Exempt Organization Business Income Tax Returns: Highlights and an Analysis of Exempt and Nonexempt Finances, 1993

by Margaret Riley

Tax-exempt organizations with accounting periods beginning in 1993 reported $4.7 billion of gross "unrelated business income" that was derived from regularly carrying on activities that were not substantially related to their tax-exempt function. After offsetting gross unrelated business income (UBI) with $5.7 billion of total deductions, these organizations reported an aggregate net deficit of $1.0 billion. Of the 32,638 organizations that reported gross UBI on Tax Year 1993 Forms 990-T, *Exempt Organization Business Income Tax Return*, fewer than half, or 46 percent, reported unrelated business net income (taxable profit) amounting to $603.6 million; the others reported zero net income or net deficits [1]. After adjustments were made to the $180.0 million of tax due on unrelated business income, subtracting certain credits and adding other taxes, the resulting total income tax reported was $181.4 million [2].

As shown in Figure A, the number of Forms 990-T filed by organizations reporting gross UBI rose by 5 percent between 1992 and 1993, a recovery from the 5-percent decrease in return filings which occurred between 1991 and 1992 (discussed below). Gross UBI increased by 15 percent, while related deductions increased by 11 percent between 1992 and 1993, resulting in a 6-percent decrease in the amount of aggregate net loss reported. However, total net income collectively reported by a little more than 15,000 organizations for 1993 was 24 percent higher than the amount reported for 1992, an increase that partly contributed to the 37-percent rise in total income tax. The cause, or causes, of the increased net income requires further research, since it reflects increases in gross UBI, as well as smaller increases in deductions, and both of these are the result of organizational decisions. The 37-percent increase in total income tax is discussed in the Increases in Corporate and Trust Tax Rates section, presented below.

For each of the Tax Years 1990 through 1993, the percentage of organizations that reported net income on Forms 990-T remained fairly stable, ranging from 44 to 47 percent. The remaining organizations reported zero net income or a deficit. For all four years, the percentage of organizations reporting net income gradually decreased as the size class of gross UBI increased. For example, for Tax Year 1993, net income was reported on 55 percent of the returns filed by organizations with gross UBI of $10,000 or less, on 41 percent of the returns filed by organizations with gross UBI over $10,000 but under $1,000,000, and on 33 percent of the returns filed by organizations with gross UBI of $1,000,000 or more.

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Figure A

Selected Financial Data from Exempt Organization Business Income Tax Returns, Tax Years 1992 and 1993

[Money amounts are in thousands of dollars]

Item	1992	1993	Percentage change
	(1)	(2)	(3)
Number of returns	**31,122**	**32,638**	**+4.9**
Gross unrelated business income	4,069,149	4,694,181	+15.4
Total deductions	5,182,551	5,741,420	+10.8
Net income (less deficit)	-1,113,402	-1,047,239	-5.9
Net income (taxable profit)	485,874	603,593	+24.2
Deficit	-1,599,276	-1,650,831	+3.2
Total income tax	132,378	181,437	+37.1

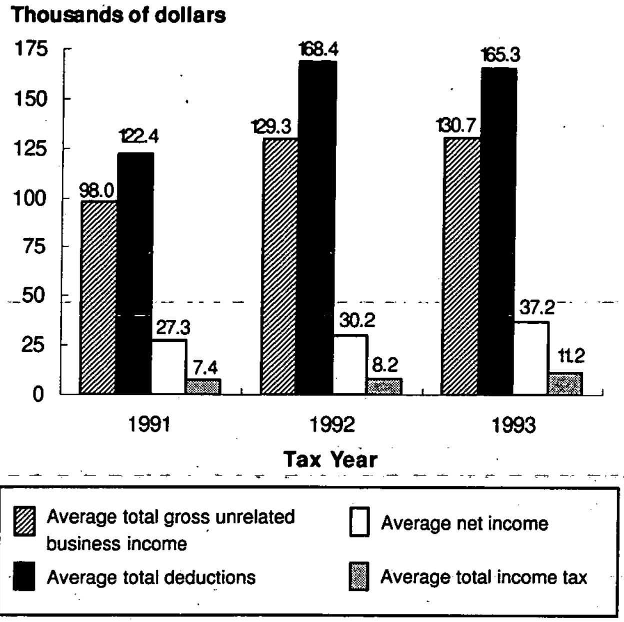
Figure B graphically displays "per return" averages, in constant 1992 dollars, for four major financial items reported on Form 990-T: gross UBI, total deductions, net income, and total income tax [3]. From Tax Year 1991 to Tax Year 1993, average amounts of gross UBI and total deductions increased, in real dollar terms, by 33 and 35 percent, respectively. The relatively large percentage increases in these two items over the three tax years can be attributed almost entirely to growth which occurred during Tax Year 1992. Respective increases in average gross UBI and average total deductions from 1991 to 1992 were 32 percent and 38 percent. Average real gross UBI rose by only 1 percent from 1992 to 1993, while average real total deductions for this period fell by about 2 percent.

An extensive revision of the Tax Year 1992 Form 990-T introduced a change in reporting requirements which contributed to a 16-percent decline in the number of returns filed by smaller exempt organizations, those with gross UBI of $10,000 or less [4]. Overall, the number of returns filed for 1992 dropped by 5 percent, but, at the same time, gross UBI and total deductions grew by 20 percent and 28 percent, respectively. This accounts for much of the large percentage increases between 1991 and 1992 in the averages shown in Figure B for these two items. Despite the significant variation in the percentage change in average total deductions between the 1991-92 and the 1992-93 periods, the amount of average total deductions consistently was between 125 and 130 percent of respective average gross income for each of the three tax years shown.

Constant-dollar per return net income, based on returns

Figure B

Average[1] Total Gross Unrelated Business Income, Average Total Deductions, Average Net Income[2] (Taxable Profit), and Average Total Income Tax, 1991-1993, in Constant 1992 Dollars



[1] The average for a given item was computed based on the number of returns on which that item was actually reported, not the total number of returns filed.

[2] Excludes returns with net deficit.

NOTE: Constant dollar amounts were calculated using the Gross Domestic Product (GDP) implicit price deflator, published in U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (selected issues).

showing a taxable profit, grew by 36 percent between 1991 and 1993, with interim 11-percent and 23-percent increases in the 1991-92 and 1992-93 tax-year periods, respectively. Constant-dollar per return total income tax rose by 51 percent between 1991 and 1993, with interim increases of 11 percent and 37 percent for the respective 1991-92 and 1992-93 periods. Real growth in each of the four major financial items presented in Figure B will continue to be tracked in future studies.

Tax-Exempt Organizations and the Revenue Reconciliation Act of 1993

Lobbying and Political Expenditures

Under the Revenue Reconciliation Act of 1993 (Act), lobbying expenses paid or incurred after December 31, 1993, were no longer deductible as ordinary and necessary business expenses [5]. Generally, expenses subject to this limitation included amounts paid or incurred in connection with influencing Federal or state legislation, participating or intervening in any political campaign, or directly communicating with certain executive branch officials in an attempt to influence their official actions or positions. A *de minimis* rule exempted certain in-house expenditures, up to $2,000, from the deduction limitation.

The Act also established a new reporting requirement for all tax-exempt organizations engaging in lobbying or political activities, other than charitable organizations described in Internal Revenue Code section 501(c)(3) [6]. (See the Appendix to this article for a description of the various types of tax-exempt organizations, which are listed by Code section.) Affected organizations were required to report on their Forms 990, *Return of Organization Exempt From Income Tax*, the total amount of nondeductible lobbying expenditures for the tax year, plus the total amount of assessed or paid membership dues that were allocable to the expenditures. Any organization to which the reporting rule applied also had to provide a notice to members regarding their share of dues to which nondeductible lobbying expenditures were allocable. If the organization elected not to notify its members or failed to include the entire amount of dues that were allocable to the lobbying expenditures (which might easily occur since an estimate of lobbying expenditures expected to be made in the following year was provided in the notification, rather than actual expenditures for a prior period), then the "proxy" tax was imposed. The proxy tax was required to be reported on the Form 990-T; however, there was no connection between the proxy tax and an organization's unrelated business activities or the tax on unrelated business income.

The proxy tax was effective for tax years ending after December 31, 1993, and was computed as the aggregate amount of nondeductible lobbying expenditures that was not included in the notices sent to an organization's members, multiplied by the highest corporate tax rate (35 percent for Tax Year 1993). No expenses or other offsets were allowed against the taxable amount. Transition rules were provided for organizations whose fiscal periods spanned Calendar Years 1993 and 1994. If an organization received or assessed applicable dues prior to January 1, 1994, without the required notification, it was allowed to either pay the proxy tax on the actual amount of dues allocable to Calendar Year 1994 nondeductible expenditures, or to adjust its estimate of allocable dues for the following tax year to correct for the failure to notify members.

Because the proxy tax provisions of the Act were not effective until January 1, 1994, organizations filing Tax Year 1993 returns with January through December accounting periods--54 percent of all filers--were not subject to the tax for that year. All other organizations were covered by the transition rules described above, and it is possible that some of these organizations opted to adjust estimates of allocable dues for 1994 rather than pay the proxy tax for 1993. The proxy tax statistics presented in this article are from returns filed by organizations that reported gross UBI above $1,000 (the filing threshold). Forms 990-T filed only to report the proxy tax (the organization had no unrelated business income or gross UBI was less than $1,000) were excluded from the study sample. Therefore, the data presented below do not provide a complete picture of the impact of the proxy tax provisions on exempt organizations.

The amount of total income tax reported by tax-exempt organizations for 1993 represented a 37-percent increase over 1992.

For Tax Year 1993, there were 83 organizations, all of which had gross UBI of $1,000 or more and were various types of associations tax-exempt under Code section 501(c)(6), that reported the proxy tax. These 83 associations reported $2.6 million of total income tax, of which $2.2 million, or 85 percent, was the proxy tax. The remaining $0.4 million was the regular corporate tax on their combined $1.3 million of unrelated business net income. Their aggregate gross UBI was $19.4 million.

Increases in Corporate and Trust Tax Rates

The Act also increased both corporate and trust income tax rates for Tax Year 1993. The unrelated business income of tax-exempt organizations was taxed at these rates. The maximum tax rate increased from 34 percent to 35 percent for corporations, and from 31 percent to 39.6 percent for trusts [7]. In addition, the number of graduated tax rate brackets increased from four to eight for corporations and from three to five for trusts. The amount of total income tax reported by tax-exempt organizations for 1993 represented a 37-percent increase over 1992. Comparatively, increases in total income tax reported for Tax Years 1991 and 1992 were 18 percent and 13 percent, respectively. The increase in total income tax for 1993 can be attributed in part to the new Act provisions limiting deductions for lobbying expenses, imposing the proxy tax, and raising income tax rates. Another contributing factor was the 24-percent increase in net income, the amount on which the unrelated business income tax was based.

Tax-exempt trusts bore slightly more of the Form 990-T total tax burden than corporate tax-exempt entities for 1993. While the trusts numbered only 13 percent of all organizations, they accounted for 51 percent of aggregate total income tax. For 1992, they accounted for only 42 percent of the total tax. Their $92.7 million of reported total income tax represented a 65-percent increase over the reported 1992 amount; tax-exempt corporate income tax liability increased 17 percent between the two years. The new tax structure affected exempt trusts to a much larger degree than exempt corporations. Whereas the 1993 revisions to the tax rates affected only those corporate organizations with unrelated business taxable income greater than $10,000,000, all trusts with taxable income above $1,500 were taxed for 1993 at rates that were higher than the 1992 rates. Out of the 3,231 trusts reporting unrelated business income tax liability for 1993, slightly more than half were taxed at rates that exceeded the 1992 rates formerly applied to the same levels of taxable income. Fewer than one-tenth of 1 percent of the 11,611 exempt corporations reporting tax on unrelated business income for 1993 were affected by the change in tax rates.

Exempt and Nonexempt Finances

Forms 990 and 990-T Integrated Sample Match

A special "integrated sample" matching program was instituted for the 1993 Statistics of Income study samples of Forms 990 and 990-T in order to gather information on "related" (tax-exempt) and "unrelated" (taxable) income and expenses for organizations which filed both forms. Under the matching program, the Form 990-T sample included unrelated business income tax returns filed by any organizations whose information returns were selected for either of two samples of Form 990 returns, one that included charities tax-exempt under section 501(c)(3), and a separate sample that included organizations tax-exempt under sections 501(c)(4) through 501(c)(9) [8, 9].

In total, there were 4,417 records in the Form 990-T sample that matched the Employer Identification Number and Internal Revenue Code section of records in the two Form 990 samples. Applying Form 990 sample weights to the matched records produced an estimated population of 20,498 organizations for analysis [10]. To clarify, this population is estimated from matched Form 990 and Form 990-T records in the SOI samples; it is not the estimated total population of section 501(c)(3) through 501(c)(9) organizations filing Forms 990-T. The estimated total number of Forms 990-T filed for Tax Year 1993 by organizations in each of these Code section groupings is shown in Table 1 at the end of this article [11]. The matched records provide the means for consistency in analyzing exempt-function and nonexempt-function income and expenses of organizations that are involved in unrelated business activities.

An initial analysis of income and expense data from the integrated samples has been illustrated in Figures C and D. All of the financial data shown are aggregate amounts for various groups of tax-exempt organizations. More in-depth analyses of various distributions of organizations by size, levels, and forms of revenue and expenditures may be explored in future articles. The top panel of both figures displays income and expense data for each section 501(c)(3) through (9) category; the lower panel shows a separate distribution of the data for the various types of section 501(c)(3) charities. The types listed are based on self-coding from check-box selections contained on the Form 990, Schedule A, which consists of supplemental information required of section 501(c)(3) organizations.

In Figure C, "total income" and "total expenses" are the amounts reported on Form 990 [12]. These totals include both exempt-function and nonexempt-function (unrelated business) income and expenses. The "unrelated business income" and "unrelated business expenses" amounts are those that were reported on the Form 990-T [13]. These totals are taken directly from the returns as required to be reported for tax administration purposes. Therefore, the expenses-to-income ratios shown in Figure C are based on a tax concept of income and expenses. While the income and expense data reported on Internal Revenue Service (IRS) forms may be useful for analysis from a tax administration perspective, they do not provide a truly accurate representation of a business "receipts and expenditures" concept of actual financial activity [14].

In Figure D, adjusted tax form amounts have been used to provide a more consistent form of measurement for comparing unrelated business financial activity to the overall financial activity of the organizations studied [15]. Based on adjusted income and expense amounts, Figure D shows the respective proportions of total income and total expenses reported on Form 990 that were allocated to unrelated business income and expenses reported on Form 990-T.

Figure C

Forms 990 and 990-T Matched Samples of Charities and Other Tax-Exempt Organizations: Total Income and Expenses, Unrelated Business Income and Expenses, and Expense-to-Income Ratios, by Selected Internal Revenue Code Sections and Type of Nonprofit Charitable Organization, Tax Year 1993

[Money amounts are in thousands of dollars]

Item	Number of returns	Total income (TI)	Total expenses (TE)	Unrelated business income (UBI)	Unrelated business expenses (UBE)	TE-to-TI ratio	UBE-to-UBI ratio
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Internal Revenue Code section							
Total	**20,498**	**280,211,743**	**263,590,370**	**3,635,717**	**4,472,588**	**0.94**	**1.23**
501(c)(3)	6,312	243,014,053	228,619,794	2,077,275	2,739,518	0.94	1.32
(4)	1,132	6,740,793	6,456,867	199,180	264,759	0.96	1.33
(5)	1,723	3,340,778	3,243,790	146,924	235,273	0.97	1.60
(6)	4,832	7,608,299	7,360,574	587,792	729,234	0.97	1.24
(7)	5,236	5,190,435	5,041,752	286,251	298,026	0.97	1.04
(8)	725	6,230,285	5,942,232	33,579	55,110	0.95	1.64
(9)	538	8,087,100	6,925,361	304,716	150,668	0.86	0.49
Type of nonprofit charitable organization (section 501(c)(3))							
Total	**6,312**	**243,014,053**	**228,619,794**	**2,077,275**	**2,739,518**	**0.94**	**1.32**
Educational institution or school	533	50,340,183	44,722,315	185,774	278,899	0.89	1.50
Hospital	1,159	142,122,204	135,529,346	701,231	1,099,263	0.95	1.57
Hospital research organization	5	1,456,751	1,270,453	4,762	5,270	0.87	1.11
Organization supporting a public college	173	962,754	731,101	20,511	25,869	0.76	1.26
Organization supporting other charitable organizations	301	14,397,570	13,995,208	433,034	390,913	0.97	0.90
Publicly-supported organization [1]	4,132	32,859,111	31,521,236	729,179	937,093	0.96	1.29
Other [2]	9	875,479	850,135	2,783	2,210	0.97	0.79

[1] See footnote 17 at the end of this article for a description of a publicly-supported organization.

[2] Organizations testing for public safety and religious affiliated organizations have been combined as "Other" to avoid possible disclosure of taxpayer identifying information.

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

Expenses-to-Income Ratios

The expenses-to-income ratios in Figure C indicate that aggregate expenses reported on the Form 990-T exceeded income for each class of organization shown, except section 501(c)(9) organizations. The allowance of a deduction for the "net operating loss" carryover (see Explanation of Terms section), the largest type of deduction reported by many Form 990-T filers, substantially contributed to the excess of unrelated business expenses. This is an example of a deduction allowed for tax purposes that was excluded from "adjusted" expenses shown in Figure D. There was no net operating loss carryover allowed on the Form 990, which is considered an "information" return, not a "tax" return.

The unrelated business expenses-to-income ratio shown in Figure C for section 501(c)(9) voluntary employees' beneficiary associations is quite low compared to other types of organizations listed because most of their unrelated business income is from investments and their portfolios are usually overseen by only one or two trust managers. Therefore, deductions for salaries and wages, a significant deduction for many other types of organizations, are relatively small. Occupancy expenses, such as rents and utilities, allocated to unrelated business activities also are usually lower for these associations compared to most other types of organizations.

The ratio shown for recreational and social clubs, tax-exempt under section 501(c)(7), also is comparatively low because their unrelated business deductions were limited under IRS Revenue Ruling 81-69 (RR81-69). If one of these organizations consistently incurred losses from sales to nonmembers (e.g., sales from a food and beverage concession), then it could not deduct these losses from its unrelated business income. Out of the 5,236 section 501(c)(7) organizations shown in Figure C, 789 reported $97.2 million of deductions that were excluded from the computation of taxable income because of the RR81-69 limitation. This amount, which was 39 percent of the

Figure D

Forms 990 and 990-T Matched Samples of Charities and Other Tax-Exempt Organizations: Adjusted Total Income and Expenses, Adjusted Unrelated Business Income and Expenses, Adjusted Unrelated Business Income as a Percentage of Adjusted Total Income, and Adjusted Unrelated Business Expenses as a Percentage of Adjusted Total Expenses, by Selected Internal Revenue Code Sections and Type of Nonprofit Charitable Organization, Tax Year 1993

[Money amounts are in thousands of dollars]

Item	Number of returns	Adjusted total income (ATI)	Adjusted total expenses (ATE)	Adjusted unrelated business income (AUBI)	Adjusted unrelated business expenses (AUBE)	AUBI as a percentage of ATI	AUBE as a percentage of ATE
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Internal Revenue Code section							
Total	**20,498**	**260,854,125**	**259,439,076**	**4,373,960**	**4,138,713**	**1.68**	**1.60**
501(c)(3)	6,312	222,654,461	223,512,960	2,435,064	2,446,912	1.09	1.09
(4)	1,132	6,625,017	6,361,802	398,538	398,886	6.02	6.27
(5)	1,723	3,362,442	3,168,771	153,941	154,991	4.58	4.89
(6)	4,832	7,507,308	7,364,382	698,085	676,337	9.30	9.18
(7)	5,236	6,257,960	6,124,813	444,118	379,173	7.10	6.19
(8)	725	6,362,336	5,991,123	47,897	46,018	0.75	0.77
(9)	538	8,084,601	6,915,225	196,317	36,396	2.43	0.53
Type of nonprofit charitable organization (section 501(c)(3))							
Total	**6,312**	**222,654,461**	**223,512,960**	**2,435,064**	**2,446,912**	**1.09**	**1.09**
Educational institution or school	533	39,576,645	41,172,803	227,957	219,786	0.58	0.53
Hospital	1,159	140,021,551	135,378,725	847,755	924,408	0.61	0.68
Hospital research organization	5	1,447,324	1,179,236	5,295	5,189	0.37	0.44
Organization supporting a public college	173	616,190	735,561	29,889	30,107	4.85	4.09
Organization supporting other charitable organizations	301	14,221,767	13,800,734	437,937	372,519	3.08	2.70
Publicly-supported organization [1]	4,132	25,900,371	30,389,204	882,578	891,824	3.41	2.93
Other [2]	9	870,614	856,697	3,652	3,077	0.42	0.36

[1] See footnote 17 at the end of this article for a description of a publicly-supported organization.

[2] Organizations testing for public safety and religious affiliated organizations have been combined as "Other" to avoid possible disclosure of taxpayer identifying information.

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

affected organizations' aggregate total expenses (before reduction), is somewhat understated because not all organizations disclosed on their Forms 990-T the amount by which they adjusted total deductions under the limitation.

Allocation of Exempt Organization Income and Expenses to Unrelated Business Activities

As mentioned previously, income and expenses shown in Figure D have been adjusted to facilitate comparison of exempt organizations' overall financial activities with their unrelated business activities. Adjustments were made to more accurately reflect actual business receipts and expenditures, versus the amounts of income and deductions that were reported as required for tax purposes [16]. The top panel of Figure D shows that business leagues, chambers of commerce, and real estate boards exempt under section 501(c)(6) collectively had the highest proportions of total income and total expenses allocated to unrelated business activities, a little more than 9 percent of each item. Much of the unrelated business income and expenses reported by these organizations on Form 990-T is related to paid advertisements that are contained in journals and other periodicals that they publish. Relatively high proportions are also shown for civic leagues and social welfare organizations exempt under section 501(c)(4); labor, agricultural, and horticultural organizations exempt under section 501(c)(5); and recreational and social clubs exempt under section 501(c)(7).

A very small portion of the income of fraternal beneficiary organizations exempt under section 501(c)(8) was derived from unrelated business enterprises. These organizations' adjusted unrelated business income and expenses each were less than 1 percent of their total income and expenses. Also, section 501(c)(8) organizations accounted for only 1 percent of the total adjusted unrelated business income and expenses reported by the 20,498 organizations shown in Figure D. In addition to section 501(c)(8) organizations, some of the types of section 501(c)(3) organizations shown in the lower panel of Figure D also had comparatively small proportions of total income and expenses that were attributed to unrelated business activities.

Overall, charities exempt under section 501(c)(3) had adjusted unrelated business income that was only about 1 percent of their adjusted total income, but they accounted for 56 percent of the $4.4 billion total of adjusted unrelated business income shown in the top panel of Figure D. The distribution of these charities by type shows that organizations supporting a public college, organizations supporting other charitable organizations, and publicly-supported organizations all had higher percentages of total income generated from unrelated business activities than any of the other types of charities listed [17]. However, in dollar terms, the hospitals and publicly-supported organizations engaged in unrelated business activities to a greater extent than other types of section 501(c)(3) organizations. In addition, they each reported unrelated business income that was higher than the total reported by any of the section 501(c)(4) through (9) groups presented in Figure D.

Overall, charities had adjusted unrelated business income (AUBI) that was only 1 percent of their adjusted total income, but they accounted for 56 percent of the $4.4 billion total of AUBI.

Expenses-to-income ratios like those in Figure C are not shown for the adjusted income and expense data in Figure D. However, when recalculated using the Figure D adjusted income and expense amounts, expenses-to-income ratios for unrelated business activities were effectively lowered for all IRC section classes of organizations shown. Organizations exempt under sections 501(c)(3), (4), (5), (6), and (8) all had adjusted unrelated business expenses-to-income (UBE-to-UBI) ratios that were equal, or nearly equal, to 1.00, ranging from 0.96 to 1.01. Adjusted UBE-to-UBI ratios for the section 501(c)(7) and 501(c)(9) organizations were 0.85 and 0.19, respectively.

Summary

For 1993, tax-exempt organizations reported $4.7 billion of gross unrelated business income from activities that were not substantially related to their exempt missions. After offsetting income with $5.7 billion of total deductions, these organizations reported a net deficit of $1.0 billion. Despite the aggregate deficit, positive net income of $603.6 million was reported by 15,067 organizations, and that resulted in aggregate unrelated business income tax (UBIT) of $180.0 million. After making adjustments to UBIT, by subtracting certain allowable credits and adding other required taxes, total income tax liability was $181.4 million, an increase of 37 percent over 1992.

The Revenue Reconciliation Act of 1993 affected tax-exempt organizations by limiting the amount of deductible lobbying expenses, raising both corporate and trust income tax rates applied to unrelated business income, and imposing a new "proxy tax" on certain lobbying expenditures. Organizations had to pay the proxy tax on any portion of assessed or paid membership dues that were used for lobbying activities if they failed to notify each member of the amount of its dues used for the lobbying activities.

An "integrated sample" matching program was instituted by the IRS Statistics of Income program for Tax Year 1993 and was designed to link an organization's unrelated business financial data reported on Form 990-T, *Exempt Organization Business Income Tax Return*, with its total financial data reported on Form 990, *Return of Organization Exempt From Income Tax.* Information from matched Forms 990 and 990-T were gathered for organizations tax-exempt under Internal Revenue Code sections 501(c)(3), nonprofit charitable organizations; 501(c)(4), civic leagues and social welfare organizations; 501(c)(5), labor, agricultural, and horticultural organizations; 501(c)(6), business leagues and associations, chambers of commerce, and real estate boards; 501(c)(7), social and recreational clubs; 501(c)(8), fraternal beneficiary societies and associations; and 501(c)(9), voluntary employees' beneficiary organizations. The matched sample facilitates tax policy and economic analysis of exempt-function and non-exempt function income and expenses of tax-exempt organizations.

Data Sources and Limitations

The statistics in this article are based on samples of Tax Year 1993 Forms 990-T, *Exempt Organization Business Income Tax Return*, and Forms 990, *Return of Organization Exempt From Income Tax.* The Internal Revenue Service required organizations having accounting periods beginning in 1993 (and, therefore, ending between December 1993 and November 1994) to file 1993 Forms 990 and 990-T. Because the accounting periods of the organizations filing a 1993 return vary, the financial activities covered in this article span the period January 1993 through November 1994 (although the majority of activities occurred during Calendar Year 1993). The tables at the end of this article were produced from the Form 990-T sample and include most types of tax-exempt organizations. The data analyzed in the Forms 990 and 990-T Integrated Sample Match section (and presented in Figures C and D) were from matched Internal Revenue Code section 501(c)(3) through 501(c)(9) records only. As explained earlier, this matching procedure ensured that the Form 990-T sample included unrelated business income tax returns filed by any tax-exempt organizations whose information returns were selected for either of two Form 990 samples (one of section 501(c)(3) organizations and the other of section 501(c)(4) through 501(c)(9) organizations). For an explanation of the Form 990 samples, please see the data release, *Charities and Other Tax-Exempt Organizations, 1993*, in this issue. The Form 990-T sample is described below.

The population from which the 1993 Form 990-T sample was drawn consisted of Form 990-T records posted to the IRS Business Master File system during 1994 and 1995. The returns in the sample were stratified based on the value of gross unrelated business income (UBI). The sample of 6,451 returns was selected from a population of 33,676. After excluding returns that were selected for the sample but later rejected, the sample size was 6,281 and the estimated population size was 32,638. Rejected returns included those which had gross UBI below the $1,000 filing threshold, were filed only to claim a refund, or were filed for a part-year accounting period that began in a year other than 1993. (For example, a final return filed for the short period of January - June 1994 may have been computer-selected for the 1993 sample based on the criteria of having an ending accounting period that fit into the December 1993 to November 1994 range for a Tax Year 1993 return, but it would be rejected because in actuality it was a Tax Year 1994 return.)

Sampling rates ranged from a minimum of 1.4 percent (Form 990-T gross UBI was less than $20,000 and either there was no Form 990 match or the Form 990 match was a section code 501(c)(3) return with assets under $1,000,000) to a maximum of 100 percent (either Form 990-T gross UBI was $300,000 or more, or it had any amount of gross UBI and matched a Form 990 with assets of $10,000,000 or more) [18]. Other Form 990/Form 990-T matches with various ranges of gross UBI, assets, and section codes were selected at rates ranging from 1.9 percent to 40 percent. When it was determined that gross UBI was less than the $1,000 filing threshold, the return was excluded from the study.

Because the data are based on a sample, they are subject to sampling error. In order to use these statistics properly, the magnitude of the sampling error, measured by the coefficient of variation (CV), should be taken into account. Figure E shows CV's for selected financial data. CV's are

Figure E

Coefficients of Variation for Selected Items, Tax Year 1993

Size of gross unrelated business income	Gross unrelated business income	Total deductions	Net income	Total income tax
	Coefficient of variation (percentages)			
	(1)	(2)	(3)	(4)
Total	**1.35**	**1.38**	**2.36**	**2.30**
$1,000 under $10,001 [1]	4.78	9.37	10.74	13.72
$10,001 under $100,000 [1]	2.22	5.89	5.68	6.86
$100,000 under $300,000	2.65	4.07	7.16	8.47
$300,000 or more	N/A	N/A	N/A	N/A

[1] The gross unrelated business income (UBI) brackets of $1,000 under $10,001 and $10,001 under $100,000 reflect the different filing requirements for organizations with gross UBI of $10,000 or less (only a "partial" return was required) and all other Form 990-T filers (a more detailed "complete" return was required).

N/A - Not applicable.

not shown for returns with gross UBI of $300,000 or more because they were sampled at the 100-percent rate and, therefore, are not subject to sampling variability. A discussion of the reliability of estimates based on samples and methods for evaluating both the magnitude of sampling and nonsampling error and the precision of sample estimates can be found in the general Appendix, located near the back of this issue.

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

Explanation of Selected Terms

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

Capital Gain Net Income.--Generally, organizations required to file Form 990-T (except organizations exempt under Internal Revenue Code sections 501(c)(7), (9), and (17)) were not taxed on the net gains from the sale, exchange, or other disposition of property. However, net capital gains on sales of debt-financed property, certain gains on the cutting of timber (section1231), and gains on sales of certain depreciable property (described in sections 1245, 1250, 1252, 1254, and 1255) were taken into account in computing capital gain net income. (See the explanation of Investment Income (Less Loss) for information regarding investment income of section 501(c)(7), (9), and (17) organizations.)

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

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

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

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

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

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

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

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

Investment Income (Less Loss).-- This item was reported only by organizations exempt under Internal Revenue Code sections 501(c)(7), (9), and (17) (each described in the Appendix to this article) and included income such as gross unrelated debt-financed income, gross income from the ownership or sale of securities, and set-asides deducted from investment income in previous years that were subsequently used for a purpose other than that for which a deduction was allowed. (See, also, the explanation of Set-asides.) All gross rents (except those that were exempt-function income) of section 501(c)(7), (9), and (17) organizations were treated as unrelated business income and were reported as "rental income." Organizations exempt under sections other than 501(c)(7), (9), and (17) did not report "investment income (less loss)." Generally, these organizations' dividend, interest, rental and annuity income was not taxed as unrelated business income, unless it was income from a controlled organization or debt-financed income, or if 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 an exempt (or nonexempt) trust had a net loss from sales or exchanges of capital assets, it was allowed a deduction for the amount of the net loss or $3,000, whichever was lower. Corporations were not allowed to deduct any excesses of capital losses over capital gains. Trusts reported the net capital loss deduction on Form 990-T as a negative component of gross unrelated business income. Most of the trusts filing Forms 990-T were Individual Retirement Arrangements (IRA's); employee pension, profit sharing or stock bonus plans; and employees' beneficiary associations providing for payment of life, sickness, accident, or other benefits to members.

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

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

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

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

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

Proxy Tax.--This was a tax on certain nondeductible lobbying and political expenditures paid or incurred after December 31, 1993, by tax-exempt organizations, except Internal Revenue Code section 501(c)(3) charitable organizations. If the organization failed to notify its members regarding their share of dues to which nondeductible lobbying and political expenditures were allocable, or if the notice did not include the entire amount of dues that were allocable, then the proxy tax was imposed on the organization. It was computed as the aggregate amount of nondeductible lobbying expenditures that was not included in the notices sent to the organization's members, multiplied by the highest corporate tax rate.

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

Set-asides.--These amounts were allowed to social clubs (Internal Revenue Code section 501(c)(7)), voluntary employees' beneficiary associations (section 501(c)(9)), and supplemental unemployment benefit trusts (section 501(c)(17)) as a deduction from investment income. The deduction was equal to the amount of passive income (generally, investment income) that these organizations set aside (1) to be used for charitable purposes or (2) to provide payment of life, sick, accident, or other 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 a $1,000 deduction, considered "not directly connected" with gross unrelated business income, allowed to all organizations which had positive taxable income after all other types of deductions were taken. If positive taxable income was less then $1,000, then an organization could take a specific deduction equal to its taxable income.

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

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

Unrelated Business Income Tax.--This was the tax imposed on unrelated business net income (taxable profit). It was determined based on the regular corporate or trust income tax rates that were in effect for the 1993 Tax Year, as specified in the 1993 *Instructions for Form 990-T, Exempt Organization Business Income Tax Return* booklet.

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

Notes and References

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

[2] While the largest share of total income tax was the tax on unrelated business income, total tax also could have included the "proxy tax" on certain lobbying expenditures, "recapture taxes" (such as from recomputation of prior-year investment or low-income housing credits), the "alternative minimum tax" (AMT), and the environmental tax. Also, the foreign tax credit, general business credit, prior-year minimum tax credit, and other credits (such as the U.S. possessions tax credit, nonconventional source fuel credit, and qualified electric vehicle credit) were subtracted from the unrelated business income tax in computing total tax.

[3] Inflation-adjusted "constant" or "real" dollar estimates shown in Figure B were derived using the Implicit Price Deflator for Gross Domestic Product from the U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, January/February 1996, Volume 76, Number 1/2 (for the year 1991), and August 1996, Volume 76, Number 8, (for the years 1992 and 1993).

[4] See Riley, Margaret, "Exempt Organization Business Income Tax Returns, 1992," *Statistics of Income Bulletin*, Spring 1996, Volume 15, Number 4, for a discussion of the effect of the Tax Year 1992 reporting requirement changes.

[5] For a more complete description of provisions affecting tax-exempt organizations, see Commerce Clearing House, *Revenue Reconciliation Act of 1993: Law and Explanation*, August 1993.

[6] The term "charitable" refers to tax-exempt organizations with purposes that are charitable, educational, scientific, literary or religious in nature. Organizations tax exempt under Internal Revenue Code section 501(c)(3) may engage in only an insubstantial amount of lobbying activity and they are not allowed to engage in any political activities.

[7] Tax rates for exempt trusts were the same as those imposed on taxable trusts for Tax Year 1993. The maximum rate of 39.6 percent was created by the addition of a 10-percent surtax to the new 36-percent tax bracket. The 39.6-percent rate was imposed on trusts with taxable income in excess of $7,500. The maximum corporate tax rate of 35 percent applied to both exempt and nonexempt corporations with taxable income in excess of $10,000,000. An additional 3-percent tax was levied on corporate taxable income over $15,000,000, up to a maximum of $100,000 in additional tax.

[8] Included in the samples were Forms 990-EZ, *Short Form Return of Organization Exempt From Income Tax*, which were allowed to be filed by smaller organizations (those with annual gross receipts of less than $100,000 and total assets of less than $250,000 at end of year). A small number of these returns matched Forms 990-T in the "integrated sample," but they were excluded from the analysis because they did not contain all of the detailed financial data items reported on Form 990 that were used to compile data in Figures C and D. Some items that were required to be reported separately on Form 990 were allowed to be lumped together in an "other" category on the Form 990-EZ, such as "other income."

[9] For the most recent annual data on organizations tax-exempt under Internal Revenue Code sections 501(c)(3) (excluding private foundations and most religious organizations) through 501(c)(9), see Hilgert, Cecelia, "Charities and Other Tax-Exempt Organizations, 1993," *Statistics of Income Bulletin*, in this issue. For the most recent annual data on private foundations, see Arnsberger, Paul, "Private Foundations and Charitable Trusts, 1993," *Statistics of Income Bulletin*, Winter 1996-1997, Volume 16,

Number 3. Previous articles and papers on charities and other tax-exempt organizations for the years 1974-1992 have been published in Internal Revenue Service, *Statistics of Income, Compendium of Studies of Tax-Exempt Organizations, 1974-1987*, and *Compendium of Studies of Tax-Exempt Organizations, 1986-1992, Volume 2.*

[10] For detailed information on Statistics of Income sampling methodology for producing population estimates, see the general appendix, located near the back of this issue, particularly the Sample Criteria and Selection of Returns section and the Method of Estimation section. See, also, the Data Sources and Limitations section of this article.

[11] Some reasons why the estimates of matched Form 990-T filings shown in Figures C and D are lower than the estimates of overall Form 990-T filings shown in Table 1 are (1) Forms 990-T and matching "short" Forms 990-EZ that were part of the integrated samples were excluded from the matched-return analysis (see footnote 8); (2) some organizations filed a Form 990-T, but did not file a Form 990 because their gross receipts were below the $25,000 Form 990 filing threshold; (3) churches, which are tax-exempt under Internal Revenue Code section 501(c)(3), are not required to file Form 990 or Form 990-EZ, but are required to file Form 990-T if they had unrelated business income; and (4) private foundations, which are tax-exempt under section 501(c)(3), file Form 990-PF, Return of Private Foundation, not Form 990; therefore, a Form 990-T filed by a private foundation would not have a matching record in the Form 990 sample.

[12] "Total income" is from Part I, line 12 on Form 990; "total expenses" is from Part I, line 17 on Form 990.

[13] "Unrelated business income" is from Part I, line 13, column A on Form 990-T; "unrelated business expenses" is from the sum of Part I, line 13, column B and Part II, line 29 on Form 990-T.

[14] In order to shift from the tax concept to the receipts and expenditures concept of income and expenses, adjustments were made to develop revised income and expense totals from both tax forms that represented, to the extent possible, the organizations' actual financial involvement in conducting current fiscal-year (1993) operations, and that were more analogous for comparing total financial activity with unrelated business financial activity. This was accomplished by (1) excluding certain items that were reported for tax purposes and were not current-year income or expenses, or were not directly associated with the operation of a business or program, and (2) adding back to income totals (either on Form 990 or Form 990-T, as applicable) certain expense items that were allowed to be subtracted from gross income prior to calculating total income; these expense items also were added to expense totals (because the expense totals on the tax forms did not include them).

Examples of eliminated items are charitable contributions paid (reported on Forms 990 and 990-T) or received (reported on Form 990); amounts paid as "special assistance to individuals," reported on Form 990; the "specific deduction" of up to $1,000 allowed to Form 990-T filers that had positive taxable income; the "net operating loss" carryover allowed to Form 990-T filers; and "set-asides," amounts that were actually exempt-function income, but were reported on From 990-T as a deduction from gross investment income. (The specific deduction, net operating loss carryover, and set-asides are defined in the Explanation of Selected Terms section of this article.) Examples of increases that were made to both income and expense totals to adjust for expense items that, on the tax forms, were subtracted from gross income prior to computing total income are rental expenses that were subtracted from gross rents on Form 990; direct expenses that were subtracted from gross revenue from special events and activities on Form 990; and cost of sales and services that was subtracted from gross receipts from sales and services on Forms 990 and 990-T.

[15] Below are the formulas used for computing adjusted total income, adjusted total expenses, adjusted unrelated business income, and adjusted unrelated business expenses shown in Figure D. A special thanks to Bob Gardiner, an Internal Revenue Service Exempt Organization Specialist in the office of Employee Plans and Exempt Organizations, for providing advice in developing these formulas and for generously sharing his technical expertise with Statistics of Income staff on many other occasions.

Form 990 Adjusted Total Income =
Total revenue (Part I, line 12)
+ Rental expenses[1] (Part I, line 6b)
+ Direct expenses from special events, other than fundraising[1] (Part I, line 9b)
+Cost of sales and services[2] (Part I, line 10b)
- Contributions, gifts and grants received (Part I, line 1d)

Form 990 Adjusted Total Expenses =
Total Expenses (Part I, line 17)
+Rental expenses[1] (Part I, line 6b)
+Direct expenses from special events, other than fundraising[1] (Part I, line 9b)
+Cost of sales and services[2] (Part I, line 10b)
- Payments to affiliates (Part I, line 16)
- Grants and allocations (Part II, line 22B)
- Special assistance to individuals (Part II, line 23B)

Form 990-T Adjusted Unrelated Business Income =
Gross unrelated business income (Part I, line 13A)
+Cost of sales and services[2] (Part I, line 2)
- Set-asides[3] (Schedule G, column 4)

Form 990-T Adjusted Unrelated Business Expenses =
Sum of total expenses (Part I, line 13B) and total deductions (Part II, line 29)
+Cost of sales and services[2] (Part I, line 2)
- Set-asides[3] (Schedule G, column 4)
- Charitable contributions paid (Part II, line 20)
- Net operating loss carryover (Part II, line 31)
- Specific deduction[4] (Part II, line 33)

[1]On Form 990, these expenses were deducted from gross income prior to calculating "total revenue."

[2]On Forms 990 and 990-T, this expense was deducted from gross income prior to calculating "total revenue" and "gross unrelated business income."

[3]On Form 990-T, this amount was allowed as a deduction from gross income by Internal Revenue Code section 501(c)(7) and 501(c)(9) organizations because it was set aside for tax-exempt purposes. The set-aside amount was considered exempt-function income. For a definition of "set-asides," see the Explanation of Selected Terms section of this article.

[4]This was a deduction, up to $1,000, allowed to all organizations reporting net income on Form 990-T.

[16] To review the adjustments made to income and expenses, see footnotes 14 and 15.

[17] The various types of nonprofit charitable organizations are discussed in Hilgert, Cecelia, op. cit. A "publicly-supported" organization must receive at least one-third of its total support from governmental units, from contributions made directly or indirectly by the general public, or from a combination of these sources. It is organized and operated in a manner to attract new and additional public or governmental support on a continuous basis. Certain types of publicly-supported organizations, as defined by Internal Revenue Code section 509(a)(2), have an additional limit on the amount of support they may receive from total gross investment income and unrelated business income.

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

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

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

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

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

Exempt Organization Business Income Tax Returns: Highlights and an Analysis of Exempt and Nonexempt Finances, 1993

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

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

Internal Revenue Code section	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income (less deficit)		Deficit	Total income tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All sections	**32,638**	**4,694,181**	**32,152**	**5,741,420**	**27,833**	**-1,047,239**	**-1,650,831**	**14,898**	**181,437**
401(a)	1,135	68,603	1,093	46,007	972	22,596	-19,411	719	15,919
408(e)	2,425	39,270	2,261	6,484	2,425	32,786	-305	2,178	11,813
501(c)(2)	232	35,635	232	88,672	232	-53,037	-55,303	*93	*616
501(c)(3)	9,246	2,539,782	9,149	3,354,135	8,042	-814,353	-1,001,576	3,069	54,593
501(c)(4)	1,745	281,218	1,745	348,681	1,354	-67,463	-84,063	459	4,095
501(c)(5)	2,242	162,574	2,238	249,749	1,801	-87,175	-107,360	897	5,211
501(c)(6)	5,767	662,857	5,767	822,115	4,734	-159,258	-211,988	1,804	16,737
501(c)(7)	6,507	317,719	6,339	329,080	5,419	-11,361	-65,565	4,290	11,115
501(c)(8)	1,087	51,550	1,087	93,363	978	-41,813	-46,360	466	844
501(c)(9)	603	321,012	591	160,746	391	160,266	-18,842	309	57,962
501(c)(10)	161	14,325	161	17,846	154	-3,522	-5,238	*107	*293
501(c)(11)	--	--	--	--	--	--	--	--	--
501(c)(12)	87	9,461	87	12,519	87	-3,058	-4,136	*12	*261
501(c)(13)	*89	*901	*89	*1,016	*89	*-115	*-115	--	--
501(c)(14)	*104	*6,945	*104	*10,862	*104	*-3,918	*-4,150	*89	*35
501(c)(15)	**	**	**	**	**	**	**	**	**
501(c)(16)	--	--	--	--	--	--	--	--	--
501(c)(17)	**	**	**	**	**	**	**	**	**
501(c)(18)	--	--	--	--	--	--	--	--	--
501(c)(19)	1,203	98,843	1,203	119,987	1,047	-21,145	-26,408	401	830
501(c)(21) [5]	--	--	--	--	--	--	--	--	--
501(c)(22)	--	--	--	--	--	--	--	--	--
501(c)(23)	**	**	**	**	--	--	--	--	--
501(c)(24)	--	--	--	--	--	--	--	--	--
501(c)(25)	**	**	**	**	**	**	--	**	**
Not allocable	--	--	--	--	--	--	--	--	--

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

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

[1] Excludes cost of sales and services which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $1.5 billion.

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

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

[4] Total income tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus taxes from recapture of certain prior-year credits, the "alternative minimum tax," the environmental tax, and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total income tax; however, it had no connection to the tax on unrelated business income or an organization's involvment in unrelated business activities. For exempt organizations reporting gross UBI, total proxy tax was $2.2 million.

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

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

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

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

Size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income (less deficit)		Deficit	Total income tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**32,638**	**4,694,181**	**32,152**	**5,741,420**	**27,833**	**-1,047,239**	**-1,650,831**	**14,898**	**181,437**
$1,000 under $10,001 [5]	13,366	54,449	12,956	81,146	10,994	-26,696	-42,587	7,112	2,779
$10,001 under $100,000 [5]	13,403	500,458	13,342	765,813	11,525	-265,356	-343,891	5,501	16,286
$100,000 under $500,000	4,475	972,271	4,463	1,335,235	4,056	-362,963	-461,699	1,774	26,629
$500,000 under $1,000,000	718	498,218	717	657,732	651	-159,514	-217,899	276	16,454
$1,000,000 under $5,000,000	582	1,176,687	580	1,478,994	526	-302,307	-416,305	190	37,655
$5,000,000 or more	95	1,492,097	95	1,422,499	82	69,598	-168,450	45	81,634

[1] Excludes cost of sales and services which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $1.5 billion.

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

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

[4] Total income tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus taxes from recapture of certain prior-year credits, the "alternative minimum tax," the environmental tax, and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total income tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI, total proxy tax was $2.2 million.

[5] The gross unrelated business income (UBI) brackets of $1,000 under $10,001 and $10,001 under $100,000 reflect the different filing requirements for organizations with gross UBI of $10,000 or less (only a "partial" return was required) and all other Form 990-T filers (a more detailed "complete" return was required).

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

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

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

Size of net income (taxable profit) or deficit	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income (less deficit)		Deficit	Total income tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total	**32,638**	**4,694,181**	**32,152**	**5,741,420**	**27,833**	**-1,047,239**	**-1,650,831**	**14,898**	**181,437**
Deficit	12,766	2,100,122	12,766	3,750,954	12,766	-1,650,831	-1,650,831	125	1,335
Zero	4,805	578,994	4,805	578,994	--	--	--	26	709
$1 under $1,000	3,623	39,798	3,623	38,361	3,623	1,437	--	3,531	217
$1,000 under $10,000	7,177	216,650	6,766	187,610	7,177	29,040	--	7,003	4,757
$10,000 under $100,000	3,636	496,860	3,575	384,200	3,636	112,660	--	3,595	22,694
$100,000 under $500,000	488	320,310	475	226,071	488	94,239	--	477	28,771
$500,000 under $1,000,000	77	145,785	76	93,291	77	52,494	--	77	16,911
$1,000,000 or more	67	795,663	65	481,940	67	313,723	--	65	106,043

[1] Excludes cost of sales and services which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $1.5 billion.

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

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

[4] Total income tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus taxes from recapture of certain prior-year credits, the "alternative minimum tax," the environmental tax, and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total income tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI, total proxy tax was $2.2 million.

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

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

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

Size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income		Total income tax [3]	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	**15,067**	**2,015,065**	**14,580**	**1,411,472**	**15,067**	**603,593**	**14,747**	**179,393**
$1,000 under $10,001 [4]	7,293	28,234	6,882	12,343	7,293	15,891	7,100	2,757
$10,001 under $100,000 [4]	5,493	210,720	5,432	132,184	5,493	78,535	5,422	15,601
$100,000 under $500,000	1,777	385,661	1,765	286,925	1,777	98,736	1,732	25,571
$500,000 under $1,000,000	280	192,001	279	133,616	280	58,385	272	16,442
$1,000,000 under $5,000,000	187	374,310	185	260,312	187	113,998	184	37,572
$5,000,000 or more	38	824,139	38	586,091	38	238,048	38	81,449

[1] Excludes cost of sales and services which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For exempt organizations reporting net income, cost of sales and services was $561.0 million.

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

[3] Total income tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus taxes from recapture of certain prior-year credits, the "alternative minimum tax," the environmental tax, and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total income tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting positive net income, total proxy tax was $0.6 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 (only a "partial" return was required) and all other Form 990-T filers (a more detailed "complete" return was required).

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

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

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

Primary unrelated business activity or industrial grouping	Number of returns	Gross unrelated business income (UBI)	Total deductions [1,2]		Net income (less deficit)		Deficit	Total income tax [4]	
			Number of returns	Amount	Number of returns [3]	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
All activities and groupings	**32,638**	**4,694,181**	**32,152**	**5,741,420**	**27,833**	**-1,047,239**	**-1,650,831**	**14,898**	**181,437**
Agriculture, forestry, and fishing	286	21,937	286	48,824	262	-26,887	-28,899	184	542
Mining	181	16,925	181	16,107	91	818	-4,125	56	1,589
Construction	**	**	**	**	**	**	**	–	–
Manufacturing	854	155,012	854	200,977	743	-45,965	-61,093	390	4,754
Transportation and public utilities	381	85,878	380	119,860	294	-33,982	-36,855	38	587
Wholesale trade	166	9,695	166	10,998	166	-1,303	-1,789	*12	*136
Retail trade	3,671	383,090	3,670	593,259	3,316	-210,169	-237,382	1,604	5,350
Services	13,587	2,455,826	13,555	3,205,478	11,243	-749,652	-901,040	4,500	42,671
Finance, insurance, and real estate, total	12,191	1,505,323	11,903	1,483,374	10,411	21,951	-367,616	7,148	123,346
Unrelated debt-financed activity, except rental of real estate	1,466	166,360	1,385	147,759	1,382	18,601	-25,431	1,217	14,819
Investment activities of Code section 501(c)(7), (9), and (17) organizations	3,805	411,664	3,639	233,907	2,998	177,757	-24,722	2,716	62,515
Rental of personal property	1,262	45,216	1,262	69,597	1,008	-24,380	-28,180	518	715
Passive income activities with controlled organizations	298	35,620	259	43,650	292	-8,029	-13,256	174	1,498
Other finance, insurance, and real estate	5,360	846,463	5,358	988,461	4,731	-141,998	-276,027	2,523	43,799
Exploited exempt activities	233	44,256	233	48,133	230	-3,877	-8,292	139	921
Not allocable	**	**	**	**	**	**	**	827	1,539

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

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

[1] Excludes cost of sales and services which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $1.5 billion.

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

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

[4] Total income tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus taxes from recapture of certain prior-year credits, the "alternative minimum tax," the environmental tax, and the "proxy" tax on nondeductible lobbying and political expenditures. The proxy tax was reported on Form 990-T and was included in total income tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI, total proxy tax was $2.2 million.

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

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

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

Size of gross unrelated business income (UBI)	Gross unrelated business income (UBI): Number of returns	Gross unrelated business income (UBI): Amount	Sources of gross unrelated business income (UBI) [1]: Gross profit (less loss) from sales and services: Number of returns	Gross profit (less loss) from sales and services: Amount	Capital gain net income: Number of returns	Capital gain net income: Amount
	(1)	(2)	(3)	(4)	(5)	(6)
Total	**32,638**	**4,694,181**	**14,518**	**2,123,820**	**562**	**141,258**
$1,000 under $10,001 [2]	**13,366**	**54,449**	**4,132**	**13,946**	**173**	**844**
$10,001 or more, total [2,3]	**19,272**	**4,639,732**	**10,386**	**2,109,874**	**389**	**140,414**
$10,001 under $100,000 [2]	13,403	500,458	6,729	219,854	244	4,366
$100,000 under $500,000	4,475	972,271	2,846	509,588	87	8,504
$500,000 under $1,000,000	718	498,218	429	240,086	27	9,674
$1,000,000 under $5,000,000	582	1,176,687	335	530,430	20	21,422
$5,000,000 or more	95	1,492,097	47	609,916	11	96,448

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]--Continued: Net capital loss (trusts only): Number of returns	Net capital loss (trusts only): Amount	Net gain (less loss), sales of noncapital assets [4]: Number of returns	Net gain (less loss), sales of noncapital assets [4]: Amount	Income (less loss) from partnerships: Number of returns	Income (less loss) from partnerships: Amount
	(7)	(8)	(9)	(10)	(11)	(12)
Total	**38**	**-113**	**492**	**6,567**	**2,690**	**107,967**
$1,000 under $10,001 [2]	**	**	*25	*-26	**2,119**	**5,891**
$10,001 or more, total [2,3]	**	**	**466**	**6,593**	**570**	**102,076**
$10,001 under $100,000 [2]	*20	*-61	346	3,820	382	12,970
$100,000 under $500,000	9	-28	68	-323	97	8,904
$500,000 under $1,000,000	**	**	22	-624	35	885
$1,000,000 under $5,000,000	4	-12	24	371	37	24,207
$5,000,000 or more	--	--	6	3,349	19	55,111

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]-- Continued: Rental income [5]: Number of returns	Rental income [5]: Amount	Unrelated debt-financed income: Number of returns	Unrelated debt-financed income: Amount	Investment income (less loss) [6]: Number of returns	Investment income (less loss) [6]: Amount
	(13)	(14)	(15)	(16)	(17)	(18)
Total	**3,799**	**117,524**	**2,465**	**363,442**	**5,585**	**255,734**
$1,000 under $10,001 [2]	**1,297**	**4,805**	**731**	**3,952**	**2,735**	**7,035**
$10,001 or more, total [2,3]	**2,502**	**112,719**	**1,734**	**359,490**	**2,850**	**248,699**
$10,001 under $100,000 [2]	1,990	39,491	1,122	26,863	1,944	25,664
$100,000 under $500,000	392	31,541	421	59,567	758	41,845
$500,000 under $1,000,000	60	14,696	84	39,413	99	23,204
$1,000,000 under $5,000,000	54	23,289	85	90,383	39	49,314
$5,000,000 or more	6	3,702	22	143,264	11	108,672

Footnotes at end of table.

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

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

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) [1]--Continued							
	Income from controlled organizations [7]		Exploited exempt activity income, except advertising		Advertising income		Other income (less loss)	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)
Total	**996**	**36,996**	**856**	**81,161**	**7,126**	**903,063**	**6,014**	**556,761**
$1,000 under $10,001 [2]	**321**	**869**	**189**	**1,123**	**2,174**	**9,948**	**1,630**	**6,067**
$10,001 or more, total [2,3]	**675**	**36,128**	**667**	**80,038**	**4,953**	**893,116**	**4,384**	**550,694**
$10,001 under $100,000 [2]	464	5,755	354	6,868	3,332	88,665	2,840	66,204
$100,000 under $500,000	149	9,023	209	20,845	1,207	178,483	1,152	104,323
$500,000 under $1,000,000	31	5,251	42	10,078	194	91,758	201	63,805
$1,000,000 under $5,000,000	22	7,986	56	30,290	188	227,093	160	171,914
$5,000,000 or more	9	8,113	6	11,957	32	307,117	31	144,448

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

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

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

[2] The gross unrelated business income (UBI) brackets of $1,000 under $10,001 and $10,001 under $100,000 reflect the different filing requirements for organizations with gross UBI of $10,000 or less (only a "partial" return was required) and all other Form 990-T filers (a more detailed "complete" return was required).

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

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

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

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

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

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

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

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

Size of gross unrelated business income (UBI)	Total number of returns	Total deductions [1,2]		Organizations with gross unrelated business income (UBI) of $10,000 or less [3]					
				Total deductions [2,4]		Net operating loss carryover		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	**32,638**	**32,152**	**5,741,420**	**12,956**	**81,146**	**1,304**	**31,199**	**8,387**	**7,556**
$1,000 under $10,001 [3]	13,366	12,956	81,146	12,956	81,146	1,304	31,199	8,387	7,556
$10,001 under $100,000 [3]	13,403	13,342	765,813	--	--	--	--	--	--
$100,000 under $500,000	4,475	4,463	1,335,235	--	--	--	--	--	--
$500,000 under $1,000,000	718	717	657,732	--	--	--	--	--	--
$1,000,000 under $5,000,000	582	580	1,478,994	--	--	--	--	--	--
$5,000,000 or more	95	95	1,422,499	--	--	--	--	--	--

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]								
	Total deductions [2,5]		Deductions directly connected with UBI						
			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	**19,196**	**5,660,274**	**18,255**	**5,347,511**	**1,165**	**70,498**	**1,550**	**370,925**	**840**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	13,342	765,813	12,550	734,980	890	23,867	978	28,060	440
$100,000 under $500,000	4,463	1,335,235	4,365	1,276,951	211	23,618	395	59,884	320
$500,000 under $1,000,000	717	657,732	690	623,531	30	8,910	80	44,777	57
$1,000,000 under $5,000,000	580	1,478,994	562	1,404,095	31	13,103	79	94,818	20
$5,000,000 or more	95	1,422,499	89	1,307,955	4	1,001	18	143,386	4

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]--Continued								
	Deductions directly connected with UBI--Continued								
	Allocable to investment income [6,7] --Continued	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	**19,102**	**290**	**22,618**	**523**	**67,007**	**4,617**	**717,633**	**1,791**	**39,317**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	4,656	162	3,329	239	4,436	3,086	74,862	1,087	14,758
$100,000 under $500,000	6,466	98	6,629	183	16,289	1,133	145,267	538	12,229
$500,000 under $1,000,000	2,170	16	3,245	42	8,461	188	71,269	83	3,200
$1,000,000 under $5,000,000	963	11	3,236	53	26,261	181	178,288	71	5,750
$5,000,000 or more	4,848	3	6,179	6	11,561	29	247,946	13	3,380

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]--Continued							
	Deductions directly connected with UBI--Continued							
	Salaries and wages		Repairs		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	**9,113**	**827,642**	**6,336**	**51,543**	**768**	**20,772**	**2,407**	**56,232**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	5,596	99,597	3,997	11,377	255	307	1,299	4,522
$100,000 under $500,000	2,711	228,097	1,829	17,890	338	1,904	853	10,947
$500,000 under $1,000,000	423	101,794	273	6,272	76	1,058	114	6,650
$1,000,000 under $5,000,000	337	219,916	211	11,857	79	10,760	120	24,247
$5,000,000 or more	47	178,238	26	4,146	20	6,743	21	9,866

Footnotes at end of table.

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

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

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]--Continued							
	Deductions directly connected with UBI--Continued							
	Taxes 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	**9,589**	**138,619**	**6,557**	**120,903**	**65**	**2,356**	**691**	**7,230**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	6,424	28,979	3,995	17,404	37	467	337	425
$100,000 under $500,000	2,534	54,265	1,956	34,781	21	859	244	1,409
$500,000 under $1,000,000	342	15,408	303	16,674			58	905
$1,000,000 under $5,000,000	248	21,152	262	31,748	7	1,029	43	1,550
$5,000,000 or more	42	18,815	42	20,296			10	2,942

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]--Continued							
	Deductions directly connected with UBI--Continued						Deductions not directly connected with UBI	
	Contributions to employee benefit plans		Net operating loss carryover		Other deductions		Total	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)
Total	**3,750**	**102,698**	**5,540**	**1,311,560**	**12,157**	**1,400,857**	**9,911**	**312,761**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	1,813	5,802	3,337	275,772	7,943	136,360	6,969	30,832
$100,000 under $500,000	1,411	19,631	1,663	408,321	3,226	228,466	2,246	58,283
$500,000 under $1,000,000	267	10,858	252	167,661	496	154,215	376	34,202
$1,000,000 under $5,000,000	226	34,610	247	311,224	422	413,606	264	74,899
$5,000,000 or more	34	31,796	41	148,583	60	468,210	56	114,545

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) over $10,000 [3]--Continued							
	Deductions not directly connected with UBI--Continued							
	Specific deduction		Contributions		Set-asides [7]		Excess exempt expenses	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(52)	(53)	(54)	(55)	(56)	(57)	(58)	(59)
Total	**7,882**	**7,520**	**1,253**	**25,608**	**298**	**122,565**	**2,036**	**157,068**
$1,000 under $10,001 [3]	--	--	--	--	--	--	--	--
$10,001 under $100,000 [3]	5,666	5,344	835	3,983	169	5,684	1,229	15,821
$100,000 under $500,000	1,735	1,702	321	4,504	87	18,945	557	33,133
$500,000 under $1,000,000	273	268	46	773	22	13,805	108	19,355
$1,000,000 under $5,000,000	173	171	37	5,241	14	24,134	117	45,353
$5,000,000 or more	35	35	14	11,107	6	59,998	26	43,405

[1] Excludes cost of sales and services which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was $1.5 billion.

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

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

[4] Excludes $37.2 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 $1.5 billion of cost of sales and services reported by organizations with gross UBI over $10,000. See footnote 1 for explanation.

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

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

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