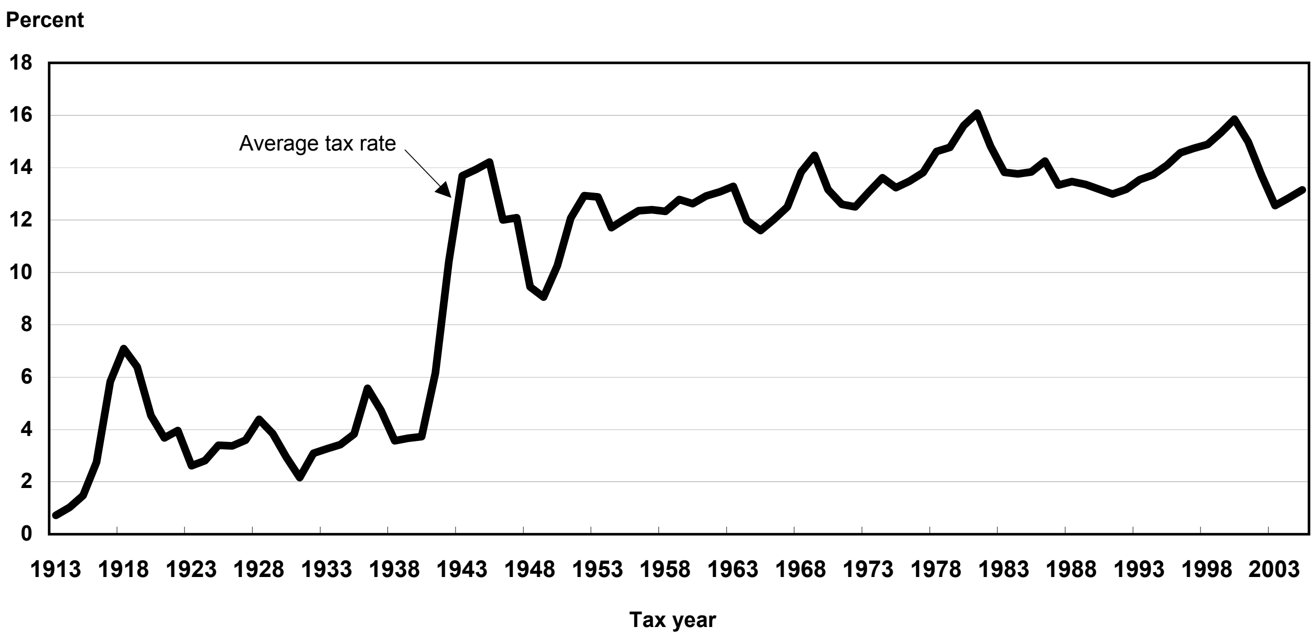


Figure F

Average Individual Income Tax Rate, 1913-2005



However, from 1995 to 2005, business income has grown from 3.2 percent of total income to 8.9 percent; capital gains has increased from 2.8 percent to 8.9 percent; and other income has increased from 3.8 percent to 9.4 percent.

Average Tax Rate

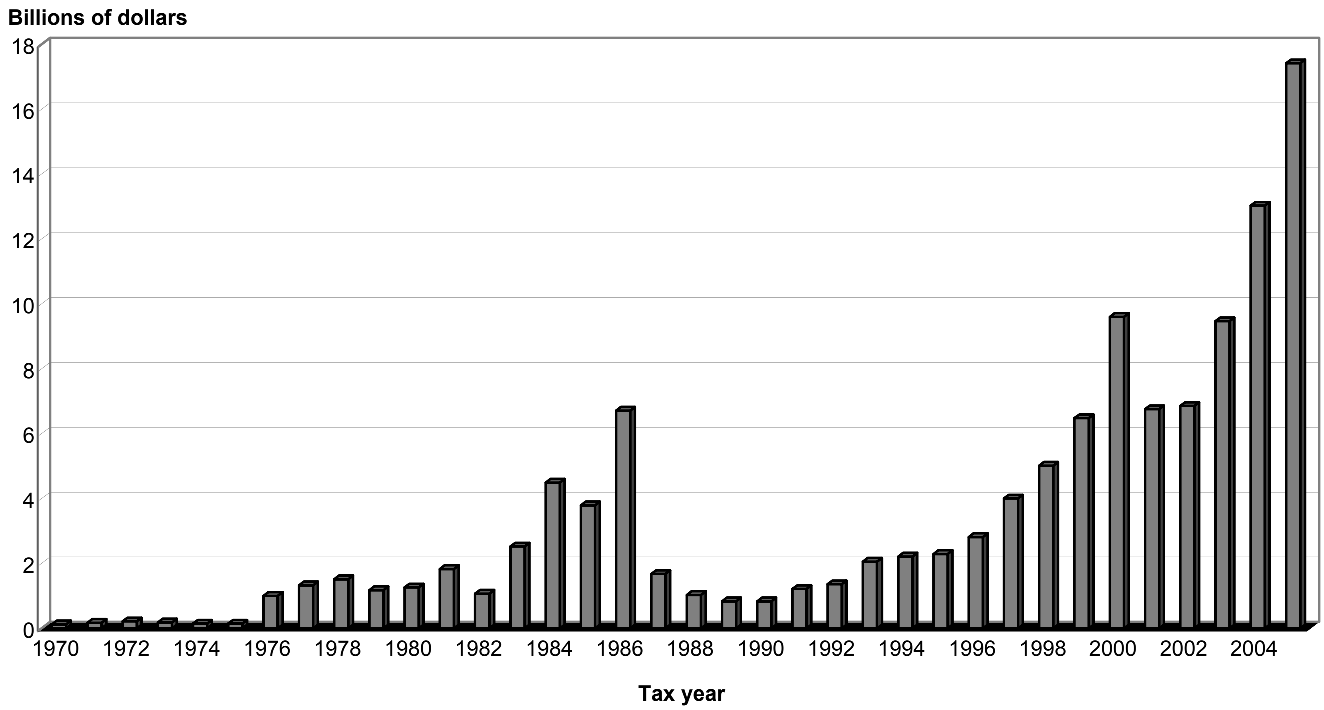
The average individual income tax rate is calculated by dividing income tax by the total income for a tax year. For this article, individual income tax before credits is used to calculate the average tax rate. Most of the fluctuations in the average tax rate during the past 90-plus years can be attributed to tax law changes affecting the definition of income reported on a tax return and to how tax before credits was calculated on that income. For nearly the first 30 years of the modern income tax system, the average tax rate fluctuated between less than 1.0 percent and 7.1 percent. During the Great Depression, the average tax rate dropped to just over 2.1 percent for 1931.

Throughout the early 1940s, several tax laws were passed to increase individual income tax rates. These changes in law resulted in average tax rates reaching double digits for the first time in 1942 and rising to more than 14.2 percent by 1945, as illustrated in Figure F. After World War II, tax rates fell to a low of 9.1 percent in 1949. Since 1955, the average tax rate has ranged between approximately 11.6 percent and 16.1 percent. During the 1950s and early 1960s, there were gradual increases in the average tax rate up to 13.3 percent in 1963. The Revenue Act of 1964, which reduced tax rates and introduced a minimum standard deduction, helped lower the average tax rate to 11.6 percent for 1965. A 10-percent income tax surcharge was created in 1968 in order to help pay for the Vietnam War, which resulted in a rise in the average tax rate to a high of almost 14.5 percent in 1969.

During the 1970s, the U.S. economy experienced a period of high inflation, resulting in higher total and average tax burdens for individuals. This increase in the average tax rate continued until reaching an all-time high of 16.1 percent in 1981. The average tax rates steadily declined after the Economic Recovery Tax Act of 1981 was passed. Then, tax rate increases created under the Omnibus Budget Reconciliation Acts of 1990 and 1993, combined with strong U.S. economic growth, resulted in steady average tax rate increases throughout the 1990s, reaching a high of 15.9 percent in 2000. The reduction of tax rates from the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the acceleration of those tax rate reductions under the Jobs and Growth Tax Relief Reconciliation Act

Figure G

Alternative Minimum Tax, 1970-2005



of 2003 (JGTRRA) is clear in Figure F, as the average rates declined to 12.6 percent for 2003. For 2004 and 2005, these increased slightly to 13.1 percent.

Alternative Minimum Tax

The alternative minimum tax (AMT), also known as the minimum tax for tax preferences in its early years, was first introduced in 1970 and was created to ensure that high-income Americans were not using combinations of tax preferences to completely eliminate their tax liability. Essentially, the alternative minimum tax is a parallel tax that computes its own income amount and is taxed at a different rate than the regular income tax. The AMT did not grow very much for the first few years, but, as shown in Figure G, increased as a result of the Tax Reform Act of 1976, which expanded the definition of tax preferences, reduced deductions from tax preferences, and raised the tax rate on the tax preferences. Over the next 10 years, the alternative minimum tax grew nearly seven-fold to reach just over $6.7 billion before falling to $1.7 billion in 1987 as a result of changes in the Tax Reform Act of 1986. More recently, there has been a general upward trend in the growth of the alternative minimum tax. However, the alternative minimum tax declined for 2001, partially as a result of an increase in the AMT exemption amount. But, since 2001, the AMT has grown from $6.7 billion to slightly more than $17.4 billion for 2005, an increase of nearly 158 percent in just 4 years.

Acknowledgments

The authors wish to express their appreciation to David Paris and Cecelia Hilgert, whose prior article, "70th Year of Individual Income and Tax Statistics, 1913-1982," *Statistics of Income Bulletin*, Winter 1983-1984, Volume 3, Number 3, provided source material and inspiration for this article.

Data Sources and Limitations

Throughout the 90-plus years that SOI has been producing individual tax return data, the data have mostly been based on stratified probability samples of unaudited individual income tax returns. A general description of sampling procedures and data limitations applicable to SOI tabulations is contained in the Appendix of this publication. In addition, see the applicable SOI report for more information on data sources and limitations for a specific year.

Table 1. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of current dollars)

Tax year	Number of returns	Total income	Major sources of income						Income tax before credits	Total tax liability	Alternative minimum tax
			Salaries and wages	Interest	Dividends	Business net income less loss [1]	Net capital gain less loss	All other income			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1913	358	3,900	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	28	28	N/A
1914	358	4,000	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	41	41	N/A
1915	337	4,600	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	68	68	N/A
1916	437	6,299	1,851	667	2,136	2,637	N/A	-992	173	173	N/A
1917	3,473	13,652	3,648	936	2,849	3,640	N/A	2,579	795	795	N/A
1918	4,425	15,925	8,267	1,403	2,469	4,339	N/A	-553	1,128	1,128	N/A
1919	5,333	19,859	10,756	1,500	2,454	5,709	N/A	-560	1,270	1,270	N/A
1920	7,260	23,736	15,323	1,709	2,736	4,922	N/A	-954	1,075	1,075	N/A
1921	6,662	19,577	13,813	1,690	2,477	3,707	462	-2,572	719	719	N/A
1922	6,787	21,761	13,694	1,738	2,664	4,267	742	-1,344	861	861	N/A
1923	7,698	25,313	14,193	2,183	3,120	6,399	866	-1,448	662	662	N/A
1924	7,370	26,189	13,618	2,281	3,251	6,565	1,124	-650	735	704	N/A
1925	4,171	22,337	9,742	1,814	3,465	5,516	940	860	759	735	N/A
1926	4,138	22,442	9,994	1,936	4,012	5,306	1,287	-93	757	732	N/A
1927	4,102	23,854	10,218	2,026	4,255	5,043	1,585	727	856	830	N/A
1928	4,144	27,338	10,945	2,143	4,440	5,223	1,708	2,879	1,199	1,164	N/A
1929	4,133	26,692	11,373	2,210	5,081	5,282	1,341	1,405	1,024	1,002	N/A
1930	3,852	17,047	10,206	1,940	4,632	3,101	676	-3,508	502	477	N/A
1931	3,411	12,221	8,631	1,337	3,600	2,016	990	-4,353	264	246	N/A
1932	4,083	10,671	8,356	1,307	2,189	1,229	325	-2,735	330	330	N/A
1933	3,892	11,473	7,565	1,106	1,711	1,746	232	-887	374	374	N/A
1934	4,198	14,957	8,681	995	2,041	2,125	18	1,097	511	511	N/A
1935	4,670	17,193	9,972	98	2,288	2,387	363	2,085	657	657	N/A
1936	5,486	21,773	11,718	955	3,228	3,210	852	1,810	1,214	1,214	N/A
1937	6,350	24,120	14,206	856	3,248	3,359	158	2,293	1,142	1,142	N/A
1938	6,251	21,436	13,307	823	2,212	3,120	-176	2,150	766	766	N/A
1939	7,652	25,363	16,491	832	2,544	3,674	321	1,501	929	929	N/A
1940	14,711	40,155	27,707	1,003	2,999	5,407	332	2,707	1,496	1,496	N/A
1941	25,870	63,433	47,140	1,029	3,299	8,455	430	3,080	3,908	3,908	N/A
1942	36,619	85,780	65,617	982	2,833	12,833	112	3,403	8,927	8,927	N/A
1943	43,722	106,555	82,755	886	2,780	15,717	595	3,822	14,590	14,590	N/A
1944	47,111	116,465	91,125	[2] n.a.	[2] 3,924	17,250	917	3,249	16,224	16,216	N/A
1945	49,932	120,009	91,700	[2] n.a.	[2] 3,925	19,003	2,114	3,267	17,061	17,050	N/A
1946	52,817	134,083	99,174	1,067	3,674	23,267	3,068	3,833	16,091	16,076	N/A
1947	55,099	149,736	114,804	1,125	4,295	23,295	2,154	4,063	18,092	18,076	N/A
1948	52,072	163,516	125,881	1,293	4,971	24,506	2,201	4,664	15,442	15,442	N/A
1949	51,814	160,574	124,883	1,528	5,246	21,705	1,604	5,608	14,538	14,538	N/A
1950	53,060	179,148	139,073	1,595	6,157	23,429	2,927	5,967	18,375	18,375	N/A
1951	55,447	202,337	160,482	1,702	6,056	24,878	2,997	6,222	24,439	24,439	N/A
1952	56,529	215,290	174,339	1,847	5,860	24,754	2,470	6,020	27,822	28,020	N/A
1953	57,838	228,708	187,734	2,043	5,828	24,951	2,075	6,077	29,450	29,657	N/A
1954	56,747	229,573	185,953	2,370	7,048	25,452	3,352	5,398	26,873	26,967	N/A
1955	58,250	248,974	200,712	2,584	7,851	27,454	4,751	5,622	29,982	30,077	N/A
1956	59,197	268,268	215,618	2,872	8,606	30,137	4,553	6,482	33,134	33,265	N/A
1957	59,825	280,895	228,077	3,319	9,124	29,698	3,485	7,192	34,816	34,975	N/A
1958	59,085	281,777	227,551	3,659	9,741	29,906	4,330	6,590	34,755	34,925	N/A
1959	60,271	305,772	247,370	4,395	9,356	30,994	6,275	7,382	39,092	39,347	N/A
1960	61,028	316,141	257,918	5,057	9,530	30,038	5,300	8,298	39,909	40,298	N/A

Footnotes at end of table.

Table 1. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005—Continued

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of current dollars)

Tax year	Number of returns	Total income	Major sources of income						Income tax before credits	Total tax liability	Alternative minimum tax
			Salaries and wages	Interest	Dividends	Business net income less loss [1]	Net capital gain less loss	All other income			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1961	61,499	330,617	266,902	5,683	9,890	31,578	7,621	8,943	42,714	43,066	N/A
1962	62,712	349,484	283,373	7,155	10,640	33,269	5,771	9,276	45,691	45,790	N/A
1963	63,943	369,675	299,443	9,212	11,452	33,184	6,449	9,935	49,117	49,216	N/A
1964	65,376	399,539	323,266	10,125	11,917	35,358	7,939	10,934	47,896	48,185	N/A
1965	67,596	432,344	347,150	11,296	12,961	38,559	10,180	12,198	50,144	50,632	N/A
1966	70,160	472,132	381,067	13,225	13,998	40,984	9,941	12,917	56,773	51,627	N/A
1967	71,651	509,151	411,646	14,899	14,202	42,280	13,682	12,442	63,655	64,525	N/A
1968	73,729	559,760	451,505	16,782	15,222	45,503	17,990	12,758	77,440	78,419	N/A
1969	75,834	603,546	498,865	19,626	15,740	45,842	14,853	8,620	87,336	88,524	N/A
1970	74,280	639,358	531,884	22,021	15,807	44,242	9,007	16,397	84,156	85,767	122
1971	74,576	682,467	564,967	24,731	15,671	45,029	13,155	18,914	85,942	87,469	169
1972	77,573	755,540	622,599	27,400	16,794	49,616	17,076	22,055	94,442	95,949	216
1973	80,693	837,813	687,179	32,174	18,734	56,489	16,672	26,565	109,394	111,175	182
1974	83,340	918,626	758,628	39,543	20,887	55,055	13,470	31,043	125,079	127,003	143
1975	82,229	962,887	795,399	43,434	21,892	53,736	14,072	34,354	127,432	127,939	144
1976	84,670	1,070,180	880,998	48,588	24,461	59,637	18,562	37,934	144,186	145,749	1,000
1977	86,635	1,177,821	969,403	54,603	27,020	63,271	20,777	42,747	162,587	164,024	1,323
1978	89,772	1,324,811	1,090,292	61,223	30,206	75,156	23,231	44,703	193,555	193,185	1,514
1979	92,694	1,490,173	1,229,251	73,875	33,483	69,013	28,448	56,103	220,099	220,100	1,175
1980	93,902	1,642,346	1,349,843	102,009	38,761	64,558	29,660	57,515	256,294	256,251	1,263
1981	95,396	1,804,046	1,486,100	140,559	48,161	52,934	30,819	45,473	290,207	291,127	1,827
1982	95,337	1,917,023	1,564,995	157,021	54,045	48,815	34,404	57,743	283,932	284,708	1,069
1983	96,321	2,023,983	1,644,573	153,805	48,557	59,832	49,408	67,808	279,842	282,318	2,521
1984	99,439	2,229,649	1,807,138	176,369	48,641	68,498	54,519	74,484	306,686	312,534	4,490
1985	101,660	2,401,034	1,928,201	182,109	55,046	76,246	68,278	91,154	332,165	338,765	3,792
1986	103,045	2,580,689	2,031,026	167,640	61,623	84,564	132,842	102,994	367,592	381,224	6,713
1987	106,996	2,803,941	2,163,906	168,966	66,791	129,775	137,399	137,104	373,857	384,538	1,675
1988	109,708	3,111,222	2,337,984	186,982	77,330	183,403	152,841	172,682	418,889	430,733	1,028
1989	112,136	3,280,931	2,449,531	220,016	81,309	195,830	145,631	188,614	438,240	451,873	831
1990	113,717	3,439,402	2,599,401	227,084	80,169	208,452	113,159	211,137	453,128	468,631	830
1991	114,730	3,499,250	2,674,261	209,411	77,284	205,054	102,776	230,464	454,503	471,083	1,213
1992	113,605	3,664,594	2,805,703	162,343	77,926	241,654	118,230	258,738	482,631	500,020	1,357
1993	114,602	3,759,964	2,892,120	131,141	79,729	248,573	144,172	264,229	508,894	526,819	2,053
1994	115,943	3,946,621	3,026,778	126,169	82,410	280,589	142,288	288,387	541,571	561,042	2,212
1995	118,218	4,230,493	3,201,457	154,781	94,592	295,096	170,415	314,152	596,169	615,806	2,291
1996	120,351	4,578,621	3,376,872	165,673	104,255	323,684	251,817	356,320	666,724	687,332	2,813
1997	122,422	5,016,905	3,613,918	171,700	120,493	355,064	356,083	399,647	739,482	762,258	4,005
1998	124,771	5,467,504	3,879,762	178,334	118,480	389,755	446,084	455,089	813,569	821,899	5,015
1999	127,075	5,912,167	4,132,473	175,675	132,466	419,486	542,758	509,309	906,812	912,464	6,478
2000	129,374	6,423,986	4,456,167	199,322	146,988	426,779	630,542	564,188	1,018,219	1,017,471	9,601
2001	130,255	6,231,177	4,565,229	198,178	119,533	441,883	326,527	579,827	933,567	925,435	6,757
2002	130,076	6,110,747	4,559,691	149,025	103,241	458,751	238,789	601,250	836,843	834,915	6,854
2003	130,424	6,294,684	4,649,900	127,160	115,141	483,712	294,354	624,417	790,006	787,584	9,470
2004	132,226	6,886,852	4,921,806	125,474	146,839	563,210	473,662	655,861	884,343	874,010	13,029
2005	134,373	7,531,892	5,155,407	162,433	166,482	672,028	668,015	707,527	990,152	980,259	17,421

n.a.—Not available.

N/A—Not applicable.

[1] Business net income less loss is sole proprietorship (Schedule C) plus partnership and S corporation income less loss (Schedule E).

[2] For 1944 and 1945 the total amounts for interest and dividend income were combined in the SOI reports and shown as dividend income.

NOTES: Detail may not add to totals because of rounding. Data from 1913-1981 are taken directly from Paris, David and Cecelia Hilgert, "70th Year of Individual Income and Tax Statistics, 1913-1982," *Statistics of Income Bulletin,* Winter 1983-1984, Volume 3, Number 3. Data for 1982-2005 are from *Statistics of Income—Individual Income Tax Returns* (IRS Publication 1304), various years.

Table 1a. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005, in 2005 Constant Dollars [1]

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of constant dollars)

Tax year	Number of returns	Total income	Major sources of income						Income tax before credits	Total tax liability
			Salaries and wages	Interest	Dividends	Business net income less loss [2]	Net capital gain less loss	All other income		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1913	358	76,936	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	552	552
1914	358	78,120	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	801	801
1915	337	88,949	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,315	1,315
1916	437	112,862	33,165	11,951	38,272	47,248	N/A	-17,774	3,100	3,100
1917	3,473	208,300	55,661	14,281	43,470	55,538	N/A	39,350	12,130	12,130
1918	4,425	205,970	106,924	18,146	31,933	56,120	N/A	-7,152	14,589	14,589
1919	5,333	224,189	121,425	16,934	27,703	64,449	N/A	-6,322	14,337	14,337
1920	7,260	231,782	149,629	16,688	26,717	48,063	N/A	-9,316	10,497	10,497
1921	6,662	213,597	150,708	18,439	27,026	40,446	5,041	-28,062	7,845	7,845
1922	6,787	252,972	159,193	20,204	30,969	49,604	8,626	-15,624	10,009	10,009
1923	7,698	289,101	162,099	24,932	35,634	73,083	9,891	-16,538	7,561	7,561
1924	7,370	299,106	155,532	26,051	37,130	74,979	12,837	-7,424	8,394	8,040
1925	4,171	249,281	108,721	20,244	38,669	61,559	10,490	9,598	8,470	8,203
1926	4,138	247,623	110,273	21,362	44,268	58,546	14,201	-1,026	8,353	8,077
1927	4,102	267,741	114,688	22,740	47,759	56,603	17,790	8,160	9,608	9,316
1928	4,144	312,229	125,003	24,475	50,709	59,652	19,507	32,881	13,694	13,294
1929	4,133	304,851	129,892	25,241	58,030	60,326	15,316	16,047	11,695	11,444
1930	3,852	199,358	119,355	22,688	54,169	36,265	7,906	-41,025	5,871	5,578
1931	3,411	157,024	110,897	17,179	46,255	25,903	12,720	-55,930	3,392	3,161
1932	4,083	152,120	119,119	18,632	31,205	17,520	4,633	-38,989	4,704	4,704
1933	3,892	172,360	113,650	16,616	25,704	26,230	3,485	-13,325	5,619	5,619
1934	4,198	217,993	126,522	14,502	29,747	30,971	262	15,988	7,448	7,448
1935	4,670	245,094	142,156	1,397	32,617	34,028	5,175	29,723	9,366	9,366
1936	5,486	305,918	164,642	13,418	45,355	45,102	11,971	25,431	17,057	17,057
1937	6,350	327,128	192,669	11,610	44,051	45,556	2,143	31,099	15,488	15,488
1938	6,251	296,911	184,316	11,399	30,639	43,215	-2,438	29,780	10,610	10,610
1939	7,652	356,359	231,704	11,690	35,744	51,621	4,510	21,090	13,053	13,053
1940	14,711	560,162	386,513	13,992	41,836	75,428	4,631	37,763	20,869	20,869
1941	25,870	842,753	626,289	13,671	43,830	112,331	5,713	40,920	51,921	51,921
1942	36,619	1,027,781	786,196	11,766	33,944	153,760	1,342	40,773	106,960	106,960
1943	43,722	1,202,901	934,223	10,002	31,383	177,429	6,717	43,147	164,707	164,707
1944	47,111	1,292,364	1,011,177	[3] n.a.	[3] 43,543	191,416	10,176	36,053	180,031	179,942
1945	49,932	1,302,098	994,945	[3] n.a.	[3] 42,586	206,183	22,937	35,447	185,112	184,993
1946	52,817	1,342,893	993,266	10,686	36,797	233,028	30,727	38,389	161,158	161,007
1947	55,099	1,311,365	1,005,436	9,853	37,615	204,014	18,864	35,583	158,447	158,307
1948	52,072	1,325,090	1,020,106	10,478	40,284	198,590	17,836	37,796	125,138	125,138
1949	51,814	1,317,651	1,024,775	12,539	43,048	178,109	13,162	46,019	119,297	119,297
1950	53,060	1,451,768	1,127,011	12,925	49,895	189,862	23,720	48,355	148,906	148,906
1951	55,447	1,519,862	1,205,467	12,785	45,490	186,872	22,512	46,737	183,574	183,574
1952	56,529	1,586,647	1,284,846	13,612	43,187	182,432	18,203	44,366	205,043	206,502
1953	57,838	1,672,909	1,373,200	14,944	42,630	182,507	15,178	44,451	215,415	216,929
1954	56,747	1,666,751	1,350,060	17,207	51,170	184,787	24,336	39,191	195,104	195,786
1955	58,250	1,814,352	1,462,651	18,830	57,213	200,066	34,622	40,969	218,488	219,181
1956	59,197	1,926,204	1,548,169	20,621	61,792	216,388	32,691	46,542	237,907	238,848
1957	59,825	1,952,270	1,585,176	23,068	63,413	206,406	24,221	49,986	241,977	243,082
1958	59,085	1,904,189	1,537,741	24,727	65,828	202,098	29,261	44,534	234,867	236,016
1959	60,271	2,052,140	1,660,184	29,496	62,791	208,011	42,114	49,543	262,360	264,071
1960	61,028	2,085,890	1,701,736	33,366	62,879	198,190	34,969	54,750	263,319	265,885
1961	61,499	2,159,515	1,743,343	37,120	64,599	206,260	49,779	58,414	278,998	281,297
1962	62,712	2,260,074	1,832,541	46,271	68,808	215,147	37,320	59,987	295,479	296,119
1963	63,943	2,359,396	1,911,151	58,794	73,091	211,792	41,160	63,409	313,482	314,114

Footnotes at end of table.

Table 1a. All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005, in 2005 Constant Dollars [1]—Continued

(All figures are estimates based on samples—number of returns are in thousands, money amounts are in millions of constant dollars)

Tax year	Number of returns	Total income	Major sources of income						Income tax before credits	Total tax liability
			Salaries and wages	Interest	Dividends	Business net income less loss [2]	Net capital gain less loss	All other income		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1964	65,376	2,517,096	2,036,576	63,788	75,077	222,755	50,016	68,884	301,745	303,566
1965	67,596	2,680,533	2,152,330	70,035	80,358	239,066	63,116	75,628	310,893	313,918
1966	70,160	2,845,907	2,296,987	79,717	84,377	247,042	59,922	77,861	342,215	311,196
1967	71,651	2,977,161	2,407,020	87,119	83,043	247,224	80,003	72,752	372,210	377,297
1968	73,729	3,141,412	2,533,877	94,182	85,427	255,366	100,961	71,599	434,599	440,093
1969	75,834	3,211,786	2,654,723	104,440	83,761	243,949	79,041	45,872	464,761	471,083
1970	74,280	3,218,212	2,677,241	110,843	79,565	222,692	45,337	82,534	423,600	431,709
1971	74,576	3,291,008	2,724,396	119,258	75,569	217,140	63,436	91,208	414,431	421,795
1972	77,573	3,530,071	2,908,937	128,020	78,466	231,818	79,783	103,046	441,257	448,298
1973	80,693	3,685,245	3,022,659	141,522	82,404	248,475	73,334	116,850	481,186	489,020
1974	83,340	3,639,101	3,005,275	156,648	82,743	218,098	53,361	122,976	495,496	503,117
1975	82,229	3,495,387	2,887,387	157,670	79,470	195,068	51,083	124,709	462,592	464,433
1976	84,670	3,673,219	3,023,882	166,770	83,958	204,694	63,711	130,202	494,895	500,260
1977	86,635	3,795,849	3,124,165	175,973	87,079	203,908	66,960	137,764	523,981	528,612
1978	89,772	3,968,337	3,265,859	183,387	90,479	225,122	69,586	133,903	579,774	578,666
1979	92,694	4,008,689	3,306,787	198,730	90,072	185,651	76,527	150,922	592,085	592,087
1980	93,902	3,892,599	3,199,324	241,776	91,869	153,012	70,299	136,319	607,454	607,352
1981	95,396	3,876,020	3,192,908	301,993	103,475	113,729	66,215	97,699	623,514	625,491
1982	95,337	3,879,737	3,167,290	317,784	109,378	98,793	69,628	116,862	574,631	576,202
1983	96,321	3,968,714	3,224,750	301,588	95,213	117,321	96,881	132,961	548,726	553,581
1984	99,439	4,191,053	3,396,863	331,519	91,430	128,755	102,479	140,007	576,475	587,468
1985	101,660	4,358,011	3,499,792	330,538	99,912	138,391	123,928	165,450	602,898	614,877
1986	103,045	4,598,618	3,619,155	298,723	109,808	150,687	236,716	183,529	655,025	679,316
1987	106,996	4,820,508	3,720,166	290,485	114,826	223,108	236,215	235,708	642,731	661,094
1988	109,708	5,136,278	3,859,749	308,686	127,663	302,778	252,323	285,079	691,539	711,092
1989	112,136	5,167,466	3,858,011	346,525	128,062	308,432	229,369	297,067	690,228	711,700
1990	113,717	5,139,367	3,884,185	339,323	119,793	311,482	169,089	315,494	677,092	700,257
1991	114,730	5,017,647	3,834,678	300,279	110,819	294,031	147,373	330,467	651,721	675,496
1992	113,605	5,101,178	3,905,587	225,984	108,474	336,387	164,578	360,168	671,831	696,036
1993	114,602	5,081,806	3,908,865	177,245	107,758	335,961	194,857	357,121	687,799	712,026
1994	115,943	5,200,911	3,988,730	166,267	108,601	369,764	187,509	380,040	713,690	739,349
1995	118,218	5,421,360	4,102,655	198,351	121,219	378,164	218,386	402,585	763,988	789,153
1996	120,351	5,699,201	4,203,334	206,220	129,771	402,903	313,447	443,526	829,899	855,551
1997	122,422	6,104,683	4,397,496	208,928	146,619	432,050	433,290	486,299	899,818	927,533
1998	124,771	6,550,942	4,648,574	213,673	141,958	466,989	534,480	545,269	974,785	984,766
1999	127,075	6,930,650	4,844,370	205,938	155,286	491,750	636,258	597,047	1,063,028	1,069,653
2000	129,374	7,285,740	5,053,946	226,060	166,706	484,030	715,127	639,872	1,154,809	1,153,961
2001	130,255	6,871,535	5,034,383	218,544	131,817	487,294	360,083	639,414	1,029,507	1,020,539
2002	130,076	6,633,846	4,950,015	161,782	112,079	498,022	259,230	652,719	908,479	906,386
2003	130,424	6,681,260	4,935,465	134,969	122,212	513,418	312,431	662,764	838,523	835,952
2004	132,226	7,120,181	5,088,559	129,725	151,814	582,292	489,710	678,082	914,305	903,622
2005	134,373	7,531,892	5,155,407	162,433	166,482	672,028	668,015	707,527	990,152	980,259

n.a.—Not available.

N/A—Not applicable.

[1] Based upon the Consumer Price Index as Published by the U.S. Department of Labor, Bureau of Labor Statistics.

[2] Business net income less loss is sole proprietorship (Schedule C) plus partnership and S corporation income less loss (Schedule E).

[3] For 1944 and 1945 the total amounts for interest and dividend income were combined in the SOI reports and shown as dividend income.

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

SOI Sampling Methodology and Data Limitations

Appendix

This appendix discusses typical sampling procedures used in most Statistics of Income (SOI) programs. Aspects covered briefly include sampling criteria, selection techniques, methods of estimation, and sampling variability. Some of the nonsampling error limitations of the data are also described, as well as the tabular conventions employed.

Additional information on sample design and data limitations for specific SOI studies can be found in the separate SOI reports (see pages 319-320 at the end of this *Bulletin*). More technical information is available, on request, by writing to the Director, Statistics of Income Division RAS:S, Internal Revenue Service, P.O. Box 2608, Washington, DC 20013-2608.

Sample Criteria and Selection of Returns

Statistics compiled for the SOI studies are generally based on stratified probability samples of income tax returns or other forms filed with the Internal Revenue Service (IRS). The statistics do not reflect any changes made by the taxpayer through an amended return or by the IRS as a result of an audit. As returns are filed and processed for tax purposes, they are assigned to sampling classes (strata) based on such criteria as: industry, presence or absence of a tax form or schedule, and various income factors or other measures of economic size (such as total assets, total receipts, size of gift, and size of estate). The samples are selected from each stratum over the appropriate filing periods. Thus, sample selection can continue for a given study for several calendar years—3 for corporations because of the incidence of fiscal (noncalendar) year reporting and extensions of filing time. Because sampling must take place before the population size is known precisely, the rates of sample selection within each stratum are fixed. This means, in practice, that both the population and the sample size can differ from those planned. However, these factors do not compromise the validity of the estimates.

Information for this appendix was compiled under the direction of Beth Kilss, Former Chief, Statistical Data Section. Major contributions were made by Paul McMahon and Tamara Rib, Statistical Computing Branch, Mathematical Statistics Section, under the direction of Yahia Ahmed, Chief.

The probability of a return's selection depends on its sample class or stratum and may range from a fraction of 1 percent to 100 percent. Considerations in determining the selection probability for each stratum include the number of returns in the stratum, the diversity of returns in the stratum, and interest in the stratum as a separate subject of study. All this is subject to constraints based on the estimated processing costs or the target size of the total sample for the program.

For most SOI studies, returns are designated by computer from the IRS Master Files based on the taxpayer identification number (TIN), which is either the Social Security number (SSN) or the Employer Identification Number (EIN). A fixed and essentially random number is associated with each possible TIN. If that random number falls into a range of numbers specified for a return's sample stratum, then it is selected and processed for the study. Otherwise, it is counted (for estimation purposes), but not selected. In some cases, the TIN is used directly by matching specified digits of it against a predetermined list for the sample stratum. A match is required for designation.

Under either method of selection, the TINs designated from one year's sample are, for the most part, selected for the next year's, so that a very high proportion of the returns selected in the current year's sample are from taxpayers whose previous years' returns were included in earlier samples. This longitudinal character of the sample design improves the estimates of change from one year to the next.

Method of Estimation

As noted above, the probability with which a return is selected for inclusion in a sample depends on the sampling rate prescribed for the stratum in which it is classified. "Weights" are computed by dividing the count of returns filed for a given stratum by the number of population sample returns for that same stratum. These weights are usually adjusted for unavailable returns, outliers, or trimming weights. Weights are used to adjust for the various sampling

Sample returns are designated by computer from the IRS Master Files based on the taxpayer identification number.

rates used, relative to the population—the lower the rate, the larger the weight. For some studies, it is possible to improve the estimates by subdividing the original sampling classes into "poststrata," based on additional criteria or refinements of those used in the original stratification. Weights are then computed for these poststrata using additional population counts. The data on each sample return in a stratum are then multiplied by that weight. To produce the tabulated estimates, the weighted data are summed to produce the published statistical totals.

In transcribing and tabulating data from tax returns, checks are imposed to improve the quality of the statistics.

Sampling Variability

The particular sample used in a study is only one of a large number of possible random samples that could have been selected using the same sample design. Estimates derived from the different samples usually vary. The standard error of the estimate is a measure of the variation among the estimates from all possible samples and is used to measure the precision with which an estimate from a particular sample approximates the average result of the possible samples. The sample estimate and an estimate of its standard error permit the construction of interval estimates with prescribed confidence that this interval includes the actual population value.

In SOI reports, the standard error is not directly presented. Instead, the ratio of the standard error to the estimate itself is presented in percentage form. This ratio is called the coefficient of variation (CV). The user of SOI data may multiply an estimate by its CV to recreate the standard error and to construct confidence intervals.

For example, if a sample estimate of 150,000 returns is known to have a coefficient of variation of 2 percent, then the following arithmetic procedure would be followed to construct a 68-percent confidence interval estimate:

150,000	(sample estimate)
x 0.02	(coefficient of variation)
= 3,000	(standard error of estimate)

then:

150,000	(sample estimate)
+ or - 3,000	(standard error)
= {147,000, 153,000}	(68-percent confidence interval).

Based on these data, the interval estimate is from 147 to 153 thousand returns. This means that the average estimate of the number of returns lies within an interval computed in this way. Such an estimate would be correct for approximately two-thirds of all possible samples similarly selected. To obtain this interval estimate with 95-percent confidence, the standard error should be multiplied by 2 before adding to and subtracting from the sample estimate. (In this particular case, the resulting interval would be from 144 to 156 thousand returns.)

Further details concerning sample design, sample selection, estimation method, and sampling variability for a particular SOI study may be obtained, on request, by writing to the Director, Statistics of Income Division, at the address given above.

Nonsampling Error Controls and Limitations

Although the previous discussion focuses on sampling methods and the limitations of the data caused by sampling error, there are other sources of error that may be significant in evaluating the usefulness of SOI data. These include taxpayer reporting errors and inconsistencies, processing errors, and the effects of any early cutoff of sampling. Additional information on nonsampling error as it applies to individual and corporation income tax returns is presented in the separate SOI reports on these returns.

In transcribing and tabulating the information from returns or forms selected for the sample, steps are taken to improve the quality of the resultant estimates. Tax return data may be disaggregated or recombined during the statistical abstracting and "editing" process that takes place in IRS submission processing centers. This is done to improve data consistency from return to return and to achieve definitions of the data items more in keeping with the needs of major users. In some cases, not all of the data are available from the tax return as originally filed. Sometimes, the missing data can be obtained by the Statistics of Income Division in Washington, DC, through field followup. More often, though, they are obtained through manual or computerized imputation. For this purpose, other information in the return or in accompanying schedules may be sufficient to serve as the basis for making an estimate. Prior-year data for the same taxpayer can be used for this same purpose, or comparable data from business reference books may be substituted.

Data abstracted or "edited" from returns for statistical use are subjected to a number of validation checks, including systematic verifications of a sampling of the work of each tax examiner involved in the SOI process. Data reported on sampled returns and previously transcribed as part of processing for the IRS Master Files are subject to validation as part of the administrative process before SOI processing begins. However, during the administrative process, it is only practical to transcribe corrections to errors that have a direct bearing on the tax reported or the refund claimed. Therefore, during the SOI process, checks must also be made to correct any errors or inconsistencies left in the administrative data before the data can be accepted for the statistics.

The Statistics of Income program includes many more tax return items than are transcribed and perfected for IRS tax administration needs, especially for items reported in tax return schedules in support of the various summary totals reported on the return. Therefore, checks must also be designed to validate these additional data items and to assure that they are consistent with other data entries.

Most of the data validation checks made during the SOI process take the form of computerized tests of each record. In addition to verifying that internal consistency and proper balance and relationships among the tax return items and statistical classifications are maintained, this process is intended to check on consistency with tax law provisions, acceptable reporting practices, and generally accepted accounting principles. Most testing occurs during the data abstracting and editing operation, while the tax return source document is still on hand, although some testing for certain programs occurs later on. Records failing the tests are subjected to further review and correction.

Finally, before publication, the statistics are reviewed for accuracy and reasonableness in light of the tax law provisions, taxpayer reporting variations and other limitations, tolerances and statistical techniques allowed or employed in data processing and estimating, economic conditions, and comparability with other statistical series. However, these controls do not completely eliminate the possibility of error. When discovered, errors in Bulletin tables are corrected, usually through published errata.

Table Conventions

Published estimates subject to excessive sampling variability are identified for most of the statistics by means of an asterisk (*) presented alongside the estimate or in place of an estimate. Presence of an asterisk means that the sampling rate was less than 100 percent of the population and that there were fewer than 10 sample observations available for estimation purposes. This method produces a rough indication of excessive sampling variability. However, the results will differ somewhat from more precise indicators of excessive sampling variability based on the standard statistical formula. For some of the statistics based on samples, asterisking was not possible because of resource and other constraints. Users should keep this limitation in mind when using these data.

A zero, in place of a frequency or an amount, in any given table cell presenting data based on an SOI sample, indicates either that (1) there were no returns in the population with the particular characteristic, or (2) because of its rarity, instances of the characteristic were not present among the sampled returns. However, for statistics based on returns selected for the sample at the 100-percent rate, a zero indicates a presumption of no returns with the particular characteristic in the population.

In addition to sampling variability, Statistics of Income is required to prevent disclosure of information about specific taxpayers or businesses in its tables. Therefore, a weighted frequency (and the associated amount, where applicable) of less than 3 is either combined with data in an adjacent cell(s) so as to meet the criteria, or deleted altogether. Similar steps are taken to prevent indirect disclosure through subtraction. However, any combined or deleted data are included in the appropriate totals. Most data on tax-exempt, nonprofit organizations are excluded from disclosure review because the Internal Revenue Code and regulations permit public access to most of the information reported by these organizations.

Public Release of SOI Information

Goals for Public Release of SOI Information

Statistics of Income program and year	End of tax year	Close of filing period— Regular	Close of filing period— With extensions of time	Close of sampling period	Tentative release date for final data
	(1)	(2)	(3)	(4)	(5)
Individual income tax returns:					
2006	December 2006	April 2007	October 2007	December 2007	August 2008
2007	December 2007	April 2008	October 2008	December 2008	August 2009
Nonfarm sole proprietorships:					
2006	December 2006	April 2007	October 2007	December 2007	August 2008
2007	December 2007	April 2008	October 2008	December 2008	August 2009
Partnerships:					
2006	December 2006	April 2007	October 2007	December 2007	July 2008
2007	December 2007	April 2008	October 2008	December 2008	July 2009
Corporations: [1]					
2005	June 2006	September 2006	March 2007	June 2007	March 2008
2006	June 2007	September 2007	March 2008	June 2008	March 2009
Corporation foreign tax credit: [2]					
2005	June 2006	September 2006	March 2007	June 2007	October 2008
2006	June 2007	September 2007	March 2008	June 2008	October 2009
Controlled foreign corporations: [2]					
2006	June 2007	September 2007	March 2008	June 2008	October 2009
Tax-exempt organizations: [3]					
2005	November 2006	April 2007	October 2007	December 2007	August 2008
2006	November 2007	April 2008	October 2008	December 2008	August 2009
Private foundations: [3]					
2005	November 2006	April 2007	October 2007	December 2007	August 2008
2006	November 2007	April 2008	October 2008	December 2008	August 2009
Tax-exempt organization unrelated business income: [3]					
2005	November 2006	April 2007	October 2007	December 2007	October 2008
2006	November 2007	April 2008	October 2008	December 2008	October 2009
Estate tax returns:					
2007	[4]	[4]	[4]	December 2007	October 2008
2008	[4]	[4]	[4]	December 2008	October 2009
Split-interest trusts:					
2007	[5]	[5]	[5]	December 2007	October 2008
2008	[5]	[5]	[5]	December 2008	October 2009
Gift tax returns:					
2007	[4]	[4]	[4]	December 2007	October 2008
2008	[4]	[4]	[4]	December 2008	October 2009
Nonresident alien estate tax returns:					
2007	[4]	[4]	[4]	December 2007	February 2009
2008	[4]	[4]	[4]	December 2008	May 2009
Fiduciary extracts:					
2007	[5]	[5]	[5]	December 2007	October 2008
2008	[5]	[5]	[5]	December 2008	October 2009
Tax-exempt bonds:					
2006	[6]	[6]	[6]	December 2007	April 2008
2007	[6]	[6]	[6]	December 2008	April 2009

[1] Corporation statistics for 2005 represent accounting periods ended July 2005 through June 2006. Study Year 2006 is similarly defined.

[2] Data for 2005 represent accounting periods ending July 2005 through June 2006. Data for Study Year 2006 are similarly defined.

[3] Data for 2005 represent tax years ending between December 2005 and November 2006. Study Year 2006 is similarly defined.

[4] Estate and gift tax data are processed on a filing-year, rather than on a year-of-death or gift-year (tax-year) basis. At a later stage (not shown here), filing years are combined by year of death or gift year, respectively.

[5] Split-interest trust and fiduciary income tax statistics are processed on a filing-year rather than a tax-year basis.

[6] Tax-exempt private activity governmental bond statistics are collected annually based on issue year. Arbitrage rebate and penalty studies are conducted biennially, for tax years ending in odd numbers.

SOI Projects and Contacts

General Statistical Information: (202) 874-0410 Fax: (202) 874-0964 e-mail: sis@irs.gov

Projects*	Primary Analysts	Frequency and Program Content
Americans Living Abroad: 2006 Program	 Scott Hollenbeck Maureen Keenan Kahr	This periodic study is conducted every 5 years. It covers foreign income, foreign taxes paid, and foreign tax credit shown on individual income tax returns. Data are classified by size of adjusted gross income and country.
Controlled Foreign Corporations: 2004 Program 2006 Program	 Randy Miller Jason Wenrich	This semiannual study provides data on activities of foreign corporations that are controlled by U.S. corporations. Data are classified by industry group and country.
Controlled Foreign Partnerships: 2004 Program 2008 Program	Bill States	This study provides data on activities of foreign partnerships that are controlled by U.S. corporations or partnerships. Frequency of this study has not been determined.
Corporation Foreign Tax Credit: 2004 Program 2005 Program 2006 Program	 Scott Luttrell Rob Singmaster Scott Luttrell	This annual study provides data on foreign income, taxes paid, and foreign tax credit reported on corporation foreign income tax returns. Data are classified by industry group and country.
Corporation Income Tax Returns: 2005 Program 2006 Program	 Bill Rush Todd Reum Ellen Legel	Basic data are produced annually and cover complete income statement, balance sheet, tax, tax credits, and details from supporting schedules. Data are classified chiefly by industry group or asset size.
Entity Classification Election ("Check-the-Box"):	 John Comisky Lawrence Sao	This annual study includes data from all Entity Classification Elections, including the type of election and whether the entity is foreign or domestic.
Estate Tax: 2004-2006 Program 2007-2009 Program	Brian Raub	This annual study includes information on a gross estate and its composition, deductions, and tax; and information on the age, sex, and marital status of decedents. Basic estate tax return data by year in which returns are filed are produced each year. Also included are data on nonresident aliens who had more than $60,000 of assets in the United States. Other statistics are available on a year-of-death basis (approximately every 3 years). The most recent study is based on decedents who died in 2004 with returns filed in 2004-2006. The most recent data available are for returns filed in 2006.

SOI Projects and Contacts

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Excise Taxes:	Melissa Laine	Basic data are collected and processed by three Department of the Treasury agencies: the Internal Revenue Service, the Alcohol and Tobacco Tax and Trade Bureau (formerly the Bureau of Alcohol, Tobacco, Firearms, and Explosives), and the Customs Service. Data by type of tax are shown by Fiscal Year (FY) for 1998-2005 and quarterly for FY 2006 and the first three quarters of FY 2007.
Exempt Organizations (Charitable and Other, Except Private Foundations): 2004 Program 2005 Program 2006 Program	 Paul Arnsberger	This annual study includes balance sheet and income statement data for organizations classified as tax-exempt under subsections 501(c)(3)-(9) of the Internal Revenue Code. The most recent data are for Reporting Year 2004 returns filed in Calendar Years 2005-2006.
Exempt Organizations (Private Foundations): 2004 Program 2005 Program 2006 Program	 Melissa Ludlum Mark Stanton	This annual study includes balance sheet and income statement data for domestic private foundations and charitable trusts filing a Form 990-PF. The most recent data are for Reporting Year 2004 returns filed in Calendar Years 2005-2006.
Exempt Organizations Unrelated Business Income: 2004 Program 2005 Program 2006 Program	 Peggy Riley Peggy Riley Melissa Ludlum	This annual study includes tabulations of "unrelated business" income and deductions for organizations classified as tax-exempt under the Internal Revenue Code. The most recent data are for Reporting Year 2004 returns filed in Calendar Years 2005-2006.
Farm Sole Proprietorships 2003 Program 2004 Program	 Kevin Pierce Mary Jezek	This periodic study provides farm income and expenses classified by industry and gross farm income reported by individuals on Schedule F, *Profit or Loss from Farmin* g
Foreign-Controlled Domestic Corporations: 2002 Program	 James Hobbs	This annual study covers domestic corporations with 50-percent-or-more stock ownership by a single foreign "person." It covers balance sheet, income statement, and tax-related data, which are classified by industry group, country, and size and age of the corporations. Data are compared to those for other domestic corporations.
Foreign Recipients of U.S. Income: 2005 Program	 Scott Luttrell	This annual study provides data by country on income paid to nonresident aliens and the amount of tax withheld for the U.S. Government.

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Foreign Trusts: 2006 Program	Dan Holik	This periodic study, conducted every 4 years, provides data on foreign trusts that have U.S. "persons" as grantors, transferors, or beneficiaries. Data include country where the trust was created, value of transfer to the trust, and year the trust was created. The most recent study is for Tax Year 1998.
Gift Tax: 2006 Program 2007 Program 2008 Program	Darien Jacobson	This annual study provides data for type and amount of gift, information on donee, and tax computation items. Information about the donor and gift splitting are also available. Most recent data are for Gift Year 2006.
Individual Income Tax Return Public-Use File:	Mario Fernandez	Microdata on CD-ROMs are produced annually and contain detailed information obtained from the individual income tax return statistics program, with identifiable taxpayer information omitted to make the file available for public dissemination on a reimbursable basis.
Individual Income Tax Returns: 2004 Program 2005 Program 2006 Program	Maureen Keenan Kahr	Basic data are produced annually and cover income, deductions, tax, and credits reported on individual income tax returns and associated schedules. Data are classified by size of adjusted gross income, marital status, or type of tax computation.
Individual Income Tax Returns Special Tabulations:	Mike Parisi	Special tabulations of selected individual income, deduction, and tax data are produced on a reimbursable basis.
Interest-Charge Domestic International Sales Corporations (IC-DISCs): 2004 Program 2005 Program 2006 Program	Dan Holik	These corporations replaced the Domestic International Sales Corporations, or DISCs, as of 1985. Balance sheet, income statement, and export-related data are tabulated every 4 years. The most recent study is for Tax Year 2004.
International Boycott Reports: 2004 Program 2005 Program	Lissa Redmiles	This study provides data on business operations of U.S. "persons" in boycotting countries, as well as the requests and agreements to participate in, or cooperate with, international boycotts not sanctioned by the U.S. Government.
Migration Flow and County Income Data:	Emily Gross	Migration flow data (based on year-to-year changes in individual income tax return addresses) and county or State income data are available annually on a reimbursable basis. The most recent data are for 2005-2006.

SOI Projects and Contacts

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Noncash Charitable Contributions:	Janette Wilson	This study of Individual income tax returns provides detailed asset donations, descriptions of the donees, donor cost, fair market value, and deduction claimed on Form 8283, *Noncash Charitable Contributions.*
Occupation Studies:	Terry Nuriddin	This periodic study classifies individual income tax returns by occupation and contains a dictionary of occupational titles that can be used to enhance the economic data of other individual income tax return studies.
Partnership Returns of Income:	Tim Wheeler Nina Shumofsky	Basic data, produced annually, cover income statement, balance sheet, and details from supporting schedules. Data are classified chiefly by industry group.
Partnership Withholding Study: 2005 Program	Scott Luttrell	This annual study includes data on U.S. partnership payments to foreign partners. Data are classified by country and recipient type.
Personal Wealth Study: 2001 Program 2004 Program	Brian Raub Barry Johnson	This periodic study provides estimates of personal wealth of top wealth holders that are generated from estate tax return data using the "estate multiplier" technique, in conjunction with both filing-year and year-of-death estate databases. The most recent data, 2001, are based on returns filed from 2001 to 2003.
S Corporations:	Heather Parisi	Annual study data are collected for the income statement and balance sheet, and from supporting schedules. Data are classified by industry group or asset size.
Sales of Capital Assets:	Janette Wilson	This periodic study provides detailed data on the sales of capital assets reported in the capital gains schedule of the individual income tax return, and on sales of residences and personal or depreciable business property.
Sole Proprietorships: 2004 Program 2005 Program 2006 Program	Jeff Curry	Basic data, produced annually, cover business receipts, deductions, and net income reported on Schedule C (for nonfarm proprietors), classified by industry group.

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Split-Interest Trust Information Return: 2006 Program 2007 Program 2008 Program	Lisa Schreiber	This annual study provides information on charitable remainder trusts, charitable lead trusts, and pooled income funds. Data include balance sheet, income, deductions, and detail from accumulation and distribution schedules. The most recent data are for Filing Year 2006.
Tax-Exempt Bond Issues: 2005 Program 2006 Program 2007 Program	Cynthia Belmonte	This annual study provides information on private activity and Governmental bond issues by type of property financed, size of face amount, and State. The most recent data are for Tax Year 2005 public purpose bonds and private activity bonds.
Taxpayer Usage Study:	Kevin Pierce	This annual study provides weekly frequencies of specific line entries made by taxpayers, the use of various return schedules and associated forms, and general characteristics of the individual taxpayer population, for returns received during the primary filing season (January through April).
Transactions of Foreign-Controlled Corporations:	Mark Lowe	This biennial study includes data on transactions between U.S. corporations and their foreign owners. Data are classified by country and industry group.
U.S. Possessions Corporations:	Dan Holik	This periodic study, planned for every 2 years, provides data on income statement, balance sheet, tax, and "possessions tax credit" for qualifying U. S. possessions corporations. (Most of these corporations are located in Puerto Rico.)
ZIP Code Area Data:	Emily Gross	Statistics on CD-ROM show number of individual income tax returns, exemptions, and several income items by State and 5-digit ZIP Code. Data are available for 2002, 2004, and 2005 on a reimbursable basis. (Data for Tax Years 1991 and 2001 are also available, free of charge, on the IRS Web site: http://www.irs.gov/taxstats/article/0,,id=96947,00.html.)

Many of the data release dates, i.e., the months in which the Statistics of Income Division expects to release data to users, ahead of publication, on request, are published in each issue of the *SOI Bulletin* (see "Public Release of SOI Information"). For more information about data availability for a particular project, call or fax the numbers shown at the top of the page.

SOI Products and Services

Statistics of Income (SOI) data are available in electronic formats and in printed publications. For further information on any of the following products and services, or for answers to questions on the availability of SOI data, other statistical services, or release dates for data, contact SOI's **Statistical Information Services (SIS):**

Statistical Information Services (sis@irs.gov)
Statistics of Income Division
Internal Revenue Service
P.O. Box 2608 • Washington, DC 20013-2608
(202) 874-0410 • **Fax:** (202) 874-0964

As its name implies, SIS is best able to answer questions about data. It does not supply tax forms or information about the status of an individual's tax refund or audit examination. Media requests should be directed to the IRS Media Relations Branch, Communications Division, on (202) 622-4000.

Electronic Products and Services

Products Available Free on the Internet

SOI's Internet site offers a combination of files presenting SOI tables, articles about SOI data, and information about SOI products and services, as well as non-SOI products, including annual *IRS Data Book* tables, Compliance Research projections, and nonprofit Master File microdata records. At present, over 6,902 files reside there.

Web site: www.irs.gov/taxstats

There is also a direct link to our Web site from FedStats, the gateway to official statistics from the Federal Government: www.fedstats.gov.

Tax Stats

On the Tax Stats Home Page, you will find the following list of topics that will lead you to a wide range of tables, articles, and data that describe and measure elements of the U.S. tax system. There is also a link to check out What's New.

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S Corporations • All Topics

Charitable and Exempt Organization Statistics
Charities • Exempt Organization Master File
Private Foundations • Trusts
Tax-Exempt Bonds • All Topics

Individual Tax Statistics
Filing Season Statistics • Estate and Gift Tax
Individual Income Tax • International
Personal Wealth • All Topics

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All Topics

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Products Available From SOI

Many of SOI's data files are available for sale on CD-ROM, diskette, tape, or via e-mail through Statistical Information Services. **Prepayment is required for orders of $100 or more**, with checks made payable to the **IRS Accounting Section.** Credit and debit card payments are also accepted. Contact SIS for information on specific products, prices, sources, media, and ordering instructions.

The following files are currently available on a reimbursable basis and include data from returns covering corporations, individuals, exempt organizations, and private foundations and charitable trusts. Most of these files are tabulations of aggregated data, but some are files of microdata records.

Corporation Income Tax Returns

Corporation Source Book

A magnetic tape or CD-ROM containing data from the *Corporation Source Book* are available for years 1996-2003 at a cost of $250 per year. Data from the 2004 and 2005 *Corporation Source Books* are available at no charge from the Tax Stats Web site. Data tables from the 2000 through 2005 *Source Book* are also available at no charge from the Tax Stats Web site at: www.irs.gov/taxstats/bustaxstats/article/0,,id=149687,00.html. See also *Printed Publications* section below.

Individual Income Tax Returns

Individual Public-Use Microdata Files

These files include individual income tax returns for 1960, 1962, 1964, and 1966-2004. All of the files have been edited to protect the confidentiality of individual taxpayers. Public-use files of individual income tax returns for 1960, 1962, 1964, and 1966-1991 are available for sale by writing to the Center for Electronic Records at the National Archives and Records Administration, 8601 Adelphi Road, College Park, MD 20740-6001, or by calling toll-free (866) 272-6272. Files for 1992 through 2004 are available on CD-ROM from the SOI Division. Price for the SOI microdata files is $4,000 per year.

County-to-County Migration Data

One table, based on the year-to-year changes in the addresses shown on the population of returns from the IRS Individual Master File system. This table presents data on migration patterns by county for the entire United States, including inflows and outflows. The data include the number of returns (which approximates the number of households); the number of personal exemptions (which approximates the population); and total "adjusted gross income" (starting with Filing Year 1995); total money income (for Filing Years 1993 through 1994). Available for Filing Years 1984-2006. Price is $200 per year for the entire United States or $10 per State per year. (All years for the entire United States are also available for $500.)

State-to-State Migration Data

One table, based on the year-to-year changes in the addresses shown on the population of returns from the IRS Individual Master File system. This table presents data on migration patterns by State for the entire United States, including inflows and outflows. The data include the number of returns (which approximates the number of households); the number of personal exemptions (which approximates the population); total "adjusted gross income" and "median adjusted gross income" (starting with Filing Year 1996); total money income and median total money income (for Filing Years 1993 through 1996). Available for Filing Years 1989-2006. Price is $50 per year for the entire United States or $10 per State per year.

County Income Data

One table, based on the population of returns from the IRS Individual Master File system. This table presents data for adjusted gross income (total and for selected sources), number of returns (which approximates the number of households), and number of personal exemptions (which approximates the population). The data are presented by county (including State totals) and are available for Tax Years 1989-2005 for the entire United States. Price is $50 per year for the entire United States or $10 per State per year.

ZIP Code Area Data

Statistics are available for Tax Years 2002, 2004, and 2005 on CD-ROM showing the number of individual income tax returns; the total number of exemptions and number of dependent exemptions (which approximates population); adjusted gross income; salaries and wages; taxable interest; total tax; contributions; number of returns with Schedules C and F; and number of returns with Schedule A, by State and 5-digit ZIP Code. In addition to these items, data for Tax Years 2004 and 2005 also show the amount of taxable dividends; net capital gain/loss; IRA payment adjustment; self-employed pension adjustment; taxes paid deduction; alternative minimum tax; income tax before credits; earned income credit; and number of returns prepared by paid preparers. Price is $500 for the entire United States; $25 for a single State. (Data for Tax Years 1998 and 2001 are available free on SOI's Internet site.) Go to **www.irs.gov,** select the **Tax Stats** option; Individual Tax Statistics; Individual Income Tax; Zip Code Data (SOI) under Data by Geographic Areas.

Tax-Exempt Organizations

Compendium of Studies of Tax-Exempt Organizations, 1989-1998

This is a compilation of articles on SOI studies of charitable and other nonprofit organizations described in Internal Revenue Code sections 501(c)(3)-(c)(9), private foundations, charitable remainder trusts, and nonprofit organizations' unrelated business income. All of these articles were published previously in various issues of the *Statistics of Income Bulletin*. In addition, the *Compendium* includes papers on statistical sampling of tax-exempt organization returns, and other topics relating to tax-exempt organizations and philanthropy that were authored by IRS staff and others who use SOI study data for research. Available at no charge on CD-ROM.

Microdata Records for Tax Year 2004
Microdata records of all Forms 990 and 990-EZ sampled for the annual SOI study of tax-exempt organizations. The samples include 14,947 Internal Revenue Code section 501(c)(3) organizations and 6,577 section 501(c)(4)-(9) organizations. All returns for organizations with assets of $50,000,000 or more are included in the sample. Microdata records contain information on balance sheets and income statements, as well as weights (to estimate the population), for each organization. Available for download from SOI's Tax Stats Web site at www.irs.gov/taxstats/charitable stats/article/0,,id=97176,00.html, or may be purchased on CD-ROM for $20.

Microdata Records for Tax Years 1992-2003
Microdata records of all Forms 990 and 990-EZ sampled for the annual SOI study of tax-exempt organizations. Microdata records contain information on balance sheets and income statements, as well as weights (to estimate the population), for each organization. Available for download from SOI's Tax Stats Web site at www.irs.gov/taxstats/charitable stats/article/0,,id=97176,00.html, or may be purchased on CD-ROM for $20.

Private Foundations (and Charitable Trusts)

Microdata Records for Tax Year 2004
Microdata records of all Forms 990-PF sampled for the annual SOI study covering private foundations and Internal Revenue Code section 4947 (a)(1) charitable trusts. The file contains both operating and nonoperating foundations and trusts. The sample includes 11,226 returns. (All returns filed by foundations with assets of $10 million or more, as well as the population of returns filed by nonexempt charitable trusts, are included in the sample.) Microdata records contain information on revenue, expenses, assets, and distributions, as well as weights, for each foundation or trust. Available for download from SOI's Tax Stats Web site at www.irs.gov/taxstats/charitablestats/article/0,,id=96996,00.hmtl, or may be purchased for $20.

Microdata Records for Tax Years 1992-2003
Microdata records of all Forms 990-PF sampled for the annual SOI study covering private foundations and Internal Revenue Code section 4947 (a)(1) charitable trusts. Microdata records contain information on revenue, expenses, assets, and distributions, as well as weights, for each foundation or trust. Available for download from SOI's Tax Stats Web site at www.irs.gov/taxstats/charitablestats/article/0,,id=96996,00.hmtl, or may be purchased for $20.

Printed Publications

Publications Available for Sale From GPO

Recent SOI publications are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC, **by calling (202) 512-1800, or faxing (202) 512-2250.** Credit cards are accepted. Publications may also be obtained by using the order form at the end of this *Bulletin* or write to:

Superintendent of Documents
P.O. Box 371954
Pittsburgh, PA 15250-7954

If you determine from the Government Printing Office that any of the next four items is out of print, telephone **Statistical Information Services on (202) 874-0410** for assistance.

IRS Data Book, 2006
Annually, Publication 55B, Stock No. 048-004-02494-2
Price: $11

This volume pertains to Fiscal Year 2006—October 1, 2005, through September 30, 2006. The report provides information on returns filed and taxes collected, enforcement, taxpayer assistance, the IRS budget and workforce, and other selected activities.

Statistics of Income Bulletin
Quarterly, Publication 1136, Stock No. 748-005-00091-9
Subscription price: $53; Single copy price: $39

This series provides the earliest published financial statistics from individual and corporation income tax returns. The *Bulletin* also includes annual data on nonfarm sole proprietorships and partnerships, as well as periodic or special studies of particular interest to tax analysts, administrators, and economists. Historical tables, available in the spring issue, include data from SOI, as well as tax collections and refunds by type of tax.

Statistics of Income—2005, Corporation Income Tax Returns

Publication 16
Price: $45

This report presents more comprehensive data on corporation income tax returns with accounting periods that ended July 2005 through June 2006 than those published earlier in the *SOI Bulletin.*

Presents information on:
- receipts
- deductions
- net income
- taxable income
- income tax
- tax credits
- assets
- liabilities

Classifies data by:
- industry
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- size of total assets
- size of business receipts
- size of income tax after credits

Statistics of Income—2005, Individual Income Tax Returns

Publication 1304, Stock No. 748-005-00090-1
Price: $39 Foreign: $54.60

This report presents more comprehensive and complete data on individual income tax returns for Tax Year 2004 than those published earlier in the *SOI Bulletin.*

Presents information on:
- sources of income
- exemptions
- itemized deductions
- tax computations

Classifies data by:
- size of adjusted gross income
- marital status
- type of tax computation

Publications Available From SOI

Other SOI periodicals and one-time reports are available for sale from Statistical Information Services. These reports include data from returns covering corporations and estate taxes.

Statistics of Income—2005, Corporation Source Book

Publication 1053, Price: $175, plus $10 for shipping and handling

This document presents detailed income statement, balance sheet, tax, and selected items, by sector, major and minor industrial groups, and size of total assets for all returns and separately for returns with net income. Separate statistics on S corporations are included by sector. Industry detail is based on the North American Industry Classification System (NAICS). The report, which underlies the *Statistics of Income—Corporation Income Tax Returns* publication, is part of an annual series and can be purchased in its entirety or by page. *Corporation Source Book* industry pages and notes for 1963 through the present are available at a cost of $30, plus $1 per page copying charge (free for orders under 5 pages). The complete, printed version of the *Source Book* for selected prior years, 1984-2005, is also for sale at $175 per year, plus $10 for shipping and handling. See also *Electronic Products and Services* section.

Compendium of Federal Estate Tax and Personal Wealth Studies

Publication 1773, Price: $26, plus $10 for shipping and handling

Part I of this report focuses on data from estate tax returns, describing decedents, their beneficiaries, and the composition of their estates. It contains a methodological discussion of the strategy used in weighting sample data for the estate studies and presents statistics on selected components of decedents' estates, 1916-1990. Information on charitable giving is also included.

Part II presents a series of articles describing the estate-multiplier technique and its applications for personal wealth estimates, estimates of personal wealth for selected years 1962-1989, and a discussion of the relationship among realized income, wealth, and well-being.

Special Studies in Federal Tax Statistics, 2006

Publication 1299, No charge

This is the sixth and final edition of the IRS Methodology Report series *Special Studies in Federal Tax Statistics, 2006.* The papers included in this volume were presented in 2006 at the Joint Statistical Meetings of the American Statistical Association (ASA) held in Seattle, Washington, the National Tax Association's Annual Conference on Taxation held in Boston, Massachusetts, and the United Nations Statistical Commission and Economic Commission for Europe Conference of European Statisticians held in Geneva, Switzerland.

SOI Products and Services

This compilation has been divided into six major sections:

- Innovative uses of longitudinal panels, information documents, and time-series analysis to study the impact of the U.S. tax system;
- Measuring, monitoring, and evaluating Internal Revenue Service data;
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