

# Unrelated Business Income Tax Returns, Tax Year 2001

by Margaret Riley

**T**ax Year 2001 marked the third consecutive year for which filings of Form 990-T, *Exempt Organization Business Income Tax Return*, declined. Overall, 35,540 organizations reported \$7.9 billion of gross “unrelated business income” (UBI) on Tax Year 2001 Forms 990-T filed during 2002 and 2003, which represented 8-percent fewer filers and 6-percent less in gross UBI, compared to Tax Year 2000. For each of Tax Years 1999 and 2000, the number of returns filed declined by 9 percent. However, gross UBI increased for both of those years, by 2 percent and 9 percent, respectively. Unrelated business income is subject to taxation under the Internal Revenue Code. It is the portion of an otherwise Federally tax-exempt organization’s total income that is produced from activities that are considered “not substantially related” to the stated mission for which the organization received the exemption.

Unrelated business (positive) taxable income (UBTI) and the associated unrelated business income tax (UBIT) reported on Form 990-T dropped sharply for Tax Year 2001. UBTI of \$792.0 million and UBIT of \$226.0 million were a respective 45-percent and 44-percent lower than UBTI and UBIT amounts reported for 2000. The number of returns filed with UBTI dropped 21 percent between the 2 years. After adjusting UBIT with certain credits and other taxes, the resulting total tax reported on Form 990-T was \$221.5 million, a 45-percent decrease between 2000 and 2001 [1]. Figure A contains these and other statistics for selected major financial data items reported on Forms 990-T for Tax Years 2000 and 2001.

Total tax takes into account \$226.0 million of unrelated business income tax, plus \$0.5 million of alternative minimum tax, \$1.4 million of “proxy tax” on certain nondeductible lobbying and political expenditures, and \$0.02 million of “other” taxes, minus \$6.4 million of tax credits [2, 3]. Tax credits included the foreign tax credit (\$3.3 million), general business credit (\$1.7 million), credit for prior-year minimum tax (\$0.2 million), and “other” credits (\$1.2 million).

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**Figure A**

## Selected Items from Forms 990-T, Exempt Organization Business Income Tax Returns, Tax Years 2000-2001

[Money amounts are in thousands of dollars]

Item	2000	2001	Percentage change
	(1)	(2)	(3)
<b>Number of returns, total</b> .....	<b>38,567</b>	<b>35,540</b>	<b>-7.8</b>
With gross unrelated business income of \$10,000 or less <sup>1</sup> .....	15,069	12,653	-16.0
With gross unrelated business income over \$10,000 <sup>1</sup> .....	23,498	22,888	-2.6
With unrelated business taxable income.....	19,336	15,277	-21.0
Without unrelated business taxable income <sup>2</sup> .....	19,231	20,264	5.4
<b>Gross unrelated business income</b> ....	<b>8,413,385</b>	<b>7,900,464</b>	<b>-6.1</b>
<b>Total deductions</b> <sup>3</sup> .....	<b>7,703,052</b>	<b>7,882,907</b>	<b>2.3</b>
<b>Unrelated business taxable income (less deficit)</b> .....	<b>710,333</b>	<b>17,557</b>	<b>-97.5</b>
Unrelated business taxable income..	1,427,441	791,963	-44.5
Deficit.....	717,109	774,406	8.0
<b>Unrelated business income tax</b> .....	<b>405,826</b>	<b>226,032</b>	<b>-44.3</b>
<b>Total tax</b> .....	<b>402,904</b>	<b>221,532</b>	<b>-45.0</b>

<sup>1</sup> Organizations with gross unrelated business income (UBI) between \$1,000 (the filing threshold) and \$10,000 were not required to report itemized expenses and deductions, or to complete return schedules. Those with gross UBI over \$10,000 were required to fill out a more detailed “complete” return.

<sup>2</sup> Includes returns with deficits and “breakeven” returns with equal amounts of gross unrelated business income and total deductions.

<sup>3</sup> Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services (GPSS). GPSS is a component of gross unrelated business income (on which the filing requirement is based). Total cost of sales and services was \$2.3 billion for both 2000 and 2001.

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

## Background

### Definition of Unrelated Business Income

Nonprofit organizations that are granted Federal tax exemption based on their mission-related purposes are allowed, within certain limits, to generate income from unrelated business activities; however, the income from these activities is subject to taxation. Unrelated business income is produced from an activity that is both conducted on a regular basis and not directly related to an organization’s tax-exempt mission. The fact that the income may be used for furthering an organization’s exempt purposes does

## Unrelated Business Income Tax Returns, Tax Year 2001

not alter the definition [4]. Any profits from an organization's unrelated business activities are taxed at regular corporate or trust income tax rates [5]. There are certain exclusions to this income taxation; some examples are engaging in business activities in which substantially all of the work is performed by volunteer labor; selling merchandise that the organization received as a gift or contribution; and operating certain games of chance, as specified in the Internal Revenue Code (IRC).

### Form 990-T Filing Requirements

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

Most tax-exempt organizations are required to file an annual Form 990, *Return of Organization Exempt From Income Tax*, or Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax* (used by organizations with annual gross receipts of less than \$100,000 and total end-of-year assets of less than \$250,000) [6]. The Form 990-T is required only for a tax year in which an organization has unrelated business income. While specific taxpayer information reported on an exempt organization's Form 990/990-EZ "information return" can be disclosed to the public, specific taxpayer information reported on its Form 990-T "tax return" cannot. Under disclosure rules governing the release of taxpayer information, only aggregate totals from Form 990-T can be presented in this article.

The Internal Revenue Service required organizations having accounting periods beginning in 2001 (and, therefore, ending between December 2001 and November 2002, for full-year return filers) to file a 2001 Form 990-T to report unrelated business income of \$1,000 (the filing threshold) or more. The associated required due dates for filing Tax Year 2001

Forms 990-T generally spanned May 2002 to April 2003, but extensions of time to file beyond this period routinely were granted to many organizations. For all Internal Revenue Code (IRC) section 220(e), 401(a), 408(e), 408A, and 530(a) trusts, the required accounting period was Calendar Year 2001, and the filing date was April 15, 2002. Corresponding to the required filing dates, the Tax Year 2001 study sample was drawn from Forms 990-T processed by IRS throughout Calendar Years 2002 and 2003. (See the Data Sources and Limitations section of this article for detailed information on the study sample.) Because of the various accounting periods of the organizations filing a 2001 return, the financial activities covered in this article span the period January 2001 through November 2002, although 54 percent of Form 990-T filers had Calendar Year 2001 accounting periods.

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

### Statistical Tables

At the end of this article, Tax Year 2001 statistics covering selected financial data (including gross UBI, total deductions, unrelated business taxable income (UBTI), and total income tax) are shown in Tables 1-5. Tables 6 and 7 provide data on detailed sources of UBI and deductions, respectively. Statistics shown in Table 1 are distributed by type of organization based on Internal Revenue Code sections. Tables 2, 4, 6, and 7 are distributed by size of gross UBI; Table 4 is also distributed by type of entity. Table 3 is distributed by size of UBTI, while Table 5 is distributed by unrelated business activity or industrial grouping.

# Unrelated Business Income Tax Returns, Tax Year 2001

## Declines in Form 990-T Filings

The diminishing number of returns filed for Tax Years 1999-2001 was driven primarily by small income-size organizations, those with gross UBI of \$10,000 or less. Their Form 990-T filings dropped 20 percent for 1999, 15 percent for 2000, and 16 percent for 2001. The composition of the small-income size filers, according to type of organization described in the Internal Revenue Code, differs greatly from that of their larger income-size counterparts.

Section 408(e) traditional Individual Retirement Accounts (IRA's) historically have accounted for a large portion of filers having gross UBI of \$10,000 or less. As shown in Figure B, they accounted for 52 percent of Forms 990-T filed by small-income size organizations for 1998. Their representation within this group dwindled each consecutive tax year, falling to 18 percent for 2001. Other types of organizations that predominated in the smaller income-size group were section 501(c)(3) nonprofit "charitable" organizations, 501(c)(6) business leagues, chambers of commerce, and real estate boards, and 501(c)(7)

recreational and social clubs [7].

As for larger income-size organizations, those having gross UBI over \$10,000, the section 501(c)(3) charitable organizations consistently were the biggest group of filers, followed by the section 501(c)(6) and 501(c)(7) organizations. For 2001, the charities filed 42 percent of larger income-size returns (and 35 percent-36 percent of larger income-size returns for 1998-2000), and the section 501(c)(6) and 501(c)(7) filers accounted for 15 percent and 17 percent, respectively. Over the 1998-2001 period, the charitable organizations' proportions of total return filings grew each year in both income-size classes. In contrast to their significant representation in the smaller income-size group, the section 408(e) IRA's accounted for 5 percent or less of all larger income-size Forms 990-T in any year over the 4-year period.

While there may have been many factors affecting overall declines in the number of Form 990-T returns filed and amounts of taxable income reported over the Tax Year 2001 period, poor performance of U.S. equities markets played a large role in these declines for certain types of organizations. (As discussed in the Form 990-T Filing Requirements section, above, financial activities conducted by organizations filing Tax Year 2001 returns, in aggregate, spanned the period January 2001 through November 2002.) Throughout Calendar Years 2001 and 2002, the "Wilshire 5000 Composite Index" tracked numerous spikes of rising and falling index values, but, overall, equity market values declined substantially from the beginning of 2001 to the end of 2002 [8].

The types of Form 990-T filers most likely to be affected by market performance swings are organizations that pool securities and other assets in trusts operated on behalf of shareholders, or beneficiaries of employee benefit funds. A large part of this group is comprised of smaller income-size section 408(e) IRA trusts, which rely heavily on investments as an income source. It appears that the annual number of Forms 990-T filed by IRA trusts is closely tied with annual financial market fluctuations. (All trust filers have calendar-year accounting periods; so, their IRS tax year corresponds to annual market indexes.) Their filings rise and fall in tandem with the performances of their investments. Growing investment losses sustained from the end of 1999 through 2001 may be the principal reason why they filed fewer returns for each successive year, as the filing thresh-

**Figure B**

### Form 990-T Filings of Organizations Tax-Exempt Under Selected Internal Revenue Code Sections, by Size of Gross Unrelated Business Income (UBI), Tax Years 1998-2001

Selected Internal Revenue Code section, by size of gross UBI	1998	1999	2000	2001
	(1)	(2)	(3)	(4)
<b>GROSS UBI OF \$10,000 OR LESS</b>				
<b>Number of returns.....</b>	<b>22,124</b>	<b>17,781</b>	<b>15,069</b>	<b>12,653</b>
Percentage of returns filed				
408(e).....	51.8	43.7	32.4	17.6
501(c)(3).....	11.6	16.4	19.4	24.1
501(c)(6).....	9.8	11.6	15.4	16.4
501(c)(7).....	14.7	14.9	18.4	24.3
Percentage total.....	87.9	86.6	85.6	82.4
<b>GROSS UBI OVER \$10,000</b>				
<b>Number of returns.....</b>	<b>24,084</b>	<b>24,369</b>	<b>23,498</b>	<b>22,888</b>
Percentage of returns filed				
408(e).....	4.9	3.8	2.7	1.2
501(c)(3).....	34.6	35.7	36.5	41.8
501(c)(6).....	16.9	16.8	16.0	15.2
501(c)(7).....	14.9	16.4	17.2	17.2
Percentage total.....	71.3	72.7	72.4	75.4

NOTE: See the appendix to this article for a listing of the types of tax-exempt organizations, by the Internal Revenue Code section describing them.

## Unrelated Business Income Tax Returns, Tax Year 2001

old for Form 990-T is based on gross unrelated business income of \$1,000 or more.

### Selected Financial Data Distributions

Selected distributions of the Tax Year 2001 Form 990-T data show that decreases in major financial data items were widely dispersed. Figures C, D, and F contain Form 990-T data distributed by type of entity and size of gross UBI; type of organization, classified by Internal Revenue Code (IRC); and type of unrelated business activity or industrial grouping. Each of these figures compares Tax Years 2000 and 2001 amounts of gross unrelated business income, total deductions, and unrelated business taxable income.

### Type of Entity and Size of Gross Unrelated Business Income (UBI)

The cross section of organizations in Figure C is distributed by type of entity, either tax-exempt corporation or tax-exempt trust, and size of gross UBI. The unrelated business taxable income of both corporate and trust filers of Form 990-T fell substantially from 2000 to 2001. In addition, across all income-

size classes, the trusts had far higher rates of decline in gross UBI than the corporate entities for 2001.

Characteristically, the tax-exempt corporate entities account for disproportionately large shares of returns filed, gross UBI, and total deductions reported on Form 990-T, but more modest shares of UBTI. For the 5 years preceding Tax Year 2001, incorporated tax-exempt organizations' gross UBI was between 66 percent and 74 percent of the total reported by all organizations, and their UBTI ranged between 40 percent to 51 percent of aggregate total taxable income. Tax-exempt trusts accounted for the remaining 49 percent to 60 percent of aggregate UBTI during those years. For 2001, the tax-exempt corporations accounted for nearly three-fifths of UBTI. The tax-exempt trusts' shares of aggregate gross UBI and aggregate UBTI for 2001 were only 9 percent and 41 percent, respectively.

Overall, the trust entities filed 48-percent fewer Forms 990-T for 2001, compared to a slight increase in returns filed by corporate entities. Corporations reporting gross UBI of \$10,000 or less filed nearly 7-percent more Form 990-T returns for 2001, com-

## Figure C

### Selected Form 990-T Financial Data Items, by Type of Entity and Size of Gross Unrelated Business Income (UBI), Tax Years 2000-2001

[Money amounts are in thousands of dollars]

Type of entity and size of gross unrelated business income (UBI)	Number of returns			Gross unrelated business income (UBI)			Total deductions			Unrelated business taxable income (UBTI) <sup>1</sup>		
	2000	2001	Percentage change	2000	2001	Percentage change	2000	2001	Percentage change	2000	2001	Percentage change
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<b>All entities.....</b>	<b>38,567</b>	<b>35,540</b>	<b>-7.8</b>	<b>8,413,385</b>	<b>7,900,464</b>	<b>-6.1</b>	<b>7,703,052</b>	<b>7,882,907</b>	<b>2.3</b>	<b>1,427,441</b>	<b>791,963</b>	<b>-44.5</b>
<b>Tax-exempt corporations.....</b>	<b>31,245</b>	<b>31,697</b>	<b>1.4</b>	<b>7,219,027</b>	<b>7,202,952</b>	<b>-0.2</b>	<b>7,203,007</b>	<b>7,486,872</b>	<b>3.9</b>	<b>714,035</b>	<b>469,167</b>	<b>-34.3</b>
\$1,000 under \$10,001 <sup>2</sup> .....	9,474	10,102	6.6	44,324	45,108	1.8	50,874	49,129	-3.4	11,643	11,446	-1.7
\$10,001 under \$100,000 <sup>2</sup> .....	13,992	13,861	-0.9	546,655	504,316	-7.7	542,103	538,075	-0.7	92,987	73,003	-21.5
\$100,000 under \$500,000.....	5,619	5,653	0.6	1,235,499	1,228,568	-0.6	1,287,214	1,299,717	1.0	126,603	104,492	-17.5
\$500,000 under \$1,000,000....	1,051	993	-5.5	735,159	695,916	-5.3	730,279	721,172	-1.2	69,786	53,360	-23.5
\$1,000,000 or more.....	1,109	1,088	-1.9	4,657,391	4,729,044	1.5	4,592,536	4,878,779	6.2	413,017	226,866	-45.1
<b>Tax-exempt trusts.....</b>	<b>7,322</b>	<b>3,843</b>	<b>-47.5</b>	<b>1,194,357</b>	<b>697,512</b>	<b>-41.6</b>	<b>500,045</b>	<b>396,035</b>	<b>-20.8</b>	<b>713,407</b>	<b>322,796</b>	<b>-54.8</b>
\$1,000 under \$10,001 <sup>2</sup> .....	5,594	2,551	-54.4	16,467	5,745	-65.1	9,226	9,602	4.1	7,973	1,877	-76.5
\$10,001 under \$100,000 <sup>2</sup> .....	1,160	798	-31.2	36,697	25,176	-31.4	29,743	14,150	-52.4	18,757	11,659	-37.8
\$100,000 under \$500,000.....	325	318	-2.2	76,152	67,436	-11.4	38,918	44,960	15.5	39,923	31,179	-21.9
\$500,000 under \$1,000,000....	91	61	-33.0	64,289	43,923	-31.7	25,738	29,563	14.9	38,980	17,756	-54.4
\$1,000,000 or more.....	152	116	-23.7	1,000,752	555,232	-44.5	396,420	297,759	-24.9	607,773	260,325	-57.2

<sup>1</sup>Unrelated business taxable income (UBTI) is tabulated from returns where the result of gross unrelated business income (UBI) minus total deductions is positive. Returns with deficits and "breakeven" returns with equal amounts of gross UBI and total deductions are excluded.

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

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

# Unrelated Business Income Tax Returns, Tax Year 2001

**Figure D**

## Selected Form 990-T Financial Data Items, by Selected Internal Revenue Code Sections, Tax Years 2000-2001

[Money amounts are in thousands of dollars]

Selected Internal Revenue Code section	Number of returns			Gross unrelated business income (UBI)			Total deductions			Unrelated business taxable income (UBTI) <sup>1</sup>		
	2000	2001	Per-centage change	2000	2001	Per-centage change	2000	2001	Per-centage change	2000	2001	Per-centage change
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<b>All sections.....</b>	<b>38,567</b>	<b>35,540</b>	<b>-7.8</b>	<b>8,413,385</b>	<b>7,900,464</b>	<b>-6.1</b>	<b>7,703,052</b>	<b>7,882,907</b>	<b>2.3</b>	<b>1,427,441</b>	<b>791,963</b>	<b>-44.5</b>
401(a).....	566	300	-47.0	176,647	92,887	-47.4	64,174	43,393	-32.4	114,242	58,500	-48.8
408(e).....	5,516	2,499	-54.7	44,905	13,599	-69.7	15,381	3,879	-74.8	30,066	9,814	-67.4
501(c)(2).....	245	250	2.0	83,538	105,164	25.9	83,594	95,881	14.7	10,135	24,016	137.0
501(c)(3).....	11,497	12,618	9.8	4,780,148	4,811,839	0.7	4,828,648	5,080,304	5.2	469,089	292,308	-37.7
501(c)(4).....	1,480	1,487	0.5	331,351	419,441	26.6	342,431	430,220	25.6	12,394	12,098	-2.4
501(c)(5).....	2,484	2,213	-10.9	239,430	235,027	-1.8	234,413	233,862	-0.2	24,150	21,892	-9.3
501(c)(6).....	6,086	5,569	-8.5	901,135	859,635	-4.6	882,345	860,503	-2.5	80,787	62,112	-23.1
501(c)(7).....	6,825	6,997	2.5	561,235	504,800	-10.1	493,097	474,924	-3.7	106,452	72,491	-31.9
501(c)(8).....	674	583	-13.5	104,702	109,454	4.5	103,490	111,948	8.2	6,957	4,688	-32.6
501(c)(9).....	611	672	10.0	941,207	497,213	-47.2	410,645	285,679	-30.4	547,915	212,618	-61.2
All other sections.....	2,583	2,352	-8.9	249,087	251,405	0.9	244,834	262,314	7.1	25,254	21,426	-15.2

<sup>1</sup> Unrelated business taxable income (UBTI) is tabulated from returns where the result of gross unrelated business income (UBI) minus total deductions is positive. Returns with deficits and "breakeven" returns with equal amounts of gross UBI and total deductions are excluded.

NOTE: 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.

pared to a 54-percent decline in return filings by trusts in the same income bracket. Also, corporations in this income bracket had the smallest percentage decrease in taxable income, only 2 percent.

### Type of Organization, Classified by Internal Revenue Code Section

Tax-exempt organizations classified by the IRC section describing them are shown in Figure D. Section 408(e) traditional Individual Retirement Accounts experienced the largest percentage decrease in the number of returns filed for 2001, followed by section 401(a) pension, profit-sharing, and stock-bonus plans. These tax-exempt trusts also had large percentage declines in gross UBI, total deductions, and UBTI, although their shares of the aggregate total of each of these financial items are comparatively small.

Voluntary employees' beneficiary associations (VEBA's), described under section 501(c)(9), also had sizable percentage decreases in these three items for 2001. Most VEBA's are formed as trusts, and, like the section 401(a) and 408(e) trusts, a large portion of their unrelated business incomes come from investments. Section 501(c)(7) recreational and social clubs were also somewhat affected by poor equity

market performance during their Tax Year 2001 accounting periods. Investment income (less loss) made up 20 percent of their gross UBI for 2000, and then declined to 15 percent of their gross UBI for 2001. Between the 2 years, the amount of income (less loss) from their investments dropped 33 percent.

Any income received by section 408(e) and section 401(a) organizations from investments that were "debt-financed" (i.e., purchased with funds obtained from loans) is subject to taxation and must be reported on Form 990-T. All investment income of section 501(c)(9) VEBA's (and also section 501(c)(7) organizations) is taxed under the UBIT provisions, without regard to whether or not it was debt-financed. For 2001, virtually all of IRA trusts' gross UBI consisted of capital gain net income, combined partnership and S corporation income (less loss), and "other" unrelated debt-financed income. For the pension, profit-sharing, and stock bonus plans, these three Form 990-T income components accounted for 77 percent of gross UBI. Seventy-seven percent of VEBA's gross UBI was attributable to investment income (less loss).

The section 501(c)(2) holding companies and 501(c)(4) "social service" organizations experienced the largest percentage increases in gross UBI and

total deductions among the organizations shown in Figure D, but the number of returns they filed for 2001 was about the same as the number filed for 2000. The section 501(c)(2) title holding companies were the only group of organizations that realized a percentage increase in taxable income between 2000 and 2001.

Section 501(c)(3) nonprofit charitable organizations, which generally command more public interest than any other type of organization granted exemption from Federal income tax by the IRS, filed nearly 10-percent more returns for 2001. While their aggregate gross UBI was virtually unchanged, they reported total deductions that were, overall, 5-percent larger than those reported for 2000. For the 4,408 charitable organizations collectively reporting \$292.3 million of total taxable UBI for 2001, aggregate UBTI dropped 38 percent from the amount reported for 2000. These charities reported 65 percent less in capital gain net income and 43 percent less in income (less loss) from partnerships and S corporations from 2000 to 2001. However, these two sources of income, combined, accounted for only 4 percent of charities' total gross UBI reported for 2001.

The group of charitable organizations with gross UBI above \$10,000 (the income size requiring the reporting of detailed deductions on Form 990-T) accounted for nearly all of the total deductions claimed by section 501(c)(3) filers altogether, and their percentage changes in deductions and gross UBI mirrored those of the entire population of charitable organizations shown in Figure D. Section 501(c)(3) organizations with gross UBI above \$10,000 are featured in Figure E, which shows selected itemized deductions reported for Tax Years 2000 and 2001. Reviewed individually, some aggregate itemized deductions increased, and others decreased over amounts reported for 2000.

For instance, salaries and wages, the second largest itemized deduction reported by charitable organizations for 2001, rose 14 percent, while advertising costs, the third largest, fell 8 percent. The catch-all "other deductions" item, which contains all amounts that were not included on more specifically defined lines on Form 990-T, was larger than any other itemized deduction amount reported by charities with gross UBI above \$10,000, accounting for 45 percent of the total. Organizations are required to attach a schedule detailing items included in other deductions, but some organizations provide only a

**Figure E**

**Itemized Deductions of Internal Revenue Code Section 501(c)(3) Nonprofit Charitable Organizations With Gross Unrelated Business Income Over \$10,000, Tax Years 2000-2001**

[Money amounts are in thousands of dollars]

Deduction item	2000	2001	Per-centage change
	(1)	(2)	(3)
<b>Number of returns</b> .....	<b>8,577</b>	<b>9,570</b>	<b>11.6</b>
<b>Total deductions</b> .....	<b>4,808,738</b>	<b>5,064,297</b>	<b>5.3</b>
Allocable to rental income.....	108,275	115,351	6.5
Allocable to unrelated debt-financed income.....	286,323	303,607	6.0
Direct advertising costs.....	432,771	397,697	-8.1
Salaries and wages.....	925,250	1,054,662	14.0
Depreciation.....	122,277	134,362	9.9
Contributions to employee benefit programs.....	139,353	152,640	9.5
Net operating loss deduction.....	124,909	100,213	-19.8
Excess exempt expenses <sup>1</sup> .....	156,455	146,035	-6.7
Other deductions.....	2,113,896	2,266,076	7.2
Deductions not shown.....	399,229	393,654	-1.4

<sup>1</sup> See the Explanation of Selected Terms section of this article for a definition of Excess Exempt Expenses.

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

lump-sum amount, often described as "operating expenses." In these cases, the other deductions amount likely includes items that should have been reported on one of the more specifically defined Form 990-T deduction lines.

**Primary Unrelated Business Activity or Industrial Grouping**

Figure F presents Form 990-T data for selected primary unrelated business activities or industrial groupings, based on self-reported activity codes from the North Atlantic Industrial Classification System (NAICS) [9]. Organizations involved primarily in health care and controlled-organization activities, along with those conducting unrelated insurance and advertising activities, had fairly large percentage increases in gross UBI for 2001. The number of returns filed by organizations that reported advertising services as their primary unrelated business activity increased by 25 percent between 2000 and 2001, but the other three primary activities mentioned above experienced declines in the number of returns on which they were reported. Even though the aggregate gross UBI of organizations engaged in insurance and advertising activities increased, their aggregate

# Unrelated Business Income Tax Returns, Tax Year 2001

**Figure F**

## Selected Form 990-T Financial Data Items, by Selected Primary Unrelated Business Activities or Industrial Groupings, Tax Years 2000-2001

[Money amounts are in thousands of dollars]

Selected primary unrelated business activity or industrial grouping	Number of returns			Gross unrelated business income (UBI)			Total deductions			Unrelated business taxable income (UBTI) <sup>1</sup>		
	2000	2001	Percentage change	2000	2001	Percentage change	2000	2001	Percentage change	2000	2001	Percentage change
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<b>All activities and groupings.....</b>	<b>38,567</b>	<b>35,540</b>	<b>-7.8</b>	<b>8,413,385</b>	<b>7,900,464</b>	<b>-6.1</b>	<b>7,703,052</b>	<b>7,882,907</b>	<b>2.3</b>	<b>1,427,441</b>	<b>791,963</b>	<b>-44.5</b>
Finance, total.....	10,576	7,438	-29.7	1,760,222	1,096,504	-37.7	888,982	737,592	-17.0	919,238	401,627	-56.3
Investment activities of Code section 501(c)(7), (9), and (17) organizations <sup>2,3</sup> .....	3,783	3,656	-3.4	1,118,865	638,263	-43.0	542,962	401,753	-26.0	596,826	241,432	-59.5
Unrelated debt-financed activities, other than rental of real estate <sup>3</sup> .....	1,255	744	-40.7	241,918	88,662	-63.4	98,781	65,207	-34.0	150,358	36,237	-75.9
Passive income activities with controlled organizations <sup>3</sup> .....	419	308	-26.5	180,755	216,467	19.8	150,665	173,549	15.2	42,114	60,048	42.6
Funds and trusts <sup>4</sup> .....	4,100	1,793	-56.3	116,821	46,267	-60.4	43,320	23,021	-46.9	74,877	25,456	-66.0
Other finance.....	1,019	937	-8.0	101,863	106,845	4.9	53,255	74,062	39.1	55,064	38,454	-30.2
Insurance.....	1,583	1,279	-19.2	457,922	524,008	14.4	457,397	523,881	14.5	30,916	19,762	-36.1
Real estate and rental and leasing.....	5,283	5,986	13.3	827,943	838,648	1.3	806,280	843,248	4.6	114,595	95,766	-16.4
Professional, scientific, and technical services, total.....	6,812	8,026	17.8	1,603,908	1,734,111	8.1	1,592,894	1,805,501	13.3	112,592	71,199	-36.8
Advertising services.....	5,563	6,958	25.1	1,099,128	1,318,387	19.9	1,067,954	1,355,721	26.9	88,971	54,354	-38.9
Health care.....	902	822	-8.9	958,038	1,167,568	21.9	1,045,450	1,251,625	19.7	37,479	42,761	14.1
Arts, entertainment, and recreation.....	4,379	3,918	-10.5	609,856	585,665	-4.0	635,198	623,605	-1.8	37,886	24,904	-34.3
Accommodation and food services.....	2,818	2,897	2.8	526,734	525,752	-0.2	526,734	586,223	11.3	23,334	18,453	-20.9
All other activities and groupings.....	6,214	5,174	-16.7	1,668,762	1,428,208	-14.4	1,750,117	1,511,232	-13.6	151,401	117,491	-22.4

<sup>1</sup> Unrelated business taxable income (UBTI) is tabulated from returns where the result of gross unrelated business income (UBI) minus total deductions is positive. Returns with deficits and "breakeven" returns with equal amounts of gross UBI and total deductions are excluded.

<sup>2</sup> Section 501(c)(7) organizations are social and recreational clubs; section 501(c)(9) organizations are voluntary employees' beneficiary associations; and section 501(c)(17) organizations are supplemental unemployment benefit trusts.

<sup>3</sup> See the Explanation of Selected Terms section of this article for definitions of Investment Income (Less Loss), Unrelated Debt-Financed Income, and Income from Controlled Organizations.

<sup>4</sup> The Funds and trusts grouping is comprised of legal entities (funds, plans, accounts, trusts, programs) organized to pool securities or other assets on behalf of shareholders or beneficiaries of employee benefit or other trust funds. For Form 990-T filers, an overwhelming majority of organizations included in this grouping were section 408(e) traditional Individual Retirement Accounts (IRA's).

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

taxable income fell by a respective 36 percent and 39 percent.

Once again, large declines in UBTI from 2000 to 2001 are prevalent in Figure F for most of the primary unrelated business activities or industrial groupings shown. Healthcare activities and the special Form 990-T category of passive income activities with controlled organizations are the only two types of primary activities included in Figure F to show increases in UBTI. Notable is the fact that the unrelated business income tax rules for investment income from debt-financed property owned directly by an exempt organization did not apply to debt-

financed investment income received indirectly, as a "pass-through," by an exempt organization from a controlled organization (a subsidiary). Therefore, the total amount of income (generally, annuities, interest, rents, and royalties) from controlled organizations that was reported on Form 990-T did not include any debt-financed investment income received as a pass-through. Accordingly, any losses connected with debt-financed investments of controlled organizations were not taken into account in figuring UBTI on the controlling exempt organization's Form 990-T. (For additional information on controlled organizations, see the definition of Income from Controlled Organiza-

## Unrelated Business Income Tax Returns, Tax Year 2001

tions in the Explanation of Selected Terms section of this article.)

Form 990-T filings, gross UBI, total deductions, and UBTI fell at the highest rates for certain organizations within the finance sector. Tax-exempt entities reporting unrelated debt-financed activities as their primary source of gross UBI and organizations engaged in financial activities within the funds and trusts grouping stand out, with respective decreases in taxable income of 76 percent and 66 percent. Again, these types of organizations, which rely heavily on passive income from investments, are highly susceptible to downturns in equities markets, adversely affecting their financial activities during the Tax Year 2001 period. In contrast to the declines in UBI and UBTI shown in Figure F for the unrelated debt-financed activities classification, the growth in UBI and UBTI for the passive income activities with controlled organizations classification can be largely attributed to the absence of losses from debt-financed investments. As noted, any investment income and losses associated with debt-financed property owned by a controlled organization are not reported by a controlling exempt organization on its Form 990-T.

It is often assumed that aggregate total gross UBI amounts reported on Form 990-T (and published by the IRS each year) are generated from direct involvement in commercial activities that are competitive with similar activities conducted by for-profit organizations, but this is not true for the entire population of organizations reporting UBI. Historically, especially when equities markets have performed well, large proportions of unrelated business taxable income and tax were attributable to trust entities that engaged in noncompetitive investment activities.

As noted in the discussion of Figure D, passive income from investments comprises most of the gross UBI of IRA trusts; pension, profit-sharing, and stock-bonus plans; and voluntary employees' beneficiary associations (VEBA's). For the majority of corporate tax-exempt entities, (debt-financed) investment activities are secondary to other types of activities that generate UBI, and these entities are more likely to be involved in activities that are deemed competitive with those conducted by for-profit organizations. The section 501(c)(3) charities, 98 percent of which were corporate entities for 2001, are a good example of this. In terms of the highest frequencies

of a specific NAICS primary activity code being reported by the charities, the top three activities for 2001 were "medical and diagnostic laboratories," "advertising and related services," and "lessors of residential buildings and dwellings." Their top three primary NAICS activities, ranked by the largest amounts of gross UBI generated, were "medical and diagnostic laboratories," "advertising and related services," and "pharmacies and drug stores."

### Summary

Overall, 35,540 organizations reported \$7.9 billion of gross "unrelated business income" (UBI) on their 2001 Forms 990-T, *Exempt Organization Business Income Tax Returns*, which represented 8-percent fewer filers and 6-percent less in gross UBI, compared to Tax Year 2000. This was the third consecutive tax year for which filings of Form 990-T declined. Unrelated business (positive) taxable income (UBTI) and the associated unrelated business income tax (UBIT) reported on Form 990-T dropped sharply for Tax Year 2001. The \$792.0 million of UBTI and the \$226.0 million of UBIT represented declines of 45 percent and 44 percent, respectively, over amounts reported for 2000.

Figures C, D, and F in this article contain Form 990-T data for Tax Years 2000 and 2001, distributed, respectively, by type of tax-exempt entity (corporation or trust) and size of gross UBI; type of organization (classified by Internal Revenue Code section); and type of unrelated business activity or industrial grouping. Decreases in Forms 990-T filed, and in major financial data items reported, for 2001 were widely dispersed among each of these distributions, although certain types of organizations experienced much larger declines than others. Tax-exempt entities organized as trusts filed 48-percent fewer Forms 990-T and reported sizable decreases in gross UBI and UBTI. Trust entities in the smallest income bracket, those with \$1,000 (the filing threshold) to \$10,000 of gross UBI, filed 54-percent fewer returns for 2001, and their gross UBI and UBTI amounts were a respective 65-percent and 77-percent lower than comparable amounts reported for the previous year.

Section 408(e) traditional Individual Retirement Account (IRA) trusts filed 55-percent fewer returns for 2001, and they reported decreases of 70 percent in gross UBI and 67 percent in unrelated business taxable income (UBTI). Similarly, the number of



## Unrelated Business Income Tax Returns, Tax Year 2001

returns filed by section 401(a) pension, profit-sharing, and stock-bonus plans dropped 47 percent, and their total gross UBI and UBTI dropped a respective 47 percent and 49 percent. Section 501(c)(3) nonprofit charitable organizations filed nearly 10-percent more Forms 990-T for 2001. Their gross UBI grew by less than 1 percent, and their total deductions increased by slightly more than 5 percent. Thirty-eight percent of the charitable organizations had unrelated business income that was taxable, and the amount of taxable income was 38 percent less than total UBTI reported for 2000.

Form 990-T filings, gross UBI, total deductions, and UBTI fell at the highest rates for certain organizations engaging primarily in unrelated business activities within the finance sector. Tax-exempt organizations reporting unrelated debt-financed activities as their primary source of gross UBI, and those organizations engaged in financial activities within the “funds and trusts” grouping stand out, with respective decreases in taxable income of 76 percent and 66 percent. These types of organizations, which rely heavily on passive income from investments, were more likely to be adversely affected by poor equity market performance during Tax Year 2001.

### Data Sources and Limitations

The Tax Year 2001 Form 990-T study incorporated a two-stage sample design consisting of a stratified random sample and a special “integrated” sample. The integrated sample was designed to gather information on “related” (tax-exempt) and “unrelated” (taxable) income and expenses for section 501(c)(3) organizations that filed both Form 990, *Return of Organization Exempt from Income Tax* (or Form 990-EZ, the short-form version of this information return), and Form 990-T. This integrated sampling program ensured that the Statistics of Income sample of Forms 990-T included any unrelated business income tax returns (with gross UBI of \$1,000 or more) filed by organizations whose Form 990 or Form 990-EZ information returns were selected for the separate sample of section 501(c)(3) nonprofit charitable organizations. Organizations exempt under other Code sections were not subjected to the integrated sampling program.

The Form 990-T returns were initially divided into strata, based on gross UBI, and selected using Bernoulli sampling. Section 501(c)(3) returns not

**Form 990-T filings, gross UBI, total deductions, and UBTI fell at the highest rates for certain organizations engaging primarily in unrelated business activities within the finance sector.**

selected randomly were then matched to returns in the Forms 990/990-EZ sample. These matched returns, along with any randomly selected Forms 990-T that also had counterparts in the Forms 990/990-EZ sample, formed the “integrated” IRC section 501(c)(3) portion of the Form 990-T sample [10].

As shown in Figure G, the designed sampling rates ranged from a minimum of 2 percent (Form 990-T gross UBI less than \$20,000, with either no Form 990/990-EZ match or a match to a Code section 501(c)(3) Form 990/990-EZ with total assets under \$1,000,000) to a maximum of 100 percent (either Form 990-T gross UBI of \$300,000 or more, or Form 990-T with any amount of gross UBI and a match to a section 501(c)(3) Form 990 with total assets of \$30,000,000 or more). Other Forms 990-T were selected at rates ranging from 4 percent to 30 percent. In addition to designed sample rates, Figure G contains population counts, sample counts, and achieved sample rates, by size of gross unrelated business income reported on Form 990-T and size of total assets reported on Form 990 or Form 990-EZ.

The population from which the 2001 Form 990-T sample was drawn consisted of Form 990-T records posted to the IRS Business Master File system during 2002 and 2003. Returns filed after Calendar Year 2003 were not included in the sample, unless a return was considered a large income-size case (over \$300,000 or more of gross UBI). The returns in the sample were stratified based on the size of gross unrelated business income (UBI). A sample of 6,846 returns was selected from a population of 35,672. After excluding returns that were selected for the sample but later rejected, the resulting sample size was 6,808 returns, and the estimated population size was 35,540. Rejected returns included those that had gross UBI below the \$1,000 filing threshold; were filed only to claim a refund or report the “proxy tax”; were filed for a part-year accounting period for 2001, and a full-year return was also filed for that year; or were filed for a part-year accounting period that began in a year other than 2001. For example, a final

# Unrelated Business Income Tax Returns, Tax Year 2001

**Figure G**

**Population and Sample Counts, and Designed and Achieved Sample Rates, by Sample Group, Tax Year 2001**

Sample group number	Size of gross unrelated business income (UBI) on Form 990-T and size of total assets on matching IRC section 501(c)(3) Form 990 or Form 990-EZ <sup>1</sup>	Population counts	Sample counts	Designed sample rate	Achieved sample rate
				Percentages	
		(1)	(2)	(3)	(4)
1	Gross UBI \$1,000 under \$20,000 and total assets under \$1,000,000, or Gross UBI \$1,000 under \$20,000 and no matching Form 990 or Form 990-EZ.....	15,496	313	2.00	2.02
2	Gross UBI \$1,000 under \$20,000 and total assets \$1,000,000 under \$2,500,000, or Gross UBI \$20,000 under \$60,000 and total assets under \$2,500,000, or Gross UBI \$20,000 under \$60,000 and no matching Form 990 or Form 990-EZ.....	7,070	309	4.00	4.37
3	Gross UBI \$1,000 under \$60,000 and total assets \$2,500,000 under \$10,000,000, or Gross UBI \$60,000 under \$150,000 and total assets under \$10,000,000, or Gross UBI \$60,000 under \$150,000 and no matching Form 990 or Form 990-EZ.....	5,464	545	10.00	9.97
4	Gross UBI \$1,000 under \$150,000 and total assets \$10,000,000 under \$30,000,000, or Gross UBI \$150,000 under \$300,000 and total assets under \$30,000,000, or Gross UBI \$150,000 under \$300,000 and no matching Form 990 or Form 990-EZ.....	2,918	955	30.00	32.73
5	Gross UBI \$300,000 or more, or total assets \$30,000,000 or more.....	4,724	4,724	100.00	100.00
	<b>All sample groups</b> <sup>2</sup> .....	<b>35,672</b>	<b>6,846</b>	<b>N/A</b>	<b>N/A</b>

N/A - Not applicable.

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

<sup>2</sup>After excluding returns that were originally selected for the sample but later rejected, the sample size was 6,808, and the estimated population size was 35,540.

return filed for the short period of January 2002-June 2002 may have been initially selected for the 2001 sample based on the criterion of an accounting period that ended between December 2001 and November 2002, but it was later rejected because, in actuality, it was a Tax Year 2002 return.

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

Because the data are based on a sample, they are subject to sampling error. In order to use these statistics properly, the magnitude of the sampling error, measured by the coefficient of variation (CV), should be taken into account. Figure H shows CV's for selected financial data. CV's are not shown for

**Figure H**

**Coefficients of Variation for Selected Items, by Size of Gross Unrelated Business Income, Tax Year 2001**

Size of gross unrelated business income	Number of returns	Gross unrelated business income	Total deductions	Unrelated business taxable income	Total tax
		Coefficient of variation (percentages)			
	(1)	(2)	(3)	(4)	(5)
<b>Total</b> .....	<b>0.12</b>	<b>0.21</b>	<b>0.32</b>	<b>0.98</b>	<b>0.88</b>
\$1,000 under \$10,001 <sup>1</sup> .....	3.11	4.91	12.28	10.46	11.20
\$10,001 under \$100,000 <sup>1</sup> .....	2.78	2.18	3.34	6.78	8.07
\$100,000 under \$300,000.....	2.39	1.89	2.28	6.11	7.33
\$300,000 or more.....	N/A	N/A	N/A	N/A	N/A

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

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

## Unrelated Business Income Tax Returns, Tax Year 2001

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

### Explanation of Selected Terms

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

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

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

S corporation, or any gain or loss on the disposition of S corporation stock by a "qualified tax-exempt" (defined in the explanation of Income (Less Loss) from Partnerships and S Corporations), was taxed as a capital gain or loss. (See the explanation of Investment Income (Less Loss) for information regarding investment income of section 501(c)(7), (9), and (17) organizations.)

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

*Cost of Sales and Services.*--Cost of sales and services was reported as a lump-sum total, but may have included depreciation, salaries and wages, and certain other types of deductible items. For this reason, the total amount shown for some of the separately reported components of total deductions, such as "salaries and wages," may be understated. Cost of sales and services was subtracted from gross receipts from sales and services in computing gross profit (less loss) from sales and services, which is a component of gross unrelated business income (UBI). Because Form 990-T filing requirements are based on gross UBI, and cost of sales and services is factored into the computation of gross income, the deduction for cost of sales and services is reported in the gross income section of Form 990-T, not the deductions section.

*Deductions Directly Connected With Unrelated Business Income.*--These were deductions allowed in computing net income, if they otherwise

## Unrelated Business Income Tax Returns, Tax Year 2001

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

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

*Excess Exempt Expenses.*--The two types of “excess” expenses allowed as deductions from

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

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

## Unrelated Business Income Tax Returns, Tax Year 2001

income from exploited exempt activities as part of gross receipts from sales and services. All other organizations reported this income separately.

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

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

A tax-exempt organization's income was treated as unrelated business income if it was from a trade or business that was regularly carried on by the organization and that was not substantially related to the performance of the organization's exempt purpose or function (other than that the organization needed the profits derived from the unrelated activity). The term "trade or business" generally comprised any activities carried on for the production of income from selling goods or performing services. These activities did

not lose their identity as trades or businesses merely because they were carried on within a larger aggregate of similar activities or within a larger complex of other endeavors that may, or may not, have been related to the exempt purposes of the organization. For example, soliciting, selling, or publishing commercial advertising is identified as a trade or business even though the advertising is published in an exempt organization's periodical that contains editorial matter related to the organization's exempt purpose.

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

*Income (Less Loss) from Partnerships and S Corporations.*--If an organization was a partner in any partnership that carried on an unrelated trade or business, this income item included the organization's share of partnership gross unrelated business income less its share of partnership deductions that were directly connected with the unrelated income. If an organization was a "qualified tax-exempt" that held stock in an S corporation, this income item included the income or loss from the stock interest. The stock interest was treated as an unrelated trade or business, and all items of income, loss, or deduction were

## Unrelated Business Income Tax Returns, Tax Year 2001

taken into account in computing unrelated business taxable income. A “qualified tax-exempt” was an organization described in Internal Revenue Code section 401(a) (qualified stock bonus, pension, or profit-sharing plan) or section 501(c)(3), and exempt from tax under section 501(a).

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

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

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

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

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

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

*Proxy Tax.*--This was a tax on certain nondeductible lobbying and political expenditures. A membership organization that was tax-exempt under Internal Revenue Code sections 501(c)(4), 501(c)(5), or 501(c)(6) was liable for the proxy tax if the organi-

## Unrelated Business Income Tax Returns, Tax Year 2001

zation did not notify its members of the shares of their dues that were allocated to the nondeductible lobbying and political expenditures, or if the notice did not include the entire amount of dues that was allocated. The proxy tax was computed as 35 percent of the aggregate amount of nondeductible lobbying expenditures that was not included in the notices sent to the organization's members. The proxy tax was required to be reported on Form 990-T and was included in total tax; however, there was no connection between the proxy tax and the taxation of income from an organization's unrelated business activities.

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

*Set-Asides.*--This deduction from investment income was allowed to social and recreational clubs (Internal Revenue Code section 501(c)(7)), voluntary employees' beneficiary associations (section 501(c)(9)), and supplemental unemployment benefit trusts (section 501(c)(17)). The deduction was equal to the amount of passive income (generally, investment income) that these organizations set aside (1) to

be used for charitable purposes or (2) to provide payment of life, health, accident, or other insurance benefits (section 501(c)(9) and (17) organizations only). However, any amounts set aside that exceeded the "qualified asset account" limit, as figured under section 419A, were not allowed as a deduction from unrelated business investment income; they were treated as taxable investment income. A section 419A qualified asset account is any account consisting of assets set aside to provide for the payment of disability benefits, medical benefits, severance pay benefits, or life insurance benefits.

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

*Total Deductions.*--Total deductions included both deductions reported on the main part of Form 990-T and expense items reported on any of six supporting schedules, which were also part of the tax form. It excluded cost of sales and services (\$2.3 billion for 2001), which was subtracted from gross receipts from sales and services in computing gross profit (less loss) from sales and services, which is a component of gross unrelated business income (UBI). (See the explanation of Cost of Sales and Services.)

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

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

*Unrelated Business Income Tax.*--This was the tax imposed on unrelated business taxable income. It was determined based on the regular corporate or trust income tax rates that were in effect for the 2001 Tax Year, as shown in the following schedules.

## Unrelated Business Income Tax Returns, Tax Year 2001

### Tax Rates for Corporations

Amount of unrelated business taxable income is:

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

### Tax Rates for Trusts

Amount of unrelated business taxable income is:

Over—	But not over—	Tax is:	Of the amount over—
\$ 0	\$1,800	15%	\$0
1,800	4,250	\$262.50 + 27.5%	1,800
4,250	6,500	934.50 + 30.5%	4,250
6,500	8,900	1,601.00 + 35.5%	6,500
8,900	--	2,482.00 + 39.1%	8,900

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

*Unrelated Debt-Financed Income.*--Gross income from investment property for which acquisition indebtedness was outstanding at any time during the tax year was subject to the unrelated business

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

### Notes and References

- [1] Organizations with unrelated business income tax liability may have been liable for the alternative minimum tax (AMT) on certain adjustments and tax preference items. In addition to reporting AMT on Form 990-T, tax-exempt trusts with AMT were required to attach Form 1041, Schedule I, *Alternative Minimum Tax*, and tax-exempt corporations with AMT were required to attach Form 4626, *Alternative Minimum Tax--Corporations*.
- [2] The proxy tax is required to be reported on Form 990-T and is included in total tax, but it has no connection to the unrelated business income tax or an organization's involvement in unrelated business activities. A tax-exempt membership organization was liable for the proxy tax on certain nondeductible lobbying and political expenditures if the organization did not notify its members of the shares of their dues that were



## Unrelated Business Income Tax Returns, Tax Year 2001

allocated to the nondeductible expenditures, or if the notice did not include the entire amount of dues that was allocated. (See “Proxy Tax” in the Explanation of Selected Terms section of this article for more information.) The \$1.4 million of proxy tax shown in the total tax computation is only that reported by Form 990-T filers with gross unrelated business income above the \$1,000 filing threshold, a criterion for selection for the Statistics of Income (SOI) sample. Proxy tax reported by organizations that had no UBI or those that had UBI below the filing threshold is not included.

- [3] The amount of total tax liability originally reported on Forms 990-T, as stated in these statistics, may not necessarily be the amount ultimately paid to the Internal Revenue Service (IRS). Changes in tax liability assessments can be made after the original return is filed, either by the taxpayer on an amended return, by the IRS after examination, or by rulings of the U.S. tax courts after litigation.
- [4] A business activity is considered unrelated if it does not contribute importantly (other than the production of funds) to accomplishing an organization’s charitable, educational, or other purpose that is the basis for the organization’s tax exemption. In determining whether activities contribute importantly to the accomplishment of an exempt purpose, the size and extent of the activities involved must be considered in relation to the nature and extent of the exempt function that they intend to serve. To the extent an activity is conducted on a scale larger than is reasonably necessary to perform an exempt purpose, it does not contribute importantly to the accomplishment of the exempt purpose. The part of the activity that is more than needed to accomplish the exempt purpose is an unrelated trade or business. Whether an activity contributes importantly depends in each case on the facts involved. See IRS Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*, for additional information on unrelated business income and tax.

The following is a case example from Publication 598. An American folk art museum oper-

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

- [5] The unrelated business income tax (UBIT) for nonprofit corporations was determined based on the regular corporate income tax rates in effect for the tax year of the Form 990-T filing. Nonprofit trusts were generally taxed at the regular individual (single status) income tax rates established for estates and trusts for the tax year of the Form 990-T filing. Trusts that were eligible for the maximum 28-percent tax rate on capital gain net income figured their tax based on Schedule D of Form 1041, *U.S. Income Tax Return for Estates and Trusts*. The corporate and trust tax-rate schedules for Tax Year 2001 are included in the definition of Unrelated Business Income Tax, found in the Explanation of Selected Terms section of this article.
- [6] Churches, which are tax-exempt under Internal Revenue Code section 501(c)(3), are not required to apply for exemption unless they desire to obtain an Internal Revenue Service ruling, and they do not have to file a Form 990 information return. However, these churches are required to file Form 990-T if they received \$1,000 or more of gross income from business activities that were considered unrelated to the purposes for which they received tax-exempt status. Private foundations and certain charitable trusts file an information return on Form 990-PF, *Return of Private Foundation or*

## Unrelated Business Income Tax Returns, Tax Year 2001

*Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation.* For the most recent Form 990 annual data on organizations tax-exempt under Internal Revenue Code sections 501(c)(3) (excluding private foundations and most religious organizations) through 501(c)(9), see Arnsberger, Paul D., “Charities and Other Tax-Exempt Organizations, 2001,” *Statistics of Income Bulletin*, Fall 2004, Volume 24, Number 2. For the most recent annual data on private foundations, see Ludlum, Melissa, “Domestic Private Foundations and Charitable Trusts, 2001,” *Statistics of Income Bulletin*, Fall 2004, Volume 24, Number 2. Both of these articles are available from the IRS Tax Stats Web site at <http://www.irs.gov/taxstats/index.html>.

- [7] The term “charitable” refers to tax-exempt organizations with purposes that are charitable, educational, scientific, literary, or religious in nature, or organizations that test for public safety or prevent cruelty to children or animals.

The term also covers organizations that otherwise qualified for tax-exempt status under the Income Tax Regulations issued for Internal Revenue Code section 501(c)(3).

- [8] The Wilshire 5000 Total Market Index was used for analyzing possible effects of financial markets on unrelated business taxable income and tax. This index can be accessed from [www.wilshire.com/quote.html](http://www.wilshire.com/quote.html).
- [9] See Executive Office of the President, Office of Management and Budget, *North American Industry Classification System: United States, 1997*, Berman Press, Lanham, MD, 1998.
- [10] For additional information on the Forms 990 and 990-T integrated sample design, see Harte, James M. and Hilgert, Cecelia H., “Enriching One Sample While Improving Another: Linking Differently Stratified Samples of Documents Filed by Exempt Organizations,” *Statistics of Income: Turning Administrative Systems Into Information Systems*, 1993.

## Unrelated Business Income Tax Returns, Tax Year 2001

### Appendix

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

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

# Unrelated Business Income Tax Returns, Tax Year 2001

## Appendix

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

Code section	Description of organization	General nature of activities
501(c)(12)	Benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, and like organizations	Activities of a mutually beneficial nature implied by the description of the class of organization
(13)	Cemetery companies	Arranging for burials and incidental related activities
(14)	State-chartered credit unions and mutual insurance or reserve funds	Providing loans to members or providing insurance of, or reserve funds for, shares or deposits in certain banks or loan associations
(15)	Mutual insurance companies or associations other than life, if written premiums for the year do not exceed \$350,000	Providing insurance to members, substantially at cost
(16)	Corporations organized to finance crop operations	Financing crop operations in conjunction with activities of a marketing or purchasing association
(17)	Supplemental unemployment benefit trusts	Fiduciary agent for payment of supplemental unemployment compensation benefits
(18)	Employee-funded pension trusts (created before June 25, 1959)	Providing for payments of benefits under a pension plan funded by employees
(19)	Posts or organizations of past or present members of the armed forces	Providing services to veterans or their dependents; advocacy of veteran's issues; and promotion of patriotism and community service programs
(21)	Black Lung Benefit Trusts	Created by coal mine operators to satisfy their liability for disability or death due to black lung disease
(22)	Withdrawal liability payment funds	Providing funds to meet the liability of employers withdrawing from a multiemployer 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

## Unrelated Business Income Tax Returns, Tax Year 2001

### Appendix

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

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

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

# Unrelated Business Income Tax Returns, Tax Year 2001

**Table 1.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Internal Revenue Code Section Describing Type of Tax-Exempt Organization, Tax Year 2001**

[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 <sup>1,2</sup>		Unrelated business taxable income (less deficit)		Unrelated business taxable income	Total tax <sup>4</sup>	
			Number of returns	Amount	Number of returns <sup>3</sup>	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>All sections.....</b>	<b>35,540</b>	<b>7,900,464</b>	<b>35,466</b>	<b>7,882,907</b>	<b>27,781</b>	<b>17,557</b>	<b>791,963</b>	<b>15,308</b>	<b>221,532</b>
220(e).....	--	--	--	--	--	--	--	--	--
401(a).....	300	92,887	300	43,393	269	49,495	58,500	187	16,437
408(e).....	2,499	13,599	2,499	3,879	2,450	9,720	9,814	2,400	2,823
408A.....	--	--	--	--	--	--	--	--	--
501(c)(2) <sup>5</sup> .....	250	105,164	250	95,881	232	9,283	24,016	121	8,057
501(c)(3).....	12,618	4,811,839	12,607	5,080,304	9,943	-268,465	292,308	4,361	84,597
501(c)(4).....	1,487	419,441	1,486	430,220	1,102	-10,779	12,098	389	3,263
501(c)(5).....	2,213	235,027	2,212	233,862	1,682	1,164	21,892	734	5,648
501(c)(6).....	5,569	859,635	5,569	860,503	3,717	-867	62,112	1,718	18,031
501(c)(7).....	6,997	504,800	6,948	474,924	5,863	29,876	72,491	4,040	14,713
501(c)(8).....	583	109,454	583	111,948	396	-2,494	4,688	206	1,059
501(c)(9).....	672	497,213	660	285,679	409	211,534	212,618	333	61,520
501(c)(10).....	202	18,119	202	19,990	181	-1,871	563	*66	*85
501(c)(11).....	--	--	--	--	--	--	--	--	--
501(c)(12).....	188	65,461	188	70,393	99	-4,932	7,898	64	2,589
501(c)(13).....	*66	*2,515	*66	*1,468	*66	*1,047	*1,047	*66	*263
501(c)(14).....	105	33,066	105	39,529	104	-6,464	3,010	66	882
501(c)(15).....	--	--	--	--	--	--	--	--	--
501(c)(16).....	--	--	--	--	--	--	--	--	--
501(c)(17).....	--	--	--	--	--	--	--	--	--
501(c)(18).....	--	--	--	--	--	--	--	--	--
501(c)(19).....	1,738	127,753	1,738	126,874	1,265	879	8,089	556	1,248
501(c)(21) <sup>6</sup> .....	--	--	--	--	--	--	--	--	--
501(c)(22).....	--	--	--	--	--	--	--	--	--
501(c)(23).....	--	--	--	--	--	--	--	--	--
501(c)(24).....	**	**	**	**	**	**	**	**	**
501(c)(25).....	**	**	**	**	**	**	**	**	**
501(c)(26).....	--	--	--	--	--	--	--	--	--
501(c)(27).....	**	**	**	**	**	**	**	**	**
529(a).....	--	--	--	--	--	--	--	--	--
530(a).....	--	--	--	--	--	--	--	--	--

<sup>1</sup> Estimate should be used with caution because of the small number of sample returns on which it is based.

<sup>2</sup> Data deleted to avoid disclosure of information for specific taxpayers. However, data are included in the appropriate totals.

<sup>3</sup> Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was \$2.3 billion.

<sup>4</sup> Includes both deductions reported on the main part of the tax return and expense items reported on supporting schedules.

<sup>5</sup> Excludes returns with unrelated business taxable income (less deficit) equal to zero.

<sup>6</sup> Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000 filing threshold, total proxy tax was \$1.4 million.

<sup>7</sup> Corporations that are organized under an Act of Congress and are instrumentalities of the United States, described in section 501(c)(1) of the Internal Revenue Code, are not subject to unrelated business income taxation.

<sup>8</sup> Prepaid legal service funds, previously described in section 501(c)(20) of the Internal Revenue Code, were no longer tax-exempt, beginning with tax years after June 30, 1992. Therefore, these organizations are not listed in this table.

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

# Unrelated Business Income Tax Returns, Tax Year 2001

**Table 2.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Gross UBI, Tax Year 2001**

[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 <sup>1,2</sup>		Unrelated business taxable income (less deficit)		Unrelated business taxable income	Total tax <sup>4</sup>	
			Number of returns	Amount	Number of returns <sup>3</sup>	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>Total.....</b>	<b>35,540</b>	<b>7,900,464</b>	<b>35,466</b>	<b>7,882,907</b>	<b>27,781</b>	<b>17,557</b>	<b>791,963</b>	<b>15,308</b>	<b>221,532</b>
\$1,000 under \$10,001 <sup>5</sup> .....	12,653	50,853	12,600	58,731	9,676	-7,878	13,323	6,642	2,077
\$10,001 under \$100,000 <sup>5</sup> .....	14,659	529,493	14,645	552,226	11,551	-22,733	84,662	5,649	15,490
\$100,000 under \$500,000.....	5,971	1,296,005	5,967	1,344,677	4,784	-48,672	135,671	2,228	35,239
\$500,000 under \$1,000,000.....	1,054	739,839	1,052	750,735	835	-10,897	71,116	397	22,069
\$1,000,000 under \$5,000,000.....	960	1,953,814	958	1,927,386	750	26,427	205,823	311	65,397
\$5,000,000 or more.....	244	3,330,462	244	3,249,152	185	81,310	281,369	80	81,260

<sup>1</sup> Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was \$2.3 billion.

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

<sup>3</sup> Excludes returns with unrelated business taxable income (less deficit) equal to zero.

<sup>4</sup> Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000 filing threshold, total proxy tax was \$1.4 million.

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

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

# Unrelated Business Income Tax Returns, Tax Year 2001

**Table 3.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Size of Unrelated Business Taxable Income or Deficit, Tax Year 2001**

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

Size of unrelated business taxable income or deficit	Number of returns	Gross unrelated business income (UBI)	Total deductions <sup>1,2</sup>		Unrelated business taxable income (less deficit)		Total tax <sup>3</sup>	
			Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Total.....</b>	<b>35,540</b>	<b>7,900,464</b>	<b>35,466</b>	<b>7,882,907</b>	<b>27,781</b>	<b>17,557</b>	<b>15,308</b>	<b>221,532</b>
Deficit.....	12,505	3,710,819	12,505	4,485,226	12,505	-774,406	83	717
Zero <sup>4</sup> .....	7,759	1,611,981	7,759	1,611,981	--	--	116	445
\$1 under \$1,000.....	3,279	59,366	3,279	57,866	3,279	1,500	3,254	224
\$1,000 under \$10,000.....	6,640	233,114	6,588	205,390	6,640	27,724	6,579	4,217
\$10,000 under \$100,000.....	4,469	720,383	4,455	583,089	4,469	137,294	4,397	25,192
\$100,000 under \$500,000.....	676	625,745	672	479,783	676	145,962	669	45,855
\$500,000 under \$1,000,000.....	87	168,685	85	108,404	87	60,281	87	20,501
\$1,000,000 or more.....	125	770,371	123	351,169	125	419,202	123	124,381

<sup>1</sup> Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was \$2.3 billion.

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

<sup>3</sup> Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000 filing threshold, total proxy tax was \$1.4 million.

<sup>4</sup> The Zero category includes "breakeven" returns with equal amounts of gross unrelated business income and total deductions.

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



# Unrelated Business Income Tax Returns, Tax Year 2001

**Table 4.--Returns with Positive Unrelated Business Taxable Income: Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income, and Total Tax, by Type of Entity and Size of Gross UBI, Tax Year 2001**

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

Type of entity and size of gross unrelated business income (UBI)	Number of returns	Gross unrelated business income (UBI)	Total deductions <sup>1,2</sup>		Unrelated business taxable income	Total tax <sup>3</sup>	
			Number of returns	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>ALL ENTITIES</b>							
<b>Total</b> .....	<b>15,277</b>	<b>2,577,664</b>	<b>15,202</b>	<b>1,785,700</b>	<b>791,963</b>	<b>15,109</b>	<b>220,371</b>
\$1,000 under \$10,001 <sup>4</sup> .....	6,596	23,841	6,543	10,518	13,323	6,593	2,074
\$10,001 under \$100,000.....	5,652	190,599	5,638	105,937	84,662	5,581	15,052
\$100,000 under \$500,000.....	2,225	506,451	2,221	370,780	135,671	2,161	34,871
\$500,000 under \$1,000,000.....	411	287,229	409	216,112	71,116	392	22,018
\$1,000,000 under \$5,000,000.....	316	633,493	314	427,670	205,823	307	65,328
\$5,000,000 or more.....	77	936,052	77	654,683	281,369	76	81,027
<b>TAX-EXEMPT CORPORATIONS</b>							
<b>Total</b> .....	<b>12,174</b>	<b>2,116,138</b>	<b>12,112</b>	<b>1,646,970</b>	<b>469,167</b>	<b>12,013</b>	<b>127,352</b>
\$1,000 under \$10,001 <sup>4</sup> .....	4,345	19,672	4,292	8,226	11,446	4,342	1,766
\$10,001 under \$100,000 <sup>4</sup> .....	5,093	175,746	5,089	102,743	73,003	5,021	11,493
\$100,000 under \$500,000.....	2,042	466,579	2,038	362,088	104,492	1,979	23,683
\$500,000 under \$1,000,000.....	377	263,250	376	209,889	53,360	359	15,911
\$1,000,000 under \$5,000,000.....	256	507,279	255	395,354	111,925	250	35,560
\$5,000,000 or more.....	62	683,611	62	568,671	114,941	61	38,939
<b>TAX-EXEMPT TRUSTS</b>							
<b>Total</b> .....	<b>3,103</b>	<b>461,526</b>	<b>3,091</b>	<b>138,730</b>	<b>322,796</b>	<b>3,097</b>	<b>93,019</b>
\$1,000 under \$10,001 <sup>4</sup> .....	2,251	4,168	2,251	2,292	1,877	2,251	308
\$10,001 under \$100,000 <sup>4</sup> .....	559	14,853	549	3,194	11,659	559	3,559
\$100,000 under \$500,000.....	184	39,871	184	8,692	31,179	182	11,189
\$500,000 under \$1,000,000.....	34	23,979	33	6,223	17,756	33	6,107
\$1,000,000 under \$5,000,000.....	60	126,214	59	32,317	93,897	57	29,768
\$5,000,000 or more.....	15	252,440	15	86,012	166,428	15	42,088

<sup>1</sup> Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For exempt organizations reporting positive unrelated business taxable income, cost of sales and services was \$707.5 million, of which \$697.8 million were attributable to tax-exempt corporations.

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

<sup>3</sup> Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting positive unrelated business taxable income, total proxy tax was \$0.7 million.

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

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

# Unrelated Business Income Tax Returns, Tax Year 2001

**Table 5.--Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (Less Deficit), Unrelated Business Taxable Income, and Total Tax, by Primary Unrelated Business Activity or Industrial Grouping, Tax Year 2001**

[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 <sup>1,2</sup>		Unrelated business taxable income (less deficit)		Unrelated business taxable income	Total tax <sup>4</sup>	
			Number of returns	Amount	Number of returns <sup>3</sup>	Amount		Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>All activities and groupings.....</b>	<b>35,540</b>	<b>7,900,464</b>	<b>35,466</b>	<b>7,882,907</b>	<b>27,781</b>	<b>17,557</b>	<b>791,963</b>	<b>15,308</b>	<b>221,532</b>
Agriculture, forestry, hunting, and fishing.....	253	41,703	252	28,857	170	12,846	16,241	133	5,327
Mining.....	183	23,666	183	19,977	178	3,690	8,457	124	2,546
Utilities.....	23	22,135	23	24,318	23	-2,182	*1,281	*16	*396
Construction.....	63	6,835	63	7,242	*50	*407	*613	*36	*92
Manufacturing.....	225	56,775	223	64,764	175	-7,989	9,690	77	3,265
Wholesale trade.....	*126	*3,512	*126	*13,486	*116	*-9,974	*223	*53	*33
Retail trade.....	1,515	420,287	1,515	451,599	1,207	-31,312	21,339	487	5,940
Transportation and warehousing.....	45	9,481	45	10,663	44	-1,182	*1,756	*17	*550
Information.....	735	179,854	733	186,825	572	-6,971	18,919	316	7,106
Finance and insurance, total.....	8,718	1,620,512	8,656	1,261,473	7,357	359,038	421,390	6,140	117,056
Unrelated debt-financed activities, other than rental of real estate <sup>5</sup> .....	744	88,662	744	65,207	708	23,455	36,237	515	11,388
Investment activities of Code section 501(c)(7), (9), and (17) organizations <sup>5,6</sup> .....	3,656	638,263	3,596	401,753	2,866	236,510	241,432	2,520	66,026
Passive income activities with controlled organizations <sup>5</sup> .....	308	216,467	308	173,549	238	42,918	60,048	165	13,603
Other finance and insurance.....	4,009	677,120	4,008	620,965	3,545	56,155	83,672	2,940	26,038
Real estate and rental and leasing, total.....	5,986	838,648	5,985	843,248	4,795	-4,600	95,766	2,389	27,083
Rental of personal property.....	521	97,743	520	101,067	395	-3,324	4,286	211	829
Other real estate and rental and leasing.....	5,465	740,905	5,465	742,181	4,400	-1,276	91,480	2,178	26,254
Professional, scientific, and technical services.....	8,026	1,734,111	8,026	1,805,501	5,091	-71,390	71,199	2,181	19,402
Management of companies and enterprises.....	34	25,002	33	15,318	33	9,684	9,684	34	3,368
Administrative and support and waste management and remediation services.....	700	267,841	700	294,664	543	-26,823	14,279	228	4,104
Educational services.....	61	19,843	61	23,523	52	-3,681	*948	*39	*409
Healthcare and social assistance.....	994	1,290,692	991	1,382,559	833	-91,867	43,570	298	13,973
Arts, entertainment, and recreation.....	3,918	585,665	3,915	623,605	3,149	-37,940	24,904	1,423	4,380
Accommodation and food services.....	2,897	525,752	2,897	586,223	2,502	-60,471	18,453	777	3,502
Other services.....	602	151,437	602	160,418	524	-8,981	6,196	313	1,313
Exploited exempt activities.....	194	57,259	194	57,010	131	249	4,937	108	1,316
Not allocable.....	241	19,453	241	21,634	237	-2,181	2,116	121	372

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

<sup>1</sup> Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was \$2.3 billion.

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

<sup>3</sup> Excludes returns with unrelated business taxable income (less deficit) equal to zero.

<sup>4</sup> Total tax is the regular unrelated business income tax after reduction by any tax credits (foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits), plus the "alternative minimum tax," the "proxy" tax on nondeductible lobbying and political expenditures, and "other" taxes. The proxy tax was reported on Form 990-T and was included in total tax; however, it had no connection to the tax on unrelated business income or an organization's involvement in unrelated business activities. For exempt organizations reporting gross UBI above the \$1,000 filing threshold, total proxy tax was \$1.4 million.

<sup>5</sup> See the Explanation of Selected Terms section of this article for definitions of Unrelated Debt-Financed Income, Investment Income (Less Loss), and Income from Controlled Organizations.

<sup>6</sup> Section 501(c)(7) organizations are social and recreational clubs; section 501(c)(9) organizations are voluntary employees' beneficiary associations, and section 501(c)(17) organizations are supplemental unemployment benefit trusts.

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

# Unrelated Business Income Tax Returns, Tax Year 2001

**Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2001**

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

Size of gross unrelated business income (UBI)	Gross unrelated business income (UBI)		Sources of gross unrelated business income (UBI) <sup>1</sup>			
			Gross profit (less loss) from sales and services		Capital gain net income	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Total</b> .....	<b>35,540</b>	<b>7,900,464</b>	<b>14,816</b>	<b>4,330,117</b>	<b>941</b>	<b>218,567</b>
<b>\$1,000 under \$10,001</b> <sup>2</sup> .....	<b>12,653</b>	<b>50,853</b>	<b>2,564</b>	<b>9,765</b>	<b>*203</b>	<b>*575</b>
<b>\$10,001 or more, total</b> <sup>2,3</sup> .....	<b>22,888</b>	<b>7,849,612</b>	<b>12,252</b>	<b>4,320,353</b>	<b>737</b>	<b>217,992</b>
\$10,001 under \$100,000.....	14,659	529,493	6,984	226,757	525	8,891
\$100,000 under \$500,000.....	5,971	1,296,005	3,779	692,028	116	11,640
\$500,000 under \$1,000,000.....	1,054	739,839	693	398,226	32	11,955
\$1,000,000 under \$5,000,000.....	960	1,953,814	625	1,059,691	44	41,610
\$5,000,000 or more.....	244	3,330,462	171	1,943,650	20	143,896

  

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) <sup>1</sup> --Continued					
	Net capital loss (trusts only)		Net gain (less loss), sales of noncapital assets <sup>4</sup>		Income (less loss) from partnerships and S corporations	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(7)	(8)	(9)	(10)	(11)	(12)
<b>Total</b> .....	<b>135</b>	<b>388</b>	<b>342</b>	<b>3,554</b>	<b>4,020</b>	<b>176,583</b>
<b>\$1,000 under \$10,001</b> <sup>2</sup> .....	<b>--</b>	<b>--</b>	<b>*51</b>	<b>*160</b>	<b>2,538</b>	<b>5,042</b>
<b>\$10,001 or more, total</b> <sup>2,3</sup> .....	<b>135</b>	<b>388</b>	<b>292</b>	<b>3,394</b>	<b>1,482</b>	<b>171,541</b>
\$10,001 under \$100,000.....	*72	*171	173	345	896	20,087
\$100,000 under \$500,000.....	31	90	76	1,601	294	26,970
\$500,000 under \$1,000,000.....	11	33	16	-301	97	13,320
\$1,000,000 under \$5,000,000.....	15	79	16	2,994	128	42,346
\$5,000,000 or more.....	5	15	11	-1,245	67	68,819

  

Size of gross unrelated business income (UBI)	Sources of gross unrelated business income (UBI) <sup>1</sup> --Continued					
	Rental income <sup>5</sup>		Unrelated debt-financed income		Investment income (less loss) <sup>6</sup>	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(13)	(14)	(15)	(16)	(17)	(18)
<b>Total</b> .....	<b>4,303</b>	<b>229,816</b>	<b>3,269</b>	<b>438,475</b>	<b>5,928</b>	<b>457,759</b>
<b>\$1,000 under \$10,001</b> <sup>2</sup> .....	<b>1,289</b>	<b>5,892</b>	<b>857</b>	<b>3,396</b>	<b>2,674</b>	<b>9,012</b>
<b>\$10,001 or more, total</b> <sup>2,3</sup> .....	<b>3,014</b>	<b>223,924</b>	<b>2,412</b>	<b>435,079</b>	<b>3,254</b>	<b>448,746</b>
\$10,001 under \$100,000.....	2,099	49,748	1,574	42,345	1,918	29,897
\$100,000 under \$500,000.....	684	56,715	604	86,568	1,045	62,469
\$500,000 under \$1,000,000.....	108	31,456	91	40,120	174	33,109
\$1,000,000 under \$5,000,000.....	95	44,388	114	104,148	100	127,793
\$5,000,000 or more.....	28	41,617	29	161,899	17	195,478

Footnotes at end of table.

# Unrelated Business Income Tax Returns, Tax Year 2001

**Table 6.--Sources of Gross Unrelated Business Income (UBI), by Size of Gross UBI, Tax Year 2001  
--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) <sup>1</sup> --Continued							
	Income from controlled organizations <sup>7</sup>		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)
<b>Total</b> .....	<b>1,236</b>	<b>212,181</b>	<b>793</b>	<b>134,117</b>	<b>8,092</b>	<b>1,247,507</b>	<b>5,246</b>	<b>452,177</b>
<b>\$1,000 under \$10,001</b> <sup>2</sup> .....	<b>*203</b>	<b>*603</b>	<b>*176</b>	<b>*955</b>	<b>3,138</b>	<b>12,682</b>	<b>1,237</b>	<b>2,771</b>
<b>\$10,001 or more, total</b> <sup>2,3</sup> .....	<b>1,033</b>	<b>211,578</b>	<b>617</b>	<b>133,162</b>	<b>4,954</b>	<b>1,234,825</b>	<b>4,009</b>	<b>449,406</b>
\$10,001 under \$100,000.....	592	9,346	316	6,735	2,978	85,822	2,395	49,693
\$100,000 under \$500,000.....	282	23,575	161	15,841	1,419	220,385	1,130	98,303
\$500,000 under \$1,000,000.....	49	11,318	57	17,597	264	135,417	206	47,656
\$1,000,000 under \$5,000,000.....	74	54,148	64	57,870	234	293,554	224	125,351
\$5,000,000 or more.....	37	113,191	19	35,120	59	499,648	53	128,404

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

<sup>1</sup> For definitions of the sources of gross unrelated business income, see the Explanation of Selected Terms section of this article.

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

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

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

<sup>5</sup> Income from real property and personal property leased with real property.

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

<sup>7</sup> Annuities, interest, rents, and royalties.

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

# Unrelated Business Income Tax Returns, Tax Year 2001

**Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income (UBI), Tax Year 2001**

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

Size of gross unrelated business income (UBI)	All organizations			Organizations with gross unrelated business income (UBI) of \$1,000 under \$10,001 <sup>3</sup>					
	Total number of returns	Total deductions <sup>1,2</sup>		Total deductions <sup>2,4</sup>		Net operating loss deduction		Specific deduction	
		Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>Total</b> .....	<b>35,540</b>	<b>35,466</b>	<b>7,882,907</b>	<b>12,600</b>	<b>58,731</b>	<b>593</b>	<b>750</b>	<b>7,911</b>	<b>7,276</b>
\$1,000 under \$10,001 <sup>3</sup> .....	12,653	12,600	58,731	12,600	58,731	593	750	7,911	7,276
\$10,001 under \$100,000 <sup>3</sup> .....	14,659	14,645	552,226	--	--	--	--	--	--
\$100,000 under \$500,000.....	5,971	5,967	1,344,677	--	--	--	--	--	--
\$500,000 under \$1,000,000.....	1,054	1,052	750,735	--	--	--	--	--	--
\$1,000,000 under \$5,000,000.....	960	958	1,927,386	--	--	--	--	--	--
\$5,000,000 or more.....	244	244	3,249,152	--	--	--	--	--	--

  

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more <sup>3</sup>								
	Total deductions <sup>2,5</sup>		Deductions directly connected with UBI						
			Total		Allocable to rental income <sup>6</sup>		Allocable to unrelated debt-financed income <sup>6</sup>		Allocable to investment income <sup>6,7</sup>
	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)	
<b>Total</b> .....	<b>21,427</b>	<b>7,234,405</b>	<b>21,427</b>	<b>7,234,405</b>	<b>1,553</b>	<b>145,392</b>	<b>2,317</b>	<b>421,624</b>	<b>943</b>
\$1,000 under \$10,001 <sup>3</sup> .....	--	--	--	--	--	--	--	--	--
\$10,001 under \$100,000 <sup>3</sup> .....	13,432	515,929	13,432	515,929	1,140	30,301	1,515	45,856	382
\$100,000 under \$500,000.....	5,808	1,271,997	5,808	1,271,997	293	34,934	580	92,928	400
\$500,000 under \$1,000,000.....	1,027	696,558	1,027	696,558	49	15,985	86	38,996	103
\$1,000,000 under \$5,000,000.....	925	1,778,278	925	1,778,278	56	31,550	108	95,610	53
\$5,000,000 or more.....	235	2,971,642	235	2,971,642	15	32,622	28	148,234	5

  

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more <sup>3</sup> --Continued								
	Deductions directly connected with UBI--Continued								
	Allocable to investment income <sup>6,7</sup> --Continued	Allocable to income from controlled organizations <sup>6</sup>		Allocable to exploited exempt activity income, except advertising <sup>6</sup>		Direct advertising costs <sup>6</sup>		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)	
<b>Total</b> .....	<b>25,192</b>	<b>440</b>	<b>145,445</b>	<b>550</b>	<b>124,954</b>	<b>4,476</b>	<b>915,440</b>	<b>1,762</b>	<b>38,620</b>
\$1,000 under \$10,001 <sup>3</sup> .....	--	--	--	--	--	--	--	--	--
\$10,001 under \$100,000 <sup>3</sup> .....	3,352	178	4,805	283	5,575	2,640	65,225	961	7,489
\$100,000 under \$500,000.....	3,572	162	17,356	139	16,234	1,312	168,398	569	12,142
\$500,000 under \$1,000,000.....	6,253	28	6,504	53	15,218	247	101,281	103	3,744
\$1,000,000 under \$5,000,000.....	3,429	47	35,087	59	55,869	223	209,170	102	9,102
\$5,000,000 or more.....	8,587	25	81,694	16	32,059	54	371,366	27	6,143

  

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more <sup>3</sup> --Continued							
	Deductions directly connected with UBI--Continued							
	Salaries and wages		Repairs and maintenance		Bad debts		Interest	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	
<b>Total</b> .....	<b>10,221</b>	<b>1,471,734</b>	<b>6,859</b>	<b>106,782</b>	<b>739</b>	<b>39,958</b>	<b>2,991</b>	<b>68,263</b>
\$1,000 under \$10,001 <sup>3</sup> .....	--	--	--	--	--	--	--	--
\$10,001 under \$100,000 <sup>3</sup> .....	5,455	113,578	3,572	15,786	156	141	1,546	11,768
\$100,000 under \$500,000.....	3,449	333,788	2,364	29,986	308	1,459	1,037	17,669
\$500,000 under \$1,000,000.....	614	172,730	447	13,049	107	3,194	192	7,584
\$1,000,000 under \$5,000,000.....	557	375,230	380	23,430	115	7,784	157	19,089
\$5,000,000 or more.....	146	476,408	97	24,531	53	27,381	59	12,152

Footnotes at end of table.

# Unrelated Business Income Tax Returns, Tax Year 2001

**Table 7.--Types of Deductions, by Size of Gross Unrelated Business Income (UBI), Tax Year 2001  
--Continued**

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

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more <sup>2</sup> --Continued							
	Deductions directly connected with UBI--Continued							
	Taxes and licenses paid deduction		Depreciation		Depletion		Contributions to deferred compensation plans	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(36)	(37)	(38)	(39)	(40)	(41)	(42)	(43)
<b>Total.....</b>	<b>10,637</b>	<b>165,455</b>	<b>7,396</b>	<b>209,574</b>	<b>110</b>	<b>4,383</b>	<b>746</b>	<b>9,208</b>
\$1,000 under \$10,001 <sup>3</sup> .....	--	--	--	--	--	--	--	--
\$10,001 under \$100,000 <sup>3</sup> .....	6,282	23,015	3,891	24,711	78	721	251	211
\$100,000 under \$500,000.....	3,261	63,922	2,481	54,487	23	942	333	1,623
\$500,000 under \$1,000,000.....	571	27,519	460	29,131	} 9	2,720 {	86	1,268
\$1,000,000 under \$5,000,000.....	410	27,256	441	49,389			60	2,493
\$5,000,000 or more.....	113	23,743	123	51,855			15	3,614

  

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more <sup>2</sup> --Continued							
	Deductions directly connected with UBI--Continued							Deductions not directly connected with UBI
	Contributions to employee benefit programs		Net operating loss deduction		Other deductions		Total	
	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount	Number of returns	Amount
	(44)	(45)	(46)	(47)	(48)	(49)	(50)	(51)
<b>Total.....</b>	<b>4,966</b>	<b>188,558</b>	<b>3,240</b>	<b>153,418</b>	<b>13,847</b>	<b>3,000,404</b>	<b>11,575</b>	<b>589,770</b>
\$1,000 under \$10,001 <sup>3</sup> .....	--	--	--	--	--	--	--	--
\$10,001 under \$100,000 <sup>3</sup> .....	2,115	7,756	1,957	17,612	7,980	138,029	7,491	36,296
\$100,000 under \$500,000.....	1,889	28,742	876	28,138	4,198	365,679	2,958	72,679
\$500,000 under \$1,000,000.....	406	18,160	181	16,281	776	219,541	544	54,177
\$1,000,000 under \$5,000,000.....	431	59,391	168	44,266	694	728,196	460	149,108
\$5,000,000 or more.....	125	74,510	58	47,121	199	1,548,959	122	277,510

  

Size of gross unrelated business income (UBI)	Organizations with gross unrelated business income (UBI) of \$10,001 or more <sup>2</sup> --Continued							
	Deductions not directly connected with UBI--Continued							
	Specific deduction		Contributions		Set-asides <sup>7</sup>		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)
<b>Total.....</b>	<b>9,202</b>	<b>8,935</b>	<b>1,702</b>	<b>50,450</b>	<b>404</b>	<b>247,004</b>	<b>2,330</b>	<b>283,381</b>
\$1,000 under \$10,001 <sup>3</sup> .....	--	--	--	--	--	--	--	--
\$10,001 under \$100,000 <sup>3</sup> .....	6,112	5,909	1,024	3,927	*221	*5,545	1,292	20,916
\$100,000 under \$500,000.....	2,294	2,236	464	5,801	109	19,206	676	45,438
\$500,000 under \$1,000,000.....	412	408	85	12,072	21	11,359	158	30,338
\$1,000,000 under \$5,000,000.....	307	305	96	6,879	43	64,105	156	77,819
\$5,000,000 or more.....	77	77	34	21,772	10	146,790	48	108,871

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

<sup>1</sup> Excludes cost of sales and services, which was subtracted from gross receipts from sales and services in computing gross profit from sales and services. Gross profit from sales and services was a component of gross unrelated business income (UBI). Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and certain other deductible items. For all exempt organizations reporting gross UBI, cost of sales and services was \$2.3 billion.

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

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

<sup>4</sup> Excludes \$45.7 million of cost of sales and services reported by organizations with gross UBI of \$10,000 or less. See footnote 1 for explanation.

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

<sup>6</sup> 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.

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

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

SOURCE: IRS, Statistics of Income Winter 2004-2005 Bulletin, Publication 1136.