

# Exempt Organization Business Income Tax Returns, 1991

by Margaret Riley

**N**onprofit organizations reported \$3.4 billion of gross income for 1991 from business activities that were considered unrelated to the purposes for which they received Federal income tax exemption. These 32,690 organizations reported total deductions of \$4.0 billion, resulting in an aggregate net loss of nearly \$0.7 billion. However, 14,384 of the organizations, ordinarily exempt from income taxation, reported "positive" unrelated business taxable income (UBTI) of \$431.1 million and a total tax liability of \$116.9 million.

Organizations filing a Form 990-T, *Exempt Organization Business Income Tax Return*, accounted for less than 3 percent of the population of tax-exempt organizations to which the unrelated business income tax provisions applied [1, 2]. Figure A shows the distribution of returns filed, by the Internal Revenue Code section under which the organizations received tax exemption [3]. Twenty-four percent of the filers were nonprofit charitable organizations that were tax-exempt under section 501(c)(3) and another 21 percent were social and recreational clubs exempt under section 501(c)(7) [4]. Together with business leagues, chambers of commerce, and real estate boards exempt under section 501(c)(6), and fiduciary agents for Individual Retirement Arrangements exempt under section 408(e), these four types of organizations accounted for nearly three-quarters of all returns filed. (See the Appendix to this article for a description of the various types of tax-exempt organizations.)

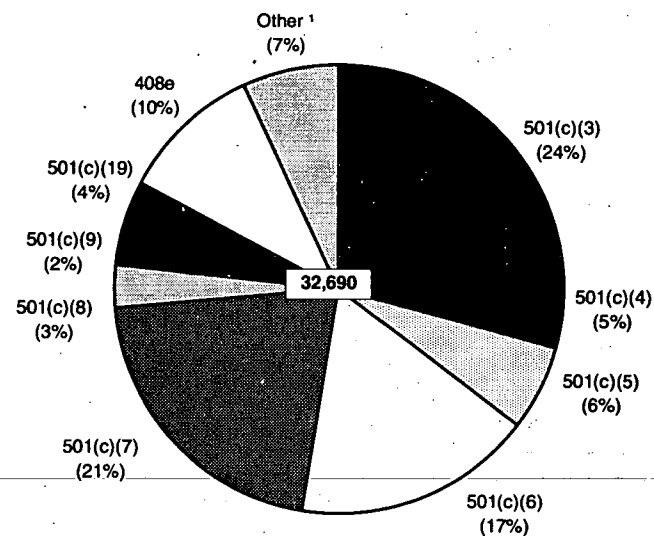
There were 14,819 "small" organizations, those with gross unrelated business income (UBI) between \$1,000 (the filing threshold) and \$10,000, which accounted for 45 percent of all filers (Figure B). Another 40 percent of filers, 12,987 organizations, had gross UBI of more than \$10,000 but under \$100,000. Only 1 percent of all filers, 433 organizations, had gross UBI of \$1,000,000 or more, but they accounted for nearly half of all gross UBI reported and 64 percent of total tax liability.

Although the number of organizations reporting unrelated business income grew by 5 percent between 1990 and 1991, these organizations collectively reported lower amounts of both gross UBI and total deductions (Figure C). However, an 11-percent increase in total positive taxable income between the two years contributed to a 17-percent increase in the unrelated business income tax (UBI tax). Total tax, which, in addition to the UBI tax, includes certain other taxes less allowable credits, increased by 18 percent (see the Explanation of Selected Terms section for a definition of total tax). Another factor contributing to

Margaret Riley is a statistician with the Foreign Special Projects Section. This article was prepared under the direction of Michael Alexander, Chief

Figure A

## Percentage Distribution of Exempt Organization Business Income Tax Returns, by Internal Revenue Code Section, Tax Year 1991



<sup>1</sup> Includes all other organizations tax exempt under Code sections 501(c)(2)-(25), as well as Code section 401(a), 501(e), and 501(f) organizations and returns not allocable by code section.

NOTES: Detail may not add to total because of rounding. See the Appendix to this article for a description of the various types of tax-exempt organizations.

the rise in UBI tax and total tax was a change in the tax rates and related income brackets applicable to exempt trusts filing Forms 990-T for 1991. The tax on exempt trusts was raised for 1991 by lowering the ceiling on income brackets and by raising the tax rate on the highest bracket from 28 percent to 31 percent. There was no change in the tax rates applicable to exempt corporations, but both exempt corporations and trusts reported aggregate increases in average positive taxable income of 6 percent and 20 percent, respectively [5]. These increases resulted in "bracket creep" for some organizations, whereby higher taxable income increased the tax paid on the top portion of income. (See the Unrelated Business Taxable Income and Tax section of this article for additional statistics on exempt trusts and exempt corporations.)

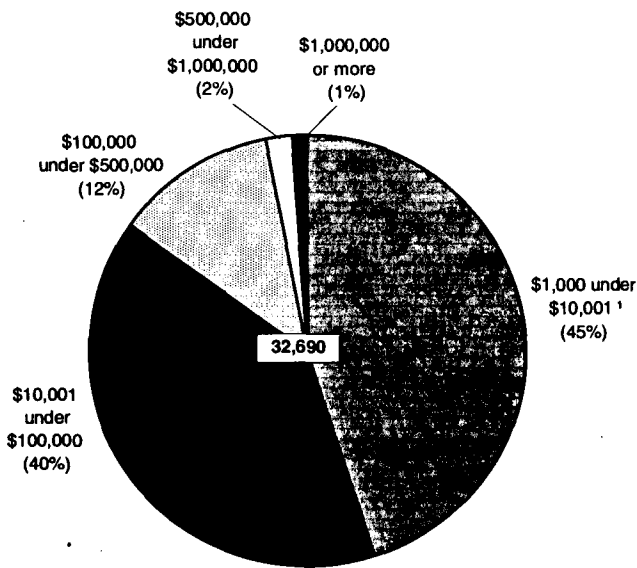
### Background

Congress established the "unrelated business income" tax as part of the Revenue Act of 1950. Unrelated business income has been defined as income from a trade or business that is regularly carried on by an exempt organization and is not substantially related to carrying out the

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**Figure B**

**Percentage Distribution of Exempt Organization Business Income Tax Returns, by Size of Gross Unrelated Business Income (UBI), Tax Year 1991**



<sup>1</sup> Organizations with gross UBI under \$1,000 were not required to file a return. Organizations with gross UBI between \$1,000 and \$10,000 were not required to report detailed sources of income, as were organizations with gross UBI above \$10,000.

**Figure C**

**Selected Financial Data from Exempt Organization Business Income Tax Returns, Tax Years 1990 and 1991**

[Money amounts are in thousands of dollars]

| Item  | 1990<br>(1) | 1991<br>(2) | Percentage<br>change<br>(3) |
|---|-------------|-------------|-----------------------------|
| Number of returns.....  | 31,091      | 32,690      | +5.1                        |
| Gross unrelated business income.....                              | 3,511,499   | 3,384,698   | -3.6                        |
| Total deductions <sup>1</sup> .....                               | 4,143,101   | 4,047,183   | -2.3                        |
| Unrelated business taxable income (UBTI) less deficit, total..... | -631,605    | -662,487    | +4.9                        |
| Positive UBTI.....  | 388,890     | 431,143     | +10.9                       |
| Deficit.....  | 1,020,495   | 1,093,630   | +7.2                        |
| Unrelated business income tax.....                                | 99,293      | 116,605     | +17.4                       |
| Total tax <sup>2</sup> .....                                      | 99,119      | 116,933     | +18.0                       |

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

<sup>1</sup> Excludes cost of sales and services, which was not included on the return as a component of total deductions. It was subtracted from gross receipts in computing gross profit from sales and services, reported as a gross income component. Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and other deductible items.

<sup>2</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 taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the environmental tax.

exempt purpose for which the organization exists. The UBI tax was imposed regardless of whether or not the profits from the unrelated trade or business were used solely for exempt purposes. Originally, the tax applied only to organizations exempt under section 501(c)(3) (nonprofit charitable organizations), section 501(c)(5) (labor, agricultural, and horticultural organizations), section 501(c)(6) (business leagues, chambers of commerce, and real estate boards), section 501(c)(9) (voluntary employees' beneficiary associations), or section 501(c)(15) (certain mutual insurance companies). After it appeared that other types of tax-exempt organizations were engaging in unrelated business activities, Congress extended the UBI tax to all exempt organizations (except U. S. Government instrumentalities exempt under section 501(c)(1)), including churches [6].

For 1991, organizations which received \$1,000 or more from unrelated business activities were required to compute their taxable income on a Form 990-T. The taxation of UBI was designed to place unrelated activities of exempt organizations on an equal footing with similar activities carried out by taxable entities, such as non-exempt corporations. Although exempt organizations are taxed on their unrelated business taxable income, they are still able to enter into a wide range of nontaxable commercial activities if they are held to be substantially related to their exempt purpose(s) [7].

Section 501(a) of the Internal Revenue Code authorizes an exemption from taxation of income *related* to the exempt purpose of an organization. As indicated in the Appendix to this article, organizations that ordinarily were tax-exempt for 1991 but were subject to taxation on *unrelated* business income included those described in sections 501(c)(2) through 501(c)(25), as well as qualified pension, profit sharing, and stock bonus plans described in section 401(a); Individual Retirement Arrangements (IRA's) described in section 408(e); and cooperative service organizations described in sections 501(e) and 501(f).

For 1991, organizations with gross UBI under \$1,000 were not required to file a Form 990-T. The reasoning behind granting this filing exclusion is that a "specific deduction" of \$1,000 from taxable income is allowed to all Form 990-T filers, so there is no reason to burden organizations that had gross UBI of \$1,000 or less from filling out the tax return. (The specific deduction is discussed in the Deductions section and is defined in the Explanation of Selected Terms section.) Organizations with gross UBI between \$1,000 and \$10,000 were not required to report detailed sources of income, as were organizations with larger amounts of gross income. These smaller organizations were required only to report a single

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total of gross UBI. For a detailed list of the components of gross UBI reported by larger organizations, see the definition of gross UBI in the Explanation of Selected Terms section of this article. Separate explanations of the gross UBI components are also included in this section.

## Income

The \$3.4 billion of gross UBI reported by tax-exempt organizations for 1991 included approximately \$0.1 billion attributable to organizations reporting gross UBI of \$10,000 or less and \$3.3 billion attributable to organizations reporting gross UBI over \$10,000. Because organizations with gross UBI of \$10,000 or less were not required to report detailed sources of gross UBI (only the total amount was required), the following discussions of the specific components of gross UBI (covered in this section) and their related expenses and deductions (covered in the Deductions section) pertain only to organizations with gross UBI above \$10,000, which accounted for over 98 percent of the total gross UBI reported by all organizations filing Form 990-T.

Gross profit (less loss) from sales of goods and services was the largest source of unrelated income for organizations with gross UBI above \$10,000 and accounted for 43 percent of all gross UBI reported (Figure D). "Other income" (less loss), which includes all types

of income not specifically required to be reported elsewhere on the unrelated business income tax return, was the second largest gross income item. About 90 percent of all gross UBI came from 5 of the 12 major components reported, the top 2 sources discussed above plus advertising income, "unrelated debt-financed income," and investment income (less loss) of organizations tax-exempt under sections 501(c)(7), (9), (17), and (20) (social and recreational clubs, voluntary employees' beneficiary associations, supplemental unemployment benefit trusts, and prepaid legal service funds, respectively). Organizations reported income sources fairly consistently between 1990 and 1991, with these five sources reported as the top income producers for the two years and accounting for 92 percent of gross UBI for 1990.

Figure D also shows unrelated business income sources for selected types of organizations, in terms of the Code section that described their exemption. Organizations classified in these five sections accounted for 86 percent of total gross UBI reported on returns with gross UBI over \$10,000. A look at the largest source of income for each of the selected types of organizations appears to be consistent with the way each group operates, as discussed below. (See the Appendix to this article for a description of the various types of exempt organizations and the general nature of their activities.)

**Figure D**

## Returns With Gross Unrelated Business Income (UBI) Over \$10,000: Sources of Gross UBI, by Selected Internal Revenue Code Section, Tax Year 1991

[Money amounts are in thousands of dollars]

| Item   | All organizations with gross unrelated business income (UBI) over \$10,000, total | Selected Internal Revenue Code section |           |           |           |           |
|--|---|--|-----------|-----------|-----------|-----------|
|  |   | 501(c)(3)                              | 501(c)(4) | 501(c)(6) | 501(c)(7) | 501(c)(9) |
|  | (1)   | (2)                                    | (3)       | (4)       | (5)       | (6)       |
| Number of returns.....                                     | 17,871  | 5,218                                  | 1,080     | 3,684     | 2,883     | 559       |
| Total gross unrelated business income (UBI).....           | 3,324,307   | 1,629,800                              | 192,413   | 593,101   | 249,744   | 202,455   |
| Gross profit (less loss) from sales and services.....      | 1,418,634   | 845,456                                | 127,234   | 114,991   | 165,355   | 4,361     |
| Capital gain net income.....                               | 72,092  | 25,668                                 | --        | 227       | 3,097     | 32,525    |
| Net capital loss (trusts only).....                        | 24  | --                                     | --        | --        | --        | 18        |
| Net gain (less loss), noncapital assets <sup>1</sup> ..... | 5,233   | 3,758                                  | 826       | -776      | 998       | --        |
| Income (less loss) from partnerships.....                  | 27,812  | 18,173                                 | 210       | -1,907    | -2        | -188      |
| Rental income <sup>2</sup> .....                           | 96,808  | 46,792                                 | 2,714     | 2,877     | 14,317    | 13,127    |
| Unrelated debt-financed income.....                        | 222,840   | 102,673                                | 14,340    | 33,835    | N/A       | N/A       |
| Investment income (less loss) <sup>3</sup> .....           | 198,455   | N/A                                    | N/A       | N/A       | 44,175    | 151,529   |
| Income from controlled organizations <sup>4</sup> .....    | 33,638  | 17,050                                 | 1,791     | 7,803     | 250       | --        |
| Exploited exempt activity income, except advertising.....  | 40,118  | 11,229                                 | 2,545     | 22,049    | N/A       | N/A       |
| Advertising income.....                                    | 561,824   | 144,237                                | 26,576    | 333,950   | N/A       | N/A       |
| Other income (less loss).....                              | 646,878   | 414,764                                | 16,178    | 80,053    | 21,555    | 1,119     |

N/A - Not applicable.

<sup>1</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>2</sup> Income from real property and personal property leased with real property.

<sup>3</sup> Reported by Internal Revenue Code section 501(c)(7), (9), (17), and (20) organizations only.

<sup>4</sup> Annuities, interest, rents, and royalties.

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

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Gross profit (less loss) from sales and services was the largest source of income for nonprofit charitable organizations exempt under section 501(c)(3), 52 percent; civic leagues and social welfare organizations exempt under section 501(c)(4), 66 percent; and social and recreational clubs exempt under section 501(c)(7), 66 percent. Many of these organizations typically are involved in operations which lend themselves to providing goods and services, such as a hospital providing commercial laboratory services to the general public or a country club selling food and beverages to nonmembers.

The main source of income for business leagues, chambers of commerce, and real estate boards, section 501(c)(6), was gross advertising income. It is common for these types of organizations to publish magazines and periodicals related to their trade that are of interest to their members. If the periodicals included advertising that was of a commercial nature, then the income derived from such advertising was subject to the unrelated business income tax. Fifty-six percent of these organizations' gross UBI was attributable to advertising income.

Voluntary employees' beneficiary associations, section 501(c)(9), reported investment income as their primary unrelated business income source, accounting for 75 percent of their total gross UBI. Given the nature of their tax-exempt purpose, to provide health and welfare benefits to association members, it would be expected that benefit plan monies would be invested to ensure future plan funding.

### Deductions

As with the section on income, the following discussion of deductions pertains only to organizations with gross UBI over \$10,000 because organizations with smaller amounts of gross UBI were not required to report detailed sources of gross UBI and related deductions (only totals were required). Organizations with gross UBI over \$10,000 accounted for 98 percent of total deductions reported by all organizations filing Form 990-T.

Total deductions taken against gross unrelated business income can be divided into two categories: deductions "directly connected with UBI" and deductions "not directly connected with UBI." Ninety-five percent of all deductions taken were directly connected with unrelated business activities. In order for deductions to be allowed as directly connected with gross UBI in computing unrelated business taxable income, the expenses, depreciation, and similar items must have qualified as allowable income tax deductions under the tax law provisions applicable to taxable organizations, and they must have been directly connected with carrying on an unrelated trade or business.

When facilities or personnel were used both to carry on exempt functions and to conduct an unrelated trade or business, the directly connected deductions had to be allocated between the two uses.

Deductions that were considered not directly connected with UBI included the "specific deduction," charitable contributions, "set-asides," and "excess exempt expenses." The \$1,000 specific deduction was allowed after all other deductions were taken. Set asides were allowed to section 501(c)(7), (9), (17), and (20) organizations. Under the tax provisions of a set-aside, "passive" income (in general, investment income) was not taxed if it was set aside for charitable purposes or, in the case of the section 501(c)(9),

(17), and (20) organizations, if it was set aside for the payment of life, sickness, accident, or other benefits. Qualifying set-asides were reported on Form 990-T as a deduction from net investment income, the amount which remained after directly connected deductions were taken from gross investment

**Organizations filing under 5 of the 28 applicable Code sections reported 86 percent of gross unrelated business income.**

income. Some types of expenses related to exempt activity functions could be used to offset net advertising income and other "exploited exempt-activity income;" these were called excess exempt expenses. (See the Explanation of Selected Terms section for more detailed definitions of deductions not directly connected with UBI.)

Because of the way deductions were required to be reported on the Form 990-T, both total deductions and some of the detailed deduction components are somewhat understated in the figures and tables presented in this article. Form 990-T filers were instructed to deduct the cost of sales and services from their gross receipts from sales and services to compute gross profit, which was then required to be reported as a gross UBI detail item in the income statement.

As a consequence of this manner of reporting, cost of sales and services was not included in the deductions section of the income statement, resulting in an understatement of total deductions. Also, because cost of sales and services includes many of the same types of expenses that are reported as separate components of total deductions, some of the components also will be understated.

Another factor affecting the components of total deductions is the manner in which certain types of deductions were required to be reported on the various Form 990-T income schedules. Deductions that were connected with specified types of income, such as rental income, were

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reported on schedules as lump-sum totals only. Some of the deductions included in these totals were of the same types as those reported elsewhere on the return as separate components of total deductions. Because detailed deduction components were not required to be reported on return schedules, there could be no linking of deductions with like titles between the schedules and the detailed deduction components. Therefore, the total amount shown for some of the separately reported deductions will be understated. For example, if deductions allocable to rental income, reported on a rental income schedule, included depreciation, then that amount of depreciation would not be included in, and could not be linked to, the separately reported depreciation deduction item. Deductions that were reported as lump-sum amounts included those "allocable to rental income," "allocable to unrelated debt-financed income," "allocable to investment income," "allocable to income from controlled organizations," "allocable to exploited exempt-activity income, except advertising," and "direct advertising costs" (see Table 7 for a complete presentation of deductions).

Figure E presents selected components of total deductions for all returns with gross UBI over \$10,000 and also for the same five types of organizations shown in Figure D. Organizations shown in Figure E collectively accounted for 86 percent of total deductions reported. As with income components, the allocation of deduction items varies across the selected Code sections and seems to be in line with the purposes for which the organizations received tax exemption. Most of the total deductions reported for 1991 by organizations with gross UBI over \$10,000 can be attributed to "other deductions" (30 percent), "net operating loss carryover" (19 percent), salaries and wages (15 percent), and direct advertising costs (10 percent), which together accounted for 75 percent.

"Other deductions," the largest single aggregate deduction item reported, included a host of expenses that were not required to be reported as a specific item elsewhere on the return. Some examples of "other deductions" items are professional service fees, such as financial management, accounting, legal, and consulting; insurance (if not

**Figure E**

## Organizations With Gross Unrelated Business Income (UBI) Over \$10,000: Selected Deductions, by Selected Internal Revenue Code Section, Tax Year 1991

[ Money amounts are in thousands of dollars ]

| Item  | All organizations with gross unrelated business income (UBI) over \$10,000, total | Selected Internal Revenue Code section |                |                |                |               |
|---|---|--|----------------|----------------|----------------|---------------|
|   |   | 501(c)(3)                              | 501(c)(4)      | 501(c)(6)      | 501(c)(7)      | 501(c)(9)     |
|   | (1)   | (2)                                    | (3)            | (4)            | (5)            | (6)           |
| Number of returns.....  | 17,871  | 5,218                                  | 1,080          | 3,684          | 2,883          | 559           |
| Total deductions <sup>1</sup> .....   | 3,954,752   | 2,051,733                              | 276,426        | 717,755        | 252,959        | 88,164        |
| <b>Deductions directly connected to gross unrelated business income (UBI), total.....</b> | <b>3,744,370</b>  | <b>1,999,202</b>                       | <b>270,348</b> | <b>635,406</b> | <b>249,026</b> | <b>32,724</b> |
| Direct advertising costs.....   | 413,946   | 101,107                                | 34,846         | 218,075        | N/A            | N/A           |
| Compensation of officers.....   | 29,445  | 10,939                                 | 2,787          | 9,566          | 1,070          | 2,105         |
| Salaries and wages.....   | 611,482   | 373,966                                | 31,816         | 53,013         | 87,463         | 1,733         |
| Employee benefits.....  | 63,441  | 46,486                                 | 2,156          | 7,309          | 4,158          | 944           |
| Net operating loss carryover.....   | 757,815   | 386,387                                | 69,899         | 132,512        | 47,563         | 2,391         |
| Other deductions <sup>2</sup> .....   | 1,199,517   | 760,468                                | 88,934         | 121,780        | 51,860         | 10,656        |
| Deductions directly connected not shown above <sup>2</sup> .....                          | 668,724   | 319,850                                | 39,910         | 93,151         | 56,912         | 14,895        |
| <b>Deductions not directly connected to gross UBI, total....</b>                          | <b>210,382</b>  | <b>52,531</b>                          | <b>6,078</b>   | <b>82,349</b>  | <b>3,933</b>   | <b>55,441</b> |
| Set-asides.....   | 56,478  | N/A                                    | N/A            | N/A            | 1,365          | 55,113        |
| Excess exempt expenses.....   | 113,077   | 30,755                                 | 1,063          | 80,115         | N/A            | N/A           |
| Charitable contributions.....   | 33,617  | 19,855                                 | 4,640          | 1,244          | 672            | 95            |
| Specific deduction.....   | 7,210   | 1,921                                  | 375            | 990            | 1,896          | 233           |

N/A - Not applicable.

<sup>1</sup> Excludes cost of sales and services, which was not included on the return as a component of total deductions. It was subtracted from gross receipts in computing gross profit from sales and services, reported as a gross income component. Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and other deductible items.

<sup>2</sup> "Other deductions" was a specific Form 990-T item that included types of deductions that were not required to be reported elsewhere on the return. "Deductions directly connected not shown above" was not a specific return item. It contains the balance of reported deduction types that are not being presented as selected deductions in this figure. See Table 7 for a complete presentation of deductions directly connected to gross UBI.

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

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employee-related benefits); equipment costs; mailing costs; office expenses, such as janitorial services, supplies, and security services; rent; travel expenses; educational expenses; and utilities.

Section 501(c)(3) and (4) organizations reported the largest proportion of their deductions as "other deductions" on their returns (37 percent and 32 percent, respectively). Their second largest deduction was the net operating loss carryover (19 percent and 25 percent, respectively). For section 501(c)(3) organizations, the third largest deduction was salaries and wages (18 percent). These organizations accounted for the largest proportion of aggregate salaries and wages reported by organizations with gross UBI over \$10,000, 61 percent of the total. Direct advertising costs was the third largest deduction for section 501(c)(4) organizations, closely followed by salaries and wages (13 percent and 12 percent, respectively).

For organizations exempt under section 501(c)(6), direct advertising costs accounted for the largest proportion of their reported deductions (30 percent). Second was the net operating loss carryover (18 percent), and third was "other deductions" (17 percent). In addition to being their largest deduction item, the direct advertising costs of these organizations accounted for the largest portion of the direct advertising costs reported on all Forms 990-T filed

**43 percent of Form 990-T filers reported total tax of \$116.9 million.**

by exempt organizations with gross UBI over \$10,000, 53 percent of the total.

The social and recreational clubs exempt under section 501(c)(7) reported 35 percent of their total deductions as salaries and wages. This would be expected, given the labor-intensive nature of their unrelated business activities. "Other deductions" was the second largest item (21 percent), and the net operating loss carryover was third largest (19 percent).

Sixty-three percent of the total deductions of section 501(c)(9) associations was attributable to set-asides. Because the primary tax-exempt mission of these organizations is to provide health and welfare benefits to its members, the large amounts of income that typically are set aside for future payment of these benefits are allowed as a deduction against investment income, their primary source of gross UBI [8]. "Other deductions" ranked second in size, 12 percent of total deductions. Third place was equally shared by interest and taxes, with each contributing 5 percent (interest and taxes are not shown separately in Figure E because of their relatively small

size for organizations exempt under sections other than section 501(c)(9)).

### Unrelated Business Taxable Income and Tax

For 1991, about 43 percent of Form 990-T filers, an estimated 13,905 organizations, reported total tax of \$116.9 million. In most cases, the largest share of total tax was the UBI tax; however, total tax also could have included recapture taxes (such as from recomputation of prior-year investment or low-income housing credits), the "alternative minimum tax," and the environmental tax. Also, the foreign tax credit, general business credit, prior-year minimum tax credit, and other allowable credits were subtracted from the unrelated business income tax in computing total tax.

An estimated 18,785 filers, or 57 percent, reported no total tax liability. Organizations with \$1,000,000 or more of gross UBI, only slightly more than 1 percent of the population reporting total tax, reported a tax liability of \$74.9 million, 64 percent of the tax liability of all organizations. Only 2 percent of total tax, \$2.4 million, was reported by the small organizations that were not required to report detailed income items, those with gross UBI between \$1,000 and \$10,000, yet they comprised a large proportion, 45 percent, of the taxpaying population. Another 40 percent, those organizations with gross UBI more than \$10,000 but less than \$100,000, accounted for 11 percent, or \$13.1 million, of the total tax reported. The remaining group of filers, those with gross UBI of at least \$100,000 but less than \$1,000,000 reported total tax of \$26.5 million, 23 percent of aggregate total tax. The organizations in this group accounted for 14 percent of the population reporting total tax liability.

Based on unrelated business taxable income, the 13,908 exempt organizations reporting UBI tax incurred an aggregate UBI tax liability of \$116.6 million. After adjustments were made for additional taxes (plus \$0.6 million) and credits (minus \$0.3 million), the resulting amount of total tax liability was \$116.9 million, as reported by 13,905 organizations. The difference between the 13,905 organizations with total tax and the 13,908 with UBI tax resulted from there being 37 returns on which total tax was attributable to one of the taxes other than the UBI tax, and 41 returns where UBI tax was reported, but was offset by tax credits (13,908 plus 37 minus 41 equals 13,904) [9].

For 1991, there were 14,384 organizations that reported positive UBTI, amounting to \$0.4 billion; the remaining 18,306 filers reported zero or a deficit, amounting to -\$1.1 billion. Even though there were 14,384 organizations that reported positive UBTI, the number of

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organizations showing UBI tax on their returns was 13,908, or 476 less than might otherwise be expected. The explanation for this is that there were 524 organizations which had positive amounts of taxable income but reported no UBI tax, and there were 49 organizations that reported UBI tax even though they had no taxable income (13,908 plus 524 minus 49 equals 14,383) [10].

The tax statistics cited above are based on originally filed returns that were selected prior to IRS audit examination and prior to the filing of any amended returns. Re-computation of the tax resulting from taxpayer errors detected after filing, either by the filing organization or through IRS data checks, has not been taken into account. Therefore, the amount of tax actually assessed and collected may be different from the amount initially reported and presented in this article.

Of the 32,690 exempt organizations which filed Forms 990-T, 27,539 exempt corporations accounted for 92 percent of the \$3.4 billion of total gross UBI while 5,151 exempt trusts accounted for the remainder. There were 11,348 exempt corporations and 2,560 exempt trusts that reported the UBI tax on their returns for 1991, compared

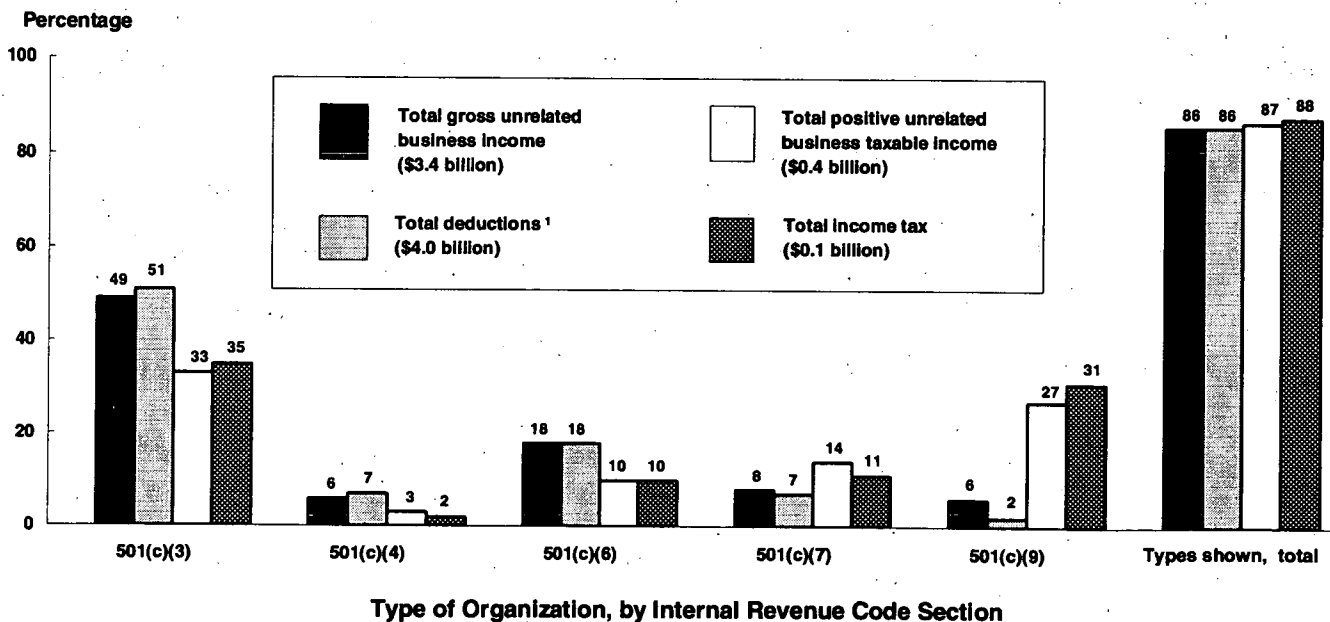
to 11,378 corporations and 2,527 trusts that reported total tax. Corporations were liable for \$70.2 million, 60 percent, of UBI tax, and trusts were liable for \$46.4 million, 40 percent. Corporate and trust total tax liability amounted to \$70.5 million and \$46.4 million, respectively.

Of all Form 990-T filers for 1991, section 501(c)(3) organizations were responsible for the largest share (35 percent) of total tax reported, \$40.6 million. Together, organizations exempt under sections 501(c)(3), (4), (6), (7), and (9) accounted for 88 percent of total tax reported. Figure F shows a percentage distribution of the respective shares of gross UBI, total deductions, positive UBTI, and total tax attributable to these five types of organizations. Collectively, these organizations filed 69 percent of the Forms 990-T, and accounted for between 86 and 88 percent of the totals reported by all organizations for the key items shown in Figure F.

Voluntary employees' beneficiary associations described in section 501(c)(9) were responsible for 31 percent of total tax reported, a high percentage given the fact that they accounted for only 2 percent of all filers and 6 percent of total gross UBI. In addition, the share of total

**Figure F**

## Selected Financial Data Reported by Principal Types of Organizations as a Percentage of the Total Reported by All Types of Organizations, Tax Year 1991



<sup>1</sup> Excludes cost of sales and services, which was not included on the return as a component of total deductions. It was subtracted from gross receipts in computing gross profit from sales and services, reported as a gross income component. Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and other deductible items.

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

## Exempt Organization Business Income Tax Returns, 1991

positive UBTI attributable to section 501(c)(9) organizations was 27 percent, but these organizations accounted for only 2 percent of organizations that reported positive UBTI. Voluntary employees' beneficiary associations generally were not able to take deductions as large as most other types of organizations because of the nature of their exempt activities, discussed below.

Section 501(c)(9) organizations primarily engage in investment activities in order to fund the benefits paid out to member-employees. Nearly 75 percent of their aggregate gross UBI was reported as investment income for 1991. As mentioned in the discussion of deductions, the largest deduction item, by far, reported by employees' beneficiary associations was for amounts set aside to provide for future payment of life, sick, accident, or other benefits. However, if amounts were set aside that exceeded the qualified asset account limits, as specified in section 419A of the Code, then they were not allowed as a deduction from unrelated business investment income. In other words, if a section 501(c)(9) association overfunded an employee welfare benefit plan, its investment income could not be set aside tax-free. It was taxable as unrelated business income.

Another factor contributing to the relatively small deductions taken by the employee beneficiary associations is that, for many of them, their investment portfolios typically are overseen by a single trust manager. Because there is no need for a staff of employees, deductions for salaries and wages are quite small. In terms of contrast, salaries and wages reported by section 501(c)(9) associations were less than half a percent of total salaries and wages reported by all organizations, compared to 61 percent for the section 501(c)(3) organizations. As a percentage of the total deductions reported by these two types of organizations, salaries and wages comprised a 2-percent share for the section 501(c)(9) organizations compared to an 18-percent share for section 501(c)(3) organizations [11].

### Primary Unrelated Business Activity by Industrial Grouping

Organizations filing a Form 990-T for 1991 were required to enter at least one, and up to three, industry codes for their principal business activities, based on the amount of gross unrelated business income they generated. If an organization engaged in more than one type of activity, it was instructed to list the code for the largest unrelated activity (in terms of gross income) first, then the codes for the next two largest activities, in descending order. The discussion of unrelated business activities that follows takes into consideration only the primary (first) activity

**Services and finance, insurance, and real estate accounted for 78 percent of gross unrelated business income.**

code reported. Because it is not possible to distribute gross UBI by each type of activity when more than one activity was reported, the amount of gross UBI assigned to the primary unrelated business activity may not be entirely related to that activity.

Figure G shows that the primary unrelated business activity reported on 88 percent of returns filed fell within four major industrial groupings: manufacturing; retail trade; services; and finance, insurance, and real estate (see Table 5 for information on the major business activities or industrial classifications reported). These four industrial groupings were also responsible for 93 percent of total gross UBI, with manufacturing producing \$0.1 billion; retail trade, \$0.4 billion; services, \$1.5 billion; and finance, insurance, and real estate, \$1.1 billion.

The industrial classifications from which Form 990-T filers were required to make a choice included 155 industry codes and 5 additional categories that were established specifically for exempt organizations engaging in unrelated business activities to reflect particular provisions of the Internal Revenue Code [12]. These five classifications were unrelated debt-financed activities other than rental of real estate; investment activities of section 501(c)(7), (9), (17), and (20) organizations; rental of personal property; passive income activities with controlled organizations; and exploited exempt activities. In Figure G and Table 5, the first four activities mentioned above are treated as part of the finance, insurance, and real estate division. Exploited exempt activities is treated separately in Figure G and Table 5 as one of the major industrial groupings [13].

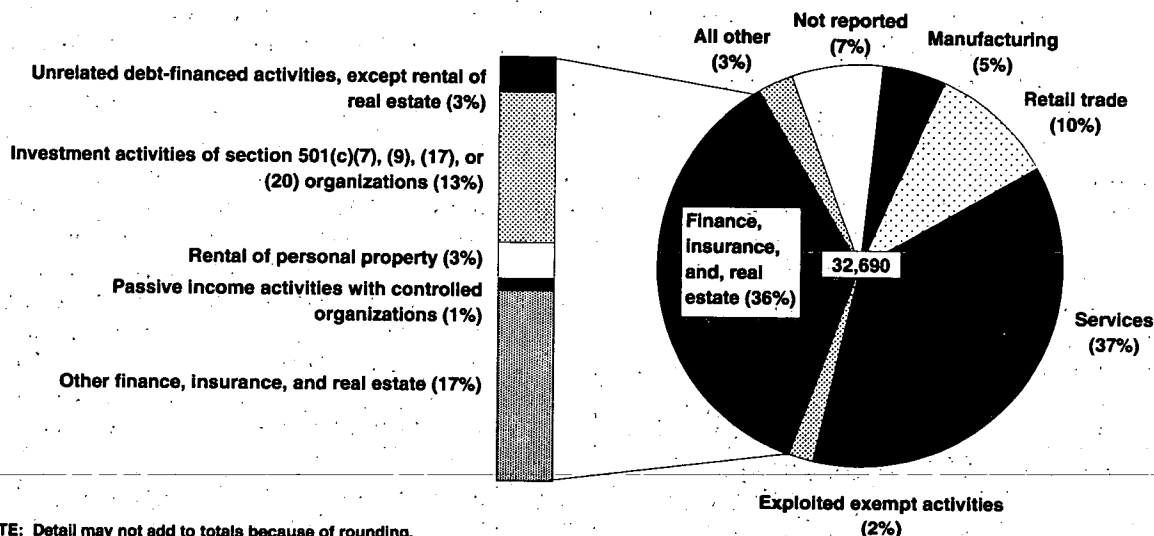
There were 1,495 organizations that reported unrelated activities in the manufacturing division. Most of them, 87 percent, could be categorized under two types of unrelated activities: printing and publishing, 45 percent, and petroleum refining and related industries, 42 percent [14]. Three percent of total gross UBI was attributable to the printing and publishing industrial sub-group. Petroleum refining and related industries accounted for only one-tenth of 1 percent of total gross UBI. Business leagues, real estate boards, and various types of nonprofit charitable organizations accounted for most of the printing and publishing carried on by tax-exempt organizations as their principal unrelated trade or business activity. Almost all of the organizations that reported petroleum refining and related industries as their principal unrelated business activity were trusts that acted as fiduciary agents for Individual Retirement Arrangements and profit-sharing plans.



# Exempt Organization Business Income Tax Returns, 1991

Figure G

Percentage Distribution of Exempt Organization Business Income Tax Returns, by Principal Unrelated Business Activity or Industry, Tax Year, 1991



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

Within retail trade, carried on by 3,372 exempt organizations, activities that were included in the eating and drinking places sub-group were reported on the majority of Forms 990-T filed, 65 percent, followed by "miscellaneous" retail trade, reported on 32 percent of the returns. Three of the main types of retail activities reported under "miscellaneous" were gift, novelty, and souvenir shops; drugstores and proprietary stores; and book stores. Organizations reporting primary unrelated business activities within the eating and drinking places and "miscellaneous" retail trade sub-groups respectively accounted for 6 percent and 4 percent of the \$3.4 billion total of gross UBI reported by all Form 990-T filers. Organizations operating eating and drinking places as an unrelated activity mainly were hospitals, golf and country clubs, fraternal organizations, and veterans' organizations.

Of the 12,040 organizations providing various services as their primary unrelated activity, 53 percent reported business services, most of which was advertising (including printing), and another 21 percent reported amusement and recreation services. Health services and social services followed, respectively accounting for 7 percent and 5 percent of organizations reporting services. In terms of gross UBI, business services accounted for 19 percent of the aggregate total. The business service of advertising (including printing) was reported on more returns than any other single unrelated business activity, 17 percent of the total, and, in dollar terms, its \$0.5 billion share of total

gross UBI, 15 percent, was also the largest single primary activity. The majority of organizations that indicated advertising as their primary unrelated business activity were chambers of commerce, real estate boards, and a wide variety of nonprofit charitable organizations, civic leagues, and business leagues. About 8 percent of total gross UBI was attributable to organizations classified in amusement and recreation services. These types of activities were reported mostly by golf and country clubs; civic leagues; social welfare organizations; fraternal organizations; veterans' organizations; and nonprofit charitable societies, associations, and guilds. These nonprofit charitable organizations typically were educational institutions and athletic clubs.

The health services sub-group was responsible for 7 percent of total gross UBI; within this group, the medical laboratory activity was reported most often and accounted for 4 percent of the total gross UBI reported by all organizations. Organizations reporting some type of health services as their primary unrelated business activity typically included hospitals, medical centers, and health care facilities. Social services contributed about 1 percent to total gross UBI. A mix of organization types reported primary unrelated business activities in the social services sub-group; most of them were religious organizations, hospitals, schools, fraternal organizations, and veterans' organizations.

Investment activities of organizations exempt under

## Exempt Organization Business Income Tax Returns, 1991

sections 501(c)(7), (9), (17), and (20) accounted for 46 percent of the 11,862 organizations engaged in unrelated activities in the finance, insurance, and real estate industrial group. Organizations engaging in real estate activities accounted for another 28 percent, followed by those engaged in insurance activities, accounting for 10 percent. These latter two activities are included in the "other finance, insurance, and real estate" category. Collectively, the three finance, insurance, and real estate sub-groups mentioned above accounted for 30 percent of the gross UBI reported by all exempt organizations, with each sub-group separately contributing between 9 percent and 11 percent to total gross UBI. The majority of organizations that carried on real estate activities were nonprofit charitable organizations; however, large numbers of civic and business leagues, real estate boards, fraternal organizations, and trusts acting as fiduciary agents for retirement funds also reported real estate as their primary unrelated business activity. Most of the organizations that engaged in unrelated activities in the insurance industry were county farm bureaus and trade associations.

### Summary

For 1991, an estimated 32,690 tax-exempt organizations reported \$3.4 billion in gross income from unrelated business activities. Nearly half of total gross UBI was reported by only 1 percent of these organizations, those with gross UBI of \$1,000,000 or more. Total deductions taken against gross UBI amounted to \$4.0 billion and resulted in unrelated business taxable income (less deficit) of -\$0.7 billion. Based on total positive unrelated business taxable income of \$431.1 million, total tax reported was \$116.9 million.

Five types of organizations collectively accounted for most of the unrelated business activity in terms of gross UBI, total deductions, and total tax. These were the nonprofit charitable organizations exempt under Code section 501(c)(3); civic leagues and social welfare organizations exempt under section 501(c)(4); business leagues, chambers of commerce, and real estate boards exempt under section 501(c)(6); social and recreational clubs exempt under section 501(c)(7); and voluntary employees' beneficiary associations exempt under section 501(c)(9). Together, these organizations accounted for 69 percent of all returns filed, 86 percent of gross UBI, 86 percent of total deductions, and 88 percent of total tax liability.

About 90 percent of all gross UBI was attributable to five sources. Gross profit (less loss) from sales and services was the largest source, accounting for 43 percent of gross UBI. This was followed by "other income" (items not specifically required to be reported elsewhere

on the return) (20 percent), advertising income (17 percent), income from unrelated debt-financed property (7 percent), and investment income of section 501(c)(7), (9), (17), and (20) organizations (each described in the Appendix to this article) (6 percent).

Forty-four percent of organizations reporting gross UBI above the \$1,000 filing threshold had positive unrelated business taxable income. The remaining 56 percent reported zero or a deficit. The \$116.9 million of total tax liability was distributed among various types of organizations. Corporate organizations accounted for \$70.5 million of total tax, or 60 percent, and trusts were liable for \$46.4 million, or 40 percent. In terms of the Internal Revenue Code sections under which organizations are tax-exempt, the nonprofit charitable organizations described in section 501(c)(3) were responsible for the largest share of total tax, 35 percent or \$40.6 million. They were followed by section 501(c)(9) voluntary employees' beneficiary associations, which reported a 31-percent share of total tax, \$36.0 million.

Four major industrial groupings, covering 88 percent of the organizations that reported unrelated business income, accounted for 93 percent of gross UBI, 92 percent of total deductions, and 95 percent of total tax. The four groupings were manufacturing; services; finance, insurance, and real estate; and retail trade. Within these industrial classifications, the unrelated business activities that collectively produced a relatively large share of total gross UBI, 77 percent, were business services (most of which was advertising, including printing), 19 percent; insurance activities, 11 percent; real estate activities, 10 percent; investment activities of section 501(c)(7), (9), (17), and (20) organizations, 9 percent; amusement and recreation services, 8 percent; health services, 7 percent; operation of eating and drinking places, 6 percent; "miscellaneous" retail trade, 4 percent; and printing and publishing, 3 percent.

### Data Sources and Limitations

#### Sources

The statistics in this article are based on a sample of the 1991 Form 990-T, *Exempt Organization Business Income Tax Return*. The Internal Revenue Service (IRS) required organizations having accounting periods beginning in 1991 (and, therefore, ending between December 1991 and November 1992) to file a 1991 Form 990-T. Because of the various accounting periods of the organizations filing a 1991 Form 990-T, the unrelated business financial activities covered in this article span the period January 1991 through November 1992, although the majority of activities occurred during Calendar Year 1991. The sample included only those returns with gross unrelated

# Exempt Organization Business Income Tax Returns, 1991

business income of \$1,000 (the filing threshold) or more.

The population from which the 1991 sample was drawn consisted of Form 990-T records posted to the IRS Business Master File system during 1992 and 1993. The returns in the sample were stratified based on the absolute value of either *gross* UBI (if the organization reported gross UBI of \$10,000 or less), or *net* UBI (if the organization reported gross UBI over \$10,000). For 1991, gross UBI was not reported as a single total by organizations that had gross UBI over \$10,000; rather, detailed components of the total were reported separately on the main part of the return and associated schedules. Only *net* UBI (gross UBI minus any deductions directly connected with UBI that were reported on the return and its attached schedules) was reported as a total on the Form 990-T. Therefore, for these larger returns, only total net UBI was input to the IRS Business Master File system. A sample of 4,885 returns was selected from a population of 40,950 [15]. Sampling rates ranged from 2.9 percent (returns with an absolute value of gross or net UBI less than \$10,000) to 100 percent (returns with an absolute value of net UBI of \$100,000 or more).

## Limitations

Because gross UBI for the larger returns was not readily available as a criterion for selecting the sample, the net amount was used. It was possible, therefore, for a return with a large amount of *gross* UBI not to be selected because, after deductions, the *net* amount was small enough for it to be subject to sampling at a rate of less than 100 percent.

Research was undertaken for 1989 to determine the extent to which the returns of large organizations, in terms of gross UBI, did not get selected for the Statistics of Income (SOI) sample because *net* UBI was used as the sampling criterion. If a Form 990-T was not selected for the sample (net UBI under \$100,000) and it was filed by an exempt organization which reported large gross receipts (\$10,000,000 or more) on Form 990, *Return of Organization Exempt From Income Tax*, the Form 990-T was secured and classified into one of five groups, based on size of gross UBI [16]. The results of classifying 1,153 such returns are as follows: under \$500,000 -- 1,064 returns; \$500,000 under \$1,000,000 -- 26 returns; \$1,000,000 under \$5,000,000 -- 55 returns; \$5,000,000 under \$10,000,000 -- 5 returns; \$10,000,000 or more -- 3 returns.

Of the eight cases within the two largest UBI groups, five had qualified set-aside deductions which reduced net income to zero, and three had circulation losses or advertising costs which offset gross advertising income to the extent that the resulting net UBI was negative or near

zero. The combined amount of gross UBI for the eight returns was \$122.1 million, which was about 4 percent of total gross UBI reported for 1989. The research done for 1989 was not repeated for 1990 or 1991. Because the same basic sample design was used for all three years, the net UBI sampling criterion presumably effected the 1990 and 1991 statistics to a degree similar to that for 1989. Beginning with Tax Year 1992, net vs. gross UBI was no longer an issue for sampling because the Form 990-T was revised to require the reporting of total gross UBI by all organizations.

Only the primary activity code was used in the statistics to present the types of unrelated business activities for exempt organizations. In addition to the primary activity code, up to two other codes could have been reported if the organization engaged in more than one unrelated activity. However, because income was not reported separately by activity code if the organization entered more than one code, it was not possible to distribute gross UBI by type of activity when more than one business activity was reported. Therefore, where more than one code was provided, the statistics show all of gross UBI assigned to the primary code given.

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

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. 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 in this issue.

**Figure H**

## Coefficients of Variation for Selected Financial Data Items, Tax Year 1991

| Item  | Coefficient of variation (percentages) |
|---|--|
| Gross unrelated business income (UBI).....                    | 2.83                                   |
| Total deductions.....   | 3.04                                   |
| Unrelated business taxable income (UBTI)<br>less deficit..... | 9.15                                   |
| Total income tax.....   | 3.65                                   |

## Exempt Organization Business Income Tax Returns, 1991

### Explanation of Selected Terms

**Advertising Income.**--Income realized by an exempt organization from the sale of advertising in a periodical was gross income from an unrelated trade or business activity involving the "exploitation of an exempt activity," namely, the circulation and readership of the periodical developed by producing and distributing the readership content of that periodical. Advertising income was reported separately from other types of exploited exempt activity income. (See the definition of Exploited Exempt Activity Income, below.)

**Capital Gain Net Income.**--Generally, organizations required to file Form 990-T (except organizations exempt under sections 501(c)(7), (9), (17), and (20)), each described in the Appendix to this article, are not taxed on the net gains from the sale, exchange, or other disposition of property. However, net capital gains on sales of debt-financed property, certain gains on the cutting of timber (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.

**Deductions Directly Connected With Unrelated Business Income.**--These were deductions allowed in computing unrelated business taxable income, if they otherwise qualified as income tax deductions under the Internal Revenue Code and if they had a "proximate and primary" relationship to the carrying on of an unrelated trade or business. 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 all deductions (both deductions directly connected with UBI and those not directly connected, defined below) as a single total amount, except for the "specific deduction" (also defined below). Allowable deductions included those directly connected with rental of personal property; those allocable to unrelated debt-financed income; those directly connected with investment income of Code section 501(c)(7), (9), (17), and (20) organizations (each described in the Appendix to this article); those allocable to interest, annuities, royalties, and rents received from controlled organizations; those allocable to "exploited exempt activity income" other than advertising; direct advertising costs; and deductions for compensation of officers, directors, and trustees; salaries and wages; repairs; bad debts; interest; taxes; depreciation (not reported elsewhere); depletion; contributions to deferred compensation plans; employee benefit programs; and "other deductions."

**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 by all organizations; the other types of deductions not directly connected with UBI were reported separately only by exempt organizations with gross UBI above \$10,000. (See the definitions of Set-asides, Excess Exempt Expenses, and the Specific Deduction, below.)

**Excess Exempt Expenses.**--Two types of "excess" expenses were allowed as a deduction from unrelated business income: (1) excess exempt expenses attributable to commercial exploitation of exempt activities and, (2) excess exempt expenses attributable to advertising income. In the case of "exploited" exempt activity income (see the definition, below), if the expenses of the organization's exempt activity exceeded the income from the exempt activity, then the excess of exempt expenses over exempt income could be used to offset any positive net unrelated business income produced from exploiting the exempt activity, to the extent that it did not result in a loss. Excess expenses of a commercially exploited exempt activity could not be used to offset income from another type of unrelated business activity if the unrelated activity did not exploit that particular exempt activity.

In the case of excess exempt expenses attributable to advertising income, if the expenses attributable to producing and distributing the readership content of a periodical exceeded the circulation income, then the excess of readership costs over circulation income could be used to offset any net gain from advertising (gross advertising income less direct advertising costs), to the extent that it did not result in a loss.

**Exploited Exempt Activity Income, Except Advertising.**--In some cases, exempt activities create goodwill or other intangibles that are capable of being exploited in a commercial way. When an organization exploited such an intangible in commercial activities that did not contribute importantly to the accomplishment of an exempt purpose, the income they 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 definition of Advertising Income).

## Exempt Organization Business Income Tax Returns, 1991

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

**Gross Unrelated Business Income (UBI).**--This was the total gross unrelated business income (see the definition of Unrelated Business Income), prior to reduction by allowable deductions, used in computing unrelated business taxable income. Organizations with gross UBI between \$1,000 (the filing threshold) and \$10,000 reported gross UBI as a single total amount. Organizations with gross UBI above \$10,000 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 noncapital assets; net capital loss (trusts only); income (less loss) from partnerships; rental income; unrelated debt-financed income; investment income (less loss) of Code section 501(c)(7), (9), (17), and (20) organizations (each described in the Appendix to this article); annuities, interest, rents, and royalties from controlled organizations; "exploited exempt activity" income; advertising income; and "other income."

**Income from Controlled Organizations.**--When an exempt organization controls another organization, the interest, annuities, royalties, and rents from the controlled organization are taxable to the controlling organization at a specified ratio, depending on whether the controlled organization is exempt or nonexempt.

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

**Investment Income (Less Loss).**--This item was reported by organizations exempt under sections 501(c)(7), (9), (17), and (20) (each described in the Appendix to this article) and included income such as rents, unrelated debt-financed income, and income from the ownership or sale of securities. Organizations exempt under sections other than 501(c)(7), (9), (17), and (20) did not report investment income as a single amount; rather, they were re-

quired to report separately the various types of investment income that were considered unrelated business income, such as rents and income from debt-financed property. (See, also, the definition of Set-asides.)

**Net Capital Loss Deduction (Trusts Only).**--If an exempt trust had a net capital loss, it was subject to a \$3,000 limitation. Trusts were required to report net capital losses on Form 990-T as a component of gross unrelated business income.

**Net Gain (Less Loss), 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 property which were capital assets.

**Net Operating Loss Carryover.**--The net operating loss carryover (as provided in Code section 172) was allowed as a deduction in computing unrelated business taxable income. However, the net operating loss carryback or carryover (allowed only to or from a tax year for which the organization was subject to tax on unrelated business income) was determined without taking into account any amount of exempt-function income or deductions that had been excluded from the computation of unrelated business taxable income. The statistics in this article represent only the net operating carryover because carrybacks from future years would not be reported on the return as initially filed (they would be reported on an amended return), 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 professional service fees, such as financial management, accounting, legal, or consulting; insurance costs (if not 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.**--This included all types of unrelated business income that were not specifically required to be reported elsewhere on the tax return. Examples are returned contributions that were deducted in prior years, income from insurance activities that was not properly set aside in prior years, recoveries of bad debts, and refunds of State or local tax payments, if the payments were previously reported as a deduction.

**Rental Income.**--This was the amount of (1) 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,

## Exempt Organization Business Income Tax Returns, 1991

or (2) 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, rents from real property generally were excluded in computing unrelated business taxable income. In addition, rents from personal property that did not exceed 10 percent of the total rents from all leased property were also excluded. These exclusions for rents did not apply to unrelated debt-financed property or rents received from a controlled organization. (See definitions of Income from Controlled Organizations and Unrelated Debt-financed Income.)

*Set-asides.*--These amounts were allowed to social clubs (Code section 501(c)(7)), voluntary employees' beneficiary associations (section 501(c)(9)), supplemental unemployment benefit trusts (section 501(c)(17)), and group legal services organizations (section 501(c)(20)) as a deduction from investment income when passive income (generally, investment income) was set aside for one of the following described purposes: (1) the passive income of section 501(c)(7), (9), (17), and (20) organizations generally was not taxed if it was set aside to be used for charitable purposes; (2) in the case of section 501(c)(9), (17), and (20) organizations, passive income was generally not taxed if it was set aside to provide for the payment of life, sick, accident, or other benefits. However, any amounts set aside that exceeded the "qualified asset account" limit, as figured under section 419A, were not allowed as a deduction from unrelated business investment income; they were treated as taxable investment income. A section 419A qualified asset account is any account consisting of assets set aside to provide for the payment of disability benefits, medical benefits, severance pay benefits, or life insurance benefits.

*Specific Deduction.*--The specific deduction was a \$1,000 deduction, considered "not directly connected" with gross unrelated business income, allowed to all organizations which had positive taxable income after all other types of deductions were taken. If positive taxable income was less than \$1,000, then an organization could take a specific deduction equal to its taxable income.

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

*Unrelated Business Income.*--Income of an exempt organization that was from a trade or business which was

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

*Unrelated Business Income Tax.*--This was the tax imposed on unrelated business taxable income (UBTI). It was determined based on the corporate or trust tax rates that were in effect for the 1991 Tax Year.

*Unrelated Business Taxable Income (UBTI).*--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 deductions not directly connected (see definitions of Deductions Directly Connected With Unrelated Business Income and Deductions Not Directly Connected With Unrelated Business Income).

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

## Exempt Organization Business Income Tax Returns, 1991

### Notes and References

- [1] Based on a total of 1,053,407 exempt organizations reported in the Internal Revenue Service Annual Report, Fiscal Year 1991. The total excludes farmers' cooperatives and nonexempt charitable trusts treated as exempt organizations, which do not report tax on the Form 990-T. Also, the total is understated because it excludes churches, exempt under section 501(c)(3), which did not formally request recognition of tax exemption (because they are not required to do so unless they wish to obtain an IRS ruling). However, these churches are required to file Form 990-T if they have unrelated business income. Because of the understatement of the total number of exempt organizations, the proportion of all exempt organizations that filed a Form 990-T is lower than 3 percent.
- [2] Returns filed by organizations with gross unrelated business income (UBI) below the filing requirement threshold (less than \$1,000) are excluded from the statistics presented in this article.
- [3] For the most recent annual data on tax-exempt organizations, see Hilgert, Cecelia, "Charities and Other Tax-Exempt Organizations, 1990," *Statistics of Income Bulletin*, Fall 1994, Volume 14, Number 2, pp. 132-138, and Nutter, Sarah, "Private Foundations and Charitable Trusts, 1991," *Statistics of Income Bulletin*, Winter 1994-1995, Volume 14, Number 3, pp. 141-161. Other data on tax-exempt organizations and charitable giving for the years 1974-1992 have been published in Internal Revenue Service, *Statistics of Income, Compendium of Studies of Tax-Exempt Organizations, 1974-1987*, and *Compendium of Studies of Tax-Exempt Organizations, 1986-1992*, Volume 2.
- [4] The term "charitable" refers to tax-exempt activities which are charitable, educational, scientific, social, literary or religious in nature.
- [5] Statistics contained in this article on exempt trusts and exempt corporations filing Form 990-T are from unpublished Statistics of Income tabulations.
- [6] Churches, which are tax-exempt under Code section 501(c)(3), are not required to apply for recognition of exemption unless they wish to obtain an IRS ruling. These organizations must file a Form 990-T if they have unrelated business income, but they are not required to file the annual IRS information return, Form 990, *Return of Organization Exempt From Income Tax*.
- [7] For detailed information on unrelated business income tax provisions, see Internal Revenue Service, *Tax on Unrelated Business Income of Exempt Organizations*, Publication 598 (Rev. 11/87).
- [8] Set-asides were not reported by section 501(c)(3), (4), or (6) organizations. They were a deduction allowed only to section 501(c)(7), (9), (17), and (20) organizations (see the Appendix to this article for a description of these organizations). For 1991, set-asides were reported only by section 501(c)(7) and (9) organizations, with the section 501(c)(9) organizations accounting for 98 percent of the total.
- [9] Detail does not add to total because of rounding.
- [10] Ibid.
- [11] Statistics cited here on salaries and wages are for organizations that had gross UBI greater than \$10,000 and were therefore required to report detailed deduction items. Organizations with \$10,000 or less of gross UBI were required to report a single amount of total deductions and the specific deduction only. Also, the salaries and wages deduction is somewhat understated because this type of deduction also was included in cost of sales and services and in the lump-sum deductions reported on the various income schedules to the tax return and, therefore, could not be tabulated separately. However, deductions for salaries and wages for the 501(c)(9) organizations were relatively small, regardless of where they were reported.
- [12] The total of 160 industry classifications were combined to form the 10 major groupings shown in Table 5. See Office of Management and Budget, *Standard Industrial Classification Manual*, 1972 and 1987, which list all of the 4-digit industry codes used by Form 990-T filers, except for the five additional categories that reflected certain provisions of the Internal Revenue Code pertaining to exempt organizations.
- [13] When an exempt organization commercially "exploits" the goodwill or other intangibles that are created by its exempt activities, and the commercial activities do not contribute significantly to the accomplishment of its exempt-purpose functions, the income generated by the commercial activities is considered "exploited exempt activity income" and is subject to the UBI tax. Examples of exploited exempt activities would be product endorsements and the sale of commercial advertising in a publication

## Exempt Organization Business Income Tax Returns, 1991

that is printed to promote the exempt purpose of an organization. (See the definitions of Advertising Income and Exploited Exempt Activity Income in the Explanation of Selected Terms section.)

- [14] Most of the data in this section on industry subgroups are from unpublished Statistics of Income tabulations.
- [15] After excluding returns that were selected for the sample but had gross UBI below the \$1,000 filing threshold, were filed only to claim a refund, or were filed for a tax year other than 1991, the estimated

population was 32,690.

- [16] It was assumed that gross UBI reported by an exempt organization on Form 990-T could never be more than gross receipts reported by the organization on Form 990 because gross receipts includes both related, exempt function income and unrelated business income. Securing the Form 990-T filed by an organization which had gross receipts of \$10,000,000 or more ensured that any Form 990-T which reported gross UBI of \$10,000,000 or more and was not selected for the sample would be included in the classification.



# Exempt Organization Business Income Tax Returns, 1991

**Table 1.--Organizations with Gross Unrelated Business Income (UBI) of \$1,000 or More: Number of Returns, Gross UBI, Total Deductions, Unrelated Business Taxable Income (UBTI) Less Deficit and Total Income Tax, by Internal Revenue Code Section**

[All data 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</sup> |                  | Unrelated business taxable income (UBTI) less deficit |                 | Total income tax <sup>2</sup> |                |
|---------------------------------|-------------------|---------------------------------------|-------------------------------|------------------|---|-----------------|-------------------------------|----------------|
|                                 |                   |                                       | Number of returns             | Amount           | Number of returns                                     | Amount          | Number of returns             | Amount         |
|                                 | (1)               | (2)                                   | (3)                           | (4)              | (5)   | (6)             | (7)                           | (8)            |
| <b>All sections, total.....</b> | <b>32,690</b>     | <b>3,384,698</b>                      | <b>32,136</b>                 | <b>4,047,183</b> | <b>28,013</b>   | <b>-662,487</b> | <b>13,905</b>                 | <b>116,933</b> |
| 401(a).....                     | 748               | 29,091                                | 722                           | 17,386           | 713   | 11,705          | 576                           | 5,042          |
| 408(e).....                     | 3,117             | 18,108                                | 3,117                         | 15,775           | 2,690   | 2,332           | 1,212                         | 1,291          |
| 501(c)(2).....                  | 175               | 38,230                                | 175                           | 54,896           | 174   | -16,666         | 72                            | 487            |
| 501(c)(3).....                  | 7,846             | 1,642,601                             | 7,640                         | 2,080,104        | 7,174   | -437,503        | 2,896                         | 40,586         |
| 501(c)(4).....                  | 1,754             | 196,139                               | 1,730                         | 281,455          | 1,514   | -85,316         | 566                           | 2,462          |
| 501(c)(5).....                  | 2,061             | 115,303                               | 2,037                         | 147,892          | 1,729   | -32,590         | 683                           | 1,424          |
| 501(c)(6).....                  | 5,596             | 602,123                               | 5,596                         | 735,352          | 4,248   | -133,229        | 1,199                         | 11,403         |
| 501(c)(7).....                  | 6,757             | 264,345                               | 6,555                         | 267,445          | 6,026   | -3,101          | 4,756                         | 12,537         |
| 501(c)(8).....                  | 1,013             | 43,910                                | 1,013                         | 57,094           | 782   | -13,184         | 436                           | 764            |
| 501(c)(9).....                  | 701               | 203,459                               | 701                           | 92,725           | 369   | 110,734         | 275                           | 36,032         |
| 501(c)(10).....                 | 314               | 9,540                                 | 314                           | 14,671           | 279   | -5,131          | 107                           | 142            |
| 501(c)(11).....                 | ..                | ..                                    | ..                            | ..               | ..  | ..              | ..                            | ..             |
| 501(c)(12).....                 | 125               | 11,087                                | 90                            | 12,532           | 124   | -1,445          | *44                           | *707           |
| 501(c)(13).....                 | *49               | *2,243                                | *49                           | *20,652          | *49   | *-18,409        | *6                            | *14            |
| 501(c)(14).....                 | *110              | *5,595                                | *110                          | *9,574           | *110  | *-3,979         | *102                          | *112           |
| 501(c)(15).....                 | *7                | *475                                  | *7                            | *512             | *7  | *-36            | ..                            | ..             |
| 501(c)(16).....                 | ..                | ..                                    | ..                            | ..               | ..  | ..              | ..                            | ..             |
| 501(c)(17).....                 | ..                | ..                                    | ..                            | ..               | ..  | ..              | ..                            | ..             |
| 501(c)(18).....                 | *25               | *481                                  | *25                           | *146             | *25   | *334            | *24                           | *90            |
| 501(c)(19).....                 | 1,398             | 86,676                                | 1,398                         | 101,986          | 1,277   | -15,310         | 486                           | 792            |
| 501(c)(20).....                 | *36               | *339                                  | *36                           | *339             | ..  | ..              | ..                            | ..             |
| 501(c)(21).....                 | ..                | ..                                    | ..                            | ..               | ..  | ..              | ..                            | ..             |
| 501(c)(22).....                 | ..                | ..                                    | ..                            | ..               | ..  | ..              | ..                            | ..             |
| 501(c)(23).....                 | ..                | ..                                    | ..                            | ..               | ..  | ..              | ..                            | ..             |
| 501(c)(24).....                 | *99               | *3,756                                | *99                           | *8,605           | *99   | *-4,849         | *97                           | *276           |
| 501(c)(25).....                 | ..                | ..                                    | ..                            | ..               | ..  | ..              | ..                            | ..             |
| 501(e).....                     | ..                | ..                                    | ..                            | ..               | ..  | ..              | ..                            | ..             |
| 501(f).....                     | ..                | ..                                    | ..                            | ..               | ..  | ..              | ..                            | ..             |
| Section not reported.....       | 751               | 54,099                                | 714                           | 72,136           | 617   | -18,037         | 363                           | 2,251          |

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

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

<sup>1</sup> Excludes cost of sales and services, which was not included on the return as a component of total deductions. It was subtracted from gross receipts in computing gross profit from sales and services, reported as a gross income component. Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and other deductible items.

<sup>2</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 taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the environmental tax.

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

# Exempt Organization Business Income Tax Returns, 1991

**Table 2.--Organizations with Gross Unrelated Business Income (UBI) of \$1,000 or More: Number of Returns, Gross UBI, Total Deductions, Unrelated Business Taxable Income (UBTI) Less Deficit and Total Income Tax, by Size of Gross UBI**

[All data 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</sup> |                  | Unrelated business taxable income (UBTI) less deficit |                 | Total income tax <sup>2</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>32,690</b>     | <b>3,384,698</b>                      | <b>32,136</b>                 | <b>4,047,183</b> | <b>28,013</b>   | <b>-662,487</b> | <b>13,905</b>                 | <b>116,933</b> |
| \$1,000 under \$10,001 <sup>3</sup> .....     | 14,819            | 60,392                                | 14,464                        | 92,431           | 12,023  | -32,039         | 6,607                         | 2,370          |
| \$10,001 under \$100,000 <sup>3</sup> .....   | 12,987            | 454,243                               | 12,794                        | 603,381          | 11,550  | -149,140        | 5,369                         | 13,132         |
| \$100,000 under \$500,000.....                | 3,930             | 845,957                               | 3,924                         | 1,165,458        | 3,584   | -319,501        | 1,584                         | 18,863         |
| \$500,000 under \$1,000,000.....              | 521               | 360,311                               | 521                           | 458,160          | 437   | -97,850         | 177                           | 7,642          |
| \$1,000,000 under \$5,000,000.....            | 381               | 737,127                               | 381                           | 895,540          | 372   | -158,413        | 145                           | 21,552         |
| \$5,000,000 or more.....                      | 52                | 926,669                               | 52                            | 832,213          | 48  | 94,456          | 23                            | 53,374         |

<sup>1</sup> Excludes cost of sales and services, which was not included on the return as a component of total deductions. It was subtracted from gross receipts in computing gross profit from sales and services, reported as a gross income component. Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and other deductible items.

<sup>2</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 taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the environmental tax.

<sup>3</sup> Organizations with gross UBI between \$1,000 (the filing threshold) and \$10,000 were required to report only a total for gross UBI and for deductions (except for the specific deduction, which all organizations reported separately). Organizations with gross UBI over \$10,000 were required to report each income and deduction item separately, as shown in Tables 6 and 7.

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

**Table 3.--Organizations with Gross Unrelated Business Income (UBI) of \$1,000 or More: Number of Returns, Gross UBI, Total Deductions, Unrelated Business Taxable Income (UBTI) Less Deficit and Total Income Tax, by Size of UBTI**

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

| Size of unrelated business taxable income (UBTI) | Number of returns | Gross unrelated business income (UBI) | Total deductions <sup>1</sup> |                  | Unrelated business taxable income (UBTI) less deficit |                 | Total income tax <sup>2</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>32,690</b>     | <b>3,384,698</b>                      | <b>32,136</b>                 | <b>4,047,183</b> | <b>28,013</b>   | <b>-662,487</b> | <b>13,905</b>                 | <b>116,933</b> |
| Deficit.....                                     | 13,630            | 1,635,735                             | 13,630                        | 2,729,365        | 13,630  | -1,093,630      | 78                            | 179            |
| Zero.....  | 4,677             | 262,273                               | 4,677                         | 262,272          | --  | --              | 6                             | 234            |
| \$1 under \$1,000.....                           | 3,068             | 39,127                                | 3,068                         | 37,666           | 3,068   | 1,460           | 2,696                         | 205            |
| \$1,000 under \$10,000.....                      | 7,153             | 162,913                               | 6,798                         | 134,209          | 7,153   | 28,704          | 6,970                         | 4,338          |
| \$10,000 under \$100,000.....                    | 3,732             | 481,591                               | 3,539                         | 375,635          | 3,732   | 105,955         | 3,725                         | 18,704         |
| \$100,000 under \$500,000.....                   | 365               | 230,496                               | 359                           | 162,100          | 365   | 68,396          | 363                           | 19,926         |
| \$500,000 under \$1,000,000.....                 | 30                | 50,253                                | 30                            | 28,462           | 30  | 21,791          | 30                            | 7,059          |
| \$1,000,000 or more.....                         | 36                | 522,312                               | 36                            | 317,474          | 36  | 204,838         | 36                            | 66,287         |

<sup>1</sup> Excludes cost of sales and services, which was not included on the return as a component of total deductions. It was subtracted from gross receipts in computing gross profit from sales and services, reported as a gross income component. Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and other deductible items.

<sup>2</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 taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the environmental tax.

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

# Exempt Organization Business Income Tax Returns, 1991

**Table 4.—Organizations with Positive Gross Unrelated Business Taxable Income (UBTI): Number of Returns, Gross Unrelated Business Income (UBI), Total Deductions, Unrelated Business Taxable Income (UBTI), and Total Income Tax, by Size of Gross UBI**

[All data 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</sup> |                  | Unrelated business taxable income (UBTI) |                | Total income tax <sup>2</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>14,384</b>     | <b>1,486,690</b>                      | <b>13,829</b>                 | <b>1,055,546</b> | <b>14,384</b>                            | <b>431,143</b> | <b>13,820</b>                 | <b>116,520</b> |
| \$1,000 under \$10,001 <sup>3</sup> .....     | 7,104             | 27,644                                | 6,749                         | 11,563           | 7,104                                    | 16,081         | 6,607                         | 2,370          |
| \$10,001 under \$100,000 <sup>3</sup> .....   | 5,382             | 189,212                               | 5,189                         | 114,892          | 5,382                                    | 74,319         | 5,344                         | 13,125         |
| \$100,000 under \$500,000.....                | 1,545             | 307,642                               | 1,539                         | 225,760          | 1,545                                    | 81,882         | 1,534                         | 18,789         |
| \$500,000 under \$1,000,000.....              | 185               | 128,317                               | 185                           | 101,426          | 185                                      | 26,891         | 175                           | 7,632          |
| \$1,000,000 under \$5,000,000.....            | 147               | 299,837                               | 147                           | 231,710          | 147                                      | 68,127         | 140                           | 21,452         |
| \$5,000,000 or more.....                      | 21                | 534,038                               | 21                            | 370,195          | 21                                       | 163,844        | 21                            | 53,152         |

<sup>1</sup> Excludes cost of sales and services, which was not included on the return as a component of total deductions. It was subtracted from gross receipts in computing gross profit from sales and services, reported as a gross income component. Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and other deductible items.

<sup>2</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 taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the environmental tax.

<sup>3</sup> Organizations with gross UBI between \$1,000 (the filing threshold) and \$10,000 were required to report only a total for gross UBI and for deductions (except for the specific deduction, which all organizations reported separately). Organizations with gross UBI over \$10,000 were required to report each income item and deduction separately, as shown in Tables 6 and 7.

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

# Exempt Organization Business Income Tax Returns, 1991.

**Table 5.—Organizations with Gross Unrelated Business Income (UBI) of \$1,000 or More: Number of Returns, Gross UBI, Total Deductions, Unrelated Business Taxable Income (UBTI) Less Deficit and Total Income Tax, by Unrelated Business Activity or Industrial Grouping**

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

| Unrelated business activity or industrial grouping                                   | Number of returns | Gross unrelated business income (UBI) | Total deductions <sup>1</sup> |                  | Unrelated business taxable income (UBTI) less deficit |                 | Total income tax <sup>2</sup> |                |
|--|-------------------|---------------------------------------|-------------------------------|------------------|---|-----------------|-------------------------------|----------------|
|  |                   |                                       | Number of returns             | Amount           | Number of returns                                     | Amount          | Number of returns             | Amount         |
|  | (1)               | (2)                                   | (3)                           | (4)              | (5)   | (6)             | (7)                           | (8)            |
| <b>All activities and groupings, total.....</b>                                      | <b>32,690</b>     | <b>3,384,698</b>                      | <b>32,136</b>                 | <b>4,047,183</b> | <b>28,013</b>   | <b>-662,487</b> | <b>13,905</b>                 | <b>116,933</b> |
| Agriculture, forestry, and fishing.....  | 312               | 15,689                                | 312                           | 41,118           | 275   | -25,428         | 64                            | 324            |
| Mining.....  | 253               | 9,059                                 | 253                           | 11,930           | 218   | -2,871          | 127                           | 1,006          |
| Construction.....  | *13               | *1,331                                | *13                           | *536             | *7  | *794            | *7                            | *241           |
| Manufacturing.....   | 1,495             | 117,765                               | 1,495                         | 123,729          | 1,241   | -5,964          | 286                           | 7,097          |
| Transportation and public utilities.....   | 259               | 61,680                                | 258                           | 71,717           | 255   | -10,036         | 180                           | 1,223          |
| Wholesale trade.....   | *170              | *1,908                                | *170                          | *3,031           | *169  | *-1,123         | *72                           | *88            |
| Retail trade.....  | 3,372             | 368,320                               | 3,372                         | 510,532          | 3,178   | -142,212        | 1,563                         | 4,241          |
| Services.....  | 12,040            | 1,511,965                             | 11,945                        | 1,952,238        | 9,908   | -440,274        | 3,674                         | 21,976         |
| Finance, insurance, and real estate, total.....                                      | 11,862            | 1,136,852                             | 11,525                        | 1,120,584        | 10,329  | 16,266          | 6,440                         | 77,391         |
| Unrelated debt-financed activity, except rental of real estate.....                  | 899               | 72,973                                | 862                           | 61,422           | 898   | 11,551          | 646                           | 8,665          |
| Investment activities of Code section 501(c)(7), (9), (17), and (20) organizations.. | 4,322             | 291,645                               | 4,156                         | 164,528          | 3,517   | 127,116         | 3,076                         | 42,712         |
| Rental of personal property.....   | 989               | 34,314                                | 953                           | 54,657           | 910   | -20,344         | 585                           | 613            |
| Passive income activities with controlled organizations.....                         | 192               | 19,794                                | 168                           | 24,874           | 190   | -5,079          | 120                           | 574            |
| Other finance, insurance, and real estate.....                                       | 5,460             | 718,126                               | 5,386                         | 815,103          | 4,814   | -96,978         | 2,013                         | 24,827         |
| Exploited exempt activities.....   | 526               | 47,332                                | 526                           | 62,190           | 473   | -14,858         | 245                           | 1,070          |
| Not allocable.....   | 2,388             | 112,798                               | 2,267                         | 149,579          | 1,960   | -36,781         | 1,248                         | 2,277          |

\* 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 not included on the return as a component of total deductions. It was subtracted from gross receipts in computing gross profit from sales and services, reported as a gross income component. Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and other deductible items.

<sup>2</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 taxes from recapture of certain prior-year credits, the "alternative minimum tax," and the environmental tax.

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

# Exempt Organization Business Income Tax Returns, 1991

**Table 6.--Organizations with Gross Unrelated Business Income (UBI) of \$1,000 or More: Sources of Gross UBI, by Size of Gross UBI**

(All data are estimates based on samples--money amounts are in thousands of dollars)

| Size of gross unrelated business income (UBI) | Total number of returns | Total gross unrelated business income (UBI) | Gross unrelated business income (UBI)                         |               |   |                  |
|---|-------------------------|---|---|---------------|---|------------------|
|   |                         |   | Organizations with gross UBI of \$10,000 or less <sup>1</sup> |               | Organizations with gross UBI over \$10,000 <sup>1</sup> |                  |
|   |                         |   | Number of returns   | Gross UBI     | Total   |                  |
|   |                         |   |   |               | Number of returns                                       | Amount           |
| (1)   | (2)                     | (3)   | (4)   | (5)           | (6)   |                  |
| <b>Total</b> .....                            | <b>32,690</b>           | <b>3,384,698</b>                            | <b>14,819</b>   | <b>60,392</b> | <b>17,871</b>   | <b>3,324,307</b> |
| \$1,000 under \$10,001 <sup>1</sup> .....     | 14,819                  | 60,392                                      | 14,819  | 60,392        | --  | --               |
| \$10,001 under \$100,000 <sup>1</sup> .....   | 12,987                  | 454,243                                     | --  | --            | 12,987  | 454,243          |
| \$100,000 under \$500,000.....                | 3,930                   | 845,957                                     | --  | --            | 3,930   | 845,957          |
| \$500,000 under \$1,000,000.....              | 521                     | 360,311                                     | --  | --            | 521   | 360,311          |
| \$1,000,000 under \$5,000,000.....            | 381                     | 737,127                                     | --  | --            | 381   | 737,127          |
| \$5,000,000 or more.....                      | 52                      | 926,669                                     | --  | --            | 52  | 926,669          |

| Size of gross unrelated business income (UBI) | Gross unrelated business income (UBI)-- Continued                   |                  |                         |               |                                |           |
|---|---|------------------|-------------------------|---------------|--------------------------------|-----------|
|   | Organizations with gross UBI over \$10,000 <sup>1</sup> --Continued |                  |                         |               |                                |           |
|   | Gross profit (less loss) from sales and services                    |                  | Capital gain net income |               | Net capital loss (trusts only) |           |
|   | Number of returns   | Amount           | Number of returns       | Amount        | Number of returns              | Amount    |
| (7)   | (8)   | (9)              | (10)                    | (11)          | (12)                           |           |
| <b>Total</b> .....                            | <b>9,312</b>  | <b>1,418,634</b> | <b>249</b>              | <b>72,092</b> | <b>8</b>                       | <b>24</b> |
| \$1,000 under \$10,001 <sup>1</sup> .....     | --  | --               | --                      | --            | --                             | --        |
| \$10,001 under \$100,000 <sup>1</sup> .....   | 5,991   | 195,723          | 147                     | 2,112         | --                             | --        |
| \$100,000 under \$500,000.....                | 2,723   | 476,836          | 72                      | 5,849         | 4                              | 12        |
| \$500,000 under \$1,000,000.....              | 343   | 180,503          | 7                       | 1,983         | --                             | --        |
| \$1,000,000 under \$5,000,000.....            | 230   | 334,558          | 16                      | 10,685        | } 4                            | 12        |
| \$5,000,000 or more.....                      | 25  | 231,015          | 7                       | 51,463        |                                |           |

| Size of gross unrelated business income (UBI) | Gross unrelated business income (UBI)-- Continued                   |              |                                      |               |                            |               |
|---|---|--------------|--------------------------------------|---------------|----------------------------|---------------|
|   | Organizations with gross UBI over \$10,000 <sup>1</sup> --Continued |              |                                      |               |                            |               |
|   | Net gain (less loss), non-capital assets <sup>2</sup>               |              | Income (less loss) from partnerships |               | Rental income <sup>3</sup> |               |
|   | Number of returns   | Amount       | Number of returns                    | Amount        | Number of returns          | Amount        |
| (13)  | (14)  | (15)         | (16)                                 | (17)          | (18)                       |               |
| <b>Total</b> .....                            | <b>215</b>  | <b>5,233</b> | <b>613</b>                           | <b>27,812</b> | <b>1,965</b>               | <b>96,808</b> |
| \$1,000 under \$10,001 <sup>1</sup> .....     | --  | --           | --                                   | --            | --                         | --            |
| \$10,001 under \$100,000 <sup>1</sup> .....   | 140   | 795          | 492                                  | 9,879         | 1,519                      | 27,385        |
| \$100,000 under \$500,000.....                | 48  | 446          | 75                                   | 4,942         | 384                        | 38,066        |
| \$500,000 under \$1,000,000.....              | 12  | 685          | 11                                   | 395           | 26                         | 5,693         |
| \$1,000,000 under \$5,000,000.....            | 12  | 1,761        | 23                                   | 8,670         | 33                         | 17,651        |
| \$5,000,000 or more.....                      | 3   | 1,545        | 11                                   | 3,925         | 3                          | 8,013         |

Footnotes at end of table.

# Exempt Organization Business Income Tax Returns, 1991

**Table 6.--Organizations with Gross Unrelated Business Income (UBI) of \$1,000 or More: Sources of Gross UBI, by Size of Gross UBI--Continued**

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

| Size of gross unrelated business income (UBI) | Gross unrelated business income (UBI)-- Continued                   |                |  |                |   |               |
|---|---|----------------|--|----------------|---|---------------|
|   | Organizations with gross UBI over \$10,000 <sup>1</sup> --Continued |                |  |                |   |               |
|   | Unrelated debt-financed income                                      |                | Investment income (less loss) <sup>4</sup> |                | Income from controlled organizations <sup>5</sup> |               |
|   | Number of returns   | Amount         | Number of returns                          | Amount         | Number of returns                                 | Amount        |
|   | (19)  | (20)           | (21)                                       | (22)           | (23)  | (24)          |
| <b>Total.....</b>                             | <b>1,514</b>  | <b>222,840</b> | <b>2,715</b>                               | <b>198,455</b> | <b>484</b>  | <b>33,638</b> |
| \$1,000 under \$10,001 <sup>1</sup> .....     | --  | --             | --   | --             | --  | --            |
| \$10,001 under \$100,000 <sup>1</sup> .....   | 1,025   | 23,131         | 1,923                                      | 30,114         | 275   | 5,362         |
| \$100,000 under \$500,000.....                | 337   | 51,274         | 692  | 43,814         | 157   | 8,145         |
| \$500,000 under \$1,000,000.....              | 71  | 19,494         | 73   | 29,304         | 24  | 4,090         |
| \$1,000,000 under \$5,000,000.....            | 63  | 67,076         | 20   | 27,496         | 23  | 8,889         |
| \$5,000,000 or more.....                      | 18  | 61,864         | 8  | 67,728         | 5   | 7,152         |

| Size of gross unrelated business income (UBI) | Gross unrelated business income (UBI)-- Continued                   |               |                    |                |                          |                |
|---|---|---------------|--------------------|----------------|--------------------------|----------------|
|   | Organizations with gross UBI over \$10,000 <sup>1</sup> --Continued |               |                    |                |                          |                |
|   | Exploited exempt activity income, except advertising                |               | Advertising income |                | Other income (less loss) |                |
|   | Number of returns   | Amount        | Number of returns  | Amount         | Number of returns        | Amount         |
|   | (25)  | (26)          | (27)               | (28)           | (29)                     | (30)           |
| <b>Total.....</b>                             | <b>545</b>  | <b>40,118</b> | <b>4,216</b>       | <b>561,824</b> | <b>4,527</b>             | <b>646,878</b> |
| \$1,000 under \$10,001 <sup>1</sup> .....     | --  | --            | --                 | --             | --                       | --             |
| \$10,001 under \$100,000 <sup>1</sup> .....   | 412   | 8,734         | 3,194              | 88,526         | 3,212                    | 62,481         |
| \$100,000 under \$500,000.....                | 90  | 14,584        | 723                | 111,675        | 1,058                    | 90,337         |
| \$500,000 under \$1,000,000.....              | 6   | 1,869         | 164                | 77,509         | 135                      | 38,785         |
| \$1,000,000 under \$5,000,000.....            | 33  | 13,182        | 122                | 153,007        | 106                      | 94,162         |
| \$5,000,000 or more.....                      | 4   | 1,748         | 13                 | 131,106        | 17                       | 361,113        |

<sup>1</sup> Organizations with gross UBI between \$1,000 (the filing threshold) and \$10,000 were required to report only a total for gross UBI. Organizations with gross UBI over \$10,000 were required to report each income item, as shown in columns 7 through 30.

<sup>2</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>3</sup> Income from real property and personal property leased with real property.

<sup>4</sup> Reported by Internal Revenue Code section 501(c)(7), (9), (17), and (20) organizations only.

<sup>5</sup> Annuities, interest, rents, and royalties.

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

# Exempt Organization Business Income Tax Returns, 1991

**Table 7.—Organizations with Gross Unrelated Business Income (UBI) of \$1,000 or More: Types of Deductions, by Size of Gross UBI**

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

| Size of gross unrelated business income (UBI) | Total number of returns | Total deductions <sup>1</sup> |                  | Organizations with gross unrelated business income (UBI) of \$10,000 or less <sup>2</sup> |               |                    |              | Organizations with gross unrelated business income (UBI) over \$10,000 <sup>2</sup> |                  |
|---|-------------------------|-------------------------------|------------------|---|---------------|--------------------|--------------|---|------------------|
|   |                         | Number of returns             | Amount           | Total deductions  |               | Specific deduction |              | Total deductions  |                  |
|   |                         |                               |                  | 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>32,890</b>           | <b>32,136</b>                 | <b>4,047,183</b> | <b>14,464</b>   | <b>92,431</b> | <b>8,382</b>       | <b>7,568</b> | <b>17,672</b>   | <b>3,954,752</b> |
| \$1,000 under \$10,001 <sup>2</sup> .....     | 14,819                  | 14,464                        | 92,431           | 14,464  | 92,431        | 8,382              | 7,568        | --  | --               |
| \$10,001 under \$100,000 <sup>2</sup> .....   | 12,987                  | 12,794                        | 603,381          | --  | --            | --                 | --           | 12,794  | 603,381          |
| \$100,000 under \$500,000.....                | 3,930                   | 3,924                         | 1,165,458        | --  | --            | --                 | --           | 3,924   | 1,165,458        |
| \$500,000 under \$1,000,000.....              | 521                     | 521                           | 458,160          | --  | --            | --                 | --           | 521   | 458,160          |
| \$1,000,000 under \$5,000,000.....            | 381                     | 381                           | 895,540          | --  | --            | --                 | --           | 381   | 895,540          |
| \$5,000,000 or more.....                      | 52                      | 52                            | 832,213          | --  | --            | --                 | --           | 52  | 832,213          |

| Size of gross unrelated business income (UBI) | Organizations with gross unrelated business income (UBI) over \$10,000 <sup>2</sup> —Continued |                  |   |               |  |                |   |              |  |
|---|--|------------------|---|---------------|--|----------------|---|--------------|--|
|   | Deductions directly connected with UBI   |                  |   |               |  |                |   |              |  |
|   | Total  |                  | Allocable to rental income <sup>3</sup> |               | Allocable to unrelated debt-financed income <sup>3</sup> |                | Allocable to investment income <sup>3,4</sup> |              |  |
|   | Number of returns  | Amount           | Number of returns                       | Amount        | Number of returns  | Amount         | Number of returns                             | Amount       |  |
|   | (10)   | (11)             | (12)                                    | (13)          | (14)   | (15)           | (16)  | (17)         |  |
| <b>Total</b> .....                            | <b>16,614</b>  | <b>3,744,370</b> | <b>405</b>                              | <b>38,312</b> | <b>1,423</b>   | <b>256,008</b> | <b>644</b>                                    | <b>6,526</b> |  |
| \$1,000 under \$10,001 <sup>2</sup> .....     | --   | --               | --                                      | --            | --   | --             | --  | --           |  |
| \$10,001 under \$100,000 <sup>2</sup> .....   | 11,899   | 563,673          | 245                                     | 5,752         | 953  | 27,896         | 339   | 1,156        |  |
| \$100,000 under \$500,000.....                | 3,809  | 1,123,619        | 143                                     | 26,406        | 323  | 54,198         | 272   | 2,542        |  |
| \$500,000 under \$1,000,000.....              | 480  | 401,827          | 4                                       | 525           | 69   | 24,229         | 19  | 288          |  |
| \$1,000,000 under \$5,000,000.....            | 375  | 854,016          | 13                                      | 5,629         | 60   | 67,875         | 11  | 594          |  |
| \$5,000,000 or more.....                      | 50   | 801,235          | 18                                      | 81,810        | 18   | 81,810         | 3   | 1,946        |  |

| Size of gross unrelated business income (UBI) | Organizations with gross unrelated business income (UBI) over \$10,000 <sup>2</sup> —Continued |               |  |               |                                       |                |   |               |  |
|---|--|---------------|--|---------------|---------------------------------------|----------------|---|---------------|--|
|   | Deductions directly connected with UBI—Continued   |               |  |               |                                       |                |   |               |  |
|   | Allocable to income from controlled organizations <sup>3</sup>                                 |               | Allocable to exploited exempt-activity income, except advertising <sup>3</sup> |               | Direct advertising costs <sup>3</sup> |                | Compensation of officers, directors, and trustees |               |  |
|   | Number of returns  | Amount        | Number of returns  | Amount        | Number of returns                     | Amount         | Number of returns                                 | Amount        |  |
|   | (18)   | (19)          | (20)   | (21)          | (22)                                  | (23)           | (24)  | (25)          |  |
| <b>Total</b> .....                            | <b>247</b>   | <b>20,812</b> | <b>476</b>   | <b>31,203</b> | <b>3,864</b>                          | <b>413,946</b> | <b>1,633</b>                                      | <b>29,445</b> |  |
| \$1,000 under \$10,001 <sup>2</sup> .....     | --   | --            | --   | --            | --                                    | --             | --  | --            |  |
| \$10,001 under \$100,000 <sup>2</sup> .....   | 115  | 1,846         | 348  | 5,746         | 2,933                                 | 76,488         | 1,100   | 9,407         |  |
| \$100,000 under \$500,000.....                | 105  | 5,037         | 89   | 12,899        | 638                                   | 92,690         | 407   | 9,299         |  |
| \$500,000 under \$1,000,000.....              | 10   | 2,395         | 5  | 1,324         | 160                                   | 41,844         | 71  | 3,306         |  |
| \$1,000,000 under \$5,000,000.....            | 16   | 11,534        | 30   | 10,074        | 120                                   | 113,760        | 43  | 3,359         |  |
| \$5,000,000 or more.....                      | 16   | 11,534        | 4  | 1,160         | 13                                    | 89,164         | 12  | 4,074         |  |

| Size of gross unrelated business income (UBI) | Organizations with gross unrelated business income (UBI) over \$10,000 <sup>2</sup> —Continued |                |                   |               |                   |               |                   |               |  |
|---|--|----------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|--|
|   | Deductions directly connected with UBI—Continued   |                |                   |               |                   |               |                   |               |  |
|   | Salaries and wages   |                | Repairs           |               | Bad debts         |               | Interest          |               |  |
|   | Number of returns  | Amount         | Number of returns | Amount        | Number of returns | Amount        | Number of returns | Amount        |  |
|   | (26)   | (27)           | (28)              | (29)          | (30)              | (31)          | (32)              | (33)          |  |
| <b>Total</b> .....                            | <b>8,844</b>   | <b>611,482</b> | <b>5,853</b>      | <b>41,046</b> | <b>678</b>        | <b>13,208</b> | <b>2,522</b>      | <b>49,481</b> |  |
| \$1,000 under \$10,001 <sup>2</sup> .....     | --   | --             | --                | --            | --                | --            | --                | --            |  |
| \$10,001 under \$100,000 <sup>2</sup> .....   | 5,483  | 90,796         | 3,931             | 10,703        | 342               | 255           | 1,451             | 4,802         |  |
| \$100,000 under \$500,000.....                | 2,563  | 207,720        | 1,565             | 15,075        | 226               | 1,073         | 898               | 20,515        |  |
| \$500,000 under \$1,000,000.....              | 355  | 73,692         | 207               | 5,605         | 50                | 1,414         | 89                | 4,380         |  |
| \$1,000,000 under \$5,000,000.....            | 216  | 131,355        | 134               | 6,469         | 52                | 4,364         | 70                | 8,194         |  |
| \$5,000,000 or more.....                      | 26   | 107,919        | 16                | 3,194         | 8                 | 6,102         | 14                | 11,590        |  |

# Exempt Organization Business Income Tax Returns, 1991

**Table 7.--Organizations with Gross Unrelated Business Income (UBI) of \$1,000 or More: Types of Deductions, by Size of Gross UBI--Continued**

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

| Size of gross unrelated business income (UBI) | Organizations with gross unrelated business income (UBI) over \$10,000 <sup>2</sup> --Continued |         |                   |        |                   |        |  |        |
|---|---|---------|-------------------|--------|-------------------|--------|--|--------|
|   | Deductions directly connected with UBI--Continued   |         |                   |        |                   |        |  |        |
|   | Taxes paid deduction  |         | Depreciation      |        | Depletion         |        | Contributions to deferred compensation plans |        |
|   | Number of returns   | Amount  | Number of returns | Amount | Number of returns | Amount | Number of returns                            | Amount |
|   | (34)  | (35)    | (36)              | (37)   | (38)              | (39)   | (40)   | (41)   |
| <b>Total</b> .....                            | 8,993   | 106,071 | 6,164             | 92,402 | 89                | 2,891  | 853  | 10,763 |
| \$1,000 under \$10,001 <sup>2</sup> .....     | --  | --      | --                | --     | --                | --     | --   | --     |
| \$10,001 under \$100,000 <sup>2</sup> .....   | 6,360   | 25,419  | 4,067             | 17,600 | *59               | *432   | 472  | 346    |
| \$100,000 under \$500,000.....                | 2,187   | 41,773  | 1,673             | 29,387 | 22                | 736    | 311  | 2,413  |
| \$500,000 under \$1,000,000.....              | 262   | 12,339  | 222               | 10,714 | 3                 | 1,148  | 36   | 717    |
| \$1,000,000 under \$5,000,000.....            | 156   | 12,038  | 177               | 19,122 | 5                 | 575    | 26   | 616    |
| \$5,000,000 or more.....                      | 28  | 14,501  | 25                | 15,560 | --                | --     | 8  | 6,671  |

| Size of gross unrelated business income (UBI) | Organizations with gross unrelated business income (UBI) over \$10,000 <sup>2</sup> --Continued |        |                              |         |                   |           |  |         |
|---|---|--------|------------------------------|---------|-------------------|-----------|--|---------|
|   | Deductions directly connected with UBI--Continued   |        |                              |         |                   |           | Deductions not directly connected with UBI |         |
|   | Contributions to employee benefit programs  |        | Net operating loss carryover |         | Other deductions  |           | Total <sup>1</sup>                         |         |
|   | Number of returns   | Amount | Number of returns            | Amount  | Number of returns | Amount    | Number of returns                          | Amount  |
|   | (42)  | (43)   | (44)                         | (45)    | (46)              | (47)      | (48)                                       | (49)    |
| <b>Total</b> .....                            | 3,018   | 63,441 | 4,686                        | 757,815 | 11,705            | 1,199,517 | 9,194                                      | 210,382 |
| \$1,000 under \$10,001 <sup>2</sup> .....     | --  | --     | --                           | --      | --                | --        | --   | --      |
| \$10,001 under \$100,000 <sup>2</sup> .....   | 1,619   | 4,512  | 2,924                        | 159,624 | 7,887             | 120,894   | 6,888                                      | 39,708  |
| \$100,000 under \$500,000.....                | 1,083   | 14,964 | 1,425                        | 291,445 | 3,111             | 295,448   | 1,841                                      | 41,839  |
| \$500,000 under \$1,000,000.....              | 166   | 6,799  | 174                          | 93,494  | 398               | 117,615   | 271  | 58,334  |
| \$1,000,000 under \$5,000,000.....            | 131   | 17,534 | 143                          | 169,893 | 271               | 276,972   | 164  | 41,524  |
| \$5,000,000 or more.....                      | 19  | 19,633 | 20                           | 43,359  | 37                | 388,591   | 29   | 30,978  |

| Size of gross unrelated business income (UBI) | Organizations with gross unrelated business income (UBI) over \$10,000 <sup>2</sup> --Continued |        |                   |        |                         |        |                        |         |
|---|---|--------|-------------------|--------|-------------------------|--------|------------------------|---------|
|   | Deductions not directly connected with UBI--Continued   |        |                   |        |                         |        |                        |         |
|   | Specific deduction  |        | Contributions     |        | Set-asides <sup>4</sup> |        | Excess exempt expenses |         |
|   | Number of returns   | Amount | Number of returns | Amount | Number of returns       | Amount | Number of returns      | Amount  |
|   | (50)  | (51)   | (52)              | (53)   | (54)                    | (55)   | (56)                   | (57)    |
| <b>Total</b> .....                            | 7,321   | 7,210  | 1,204             | 33,617 | 337                     | 56,478 | 1,672                  | 113,077 |
| \$1,000 under \$10,001 <sup>2</sup> .....     | --  | --     | --                | --     | --                      | --     | --                     | --      |
| \$10,001 under \$100,000 <sup>2</sup> .....   | 5,535   | 5,442  | 877               | 16,390 | 208                     | 5,638  | 1,156                  | 12,238  |
| \$100,000 under \$500,000.....                | 1,478   | 1,464  | 251               | 5,220  | 83                      | 14,718 | 341                    | 20,436  |
| \$500,000 under \$1,000,000.....              | 157   | 154    | 33                | 863    | 40                      | 22,267 | 88                     | 33,049  |
| \$1,000,000 under \$5,000,000.....            | 129   | 129    | 30                | 2,987  | 6                       | 13,855 | 77                     | 34,475  |
| \$5,000,000 or more.....                      | 21  | 21     | 13                | 8,156  | --                      | --     | 9                      | 12,879  |

<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> Excludes cost of sales and services, which was not included on the return as a component of total deductions. It was subtracted from gross receipts in computing gross profit from sales and services, reported as a gross income component. Cost of sales and services can include amounts attributable to depreciation, salaries and wages, and other deductible items.

<sup>3</sup> Organizations with gross UBI between \$1,000 (the filing threshold) and \$10,000 were required to report only a total for deductions (except for the specific deduction, which all organizations reported separately). Organizations with gross UBI over \$10,000 were required to report each deduction separately, as shown in columns 12 through 57.

<sup>4</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>5</sup> Reported by Internal Revenue Code section 501(c)(7), (9), (17), and (20) organizations only.

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



# Exempt Organization Business Income Tax Returns, 1991

## Appendix

### Types of Exempt Organizations Subject to the Unrelated Business Income Tax Provisions

| IRC section | Description of organization  | General nature of activities   |
|-------------|--|--|
|             | (1)  | (2)  |
| 401(a)      | Qualified pension, profit sharing, and stock bonus plans   | Fiduciary agent for pension, profit sharing, or stock bonus plans  |
| 408(e)      | Individual Retirement Arrangements   | Fiduciary agent for retirement funds   |
| 501(c)(2)   | Title holding corporations for exempt organizations  | Holding title to property for exempt organizations   |
| (3)         | Religious, educational, charitable, scientific, or literary organizations; testing for public safety organizations. Also, organizations preventing cruelty to children or animals, or fostering national or international amateur sports competition | Activities of a nature implied by the description of the class of organization   |
| (4)         | Civic leagues, social welfare organizations, and local associations of employees   | Promotion of community welfare, charitable, educational, or recreational activities  |
| (5)         | Labor, agricultural, and horticultural organizations   | Educational or instructive groups whose purpose is to improve conditions of work, products, and efficiency   |
| (6)         | Business leagues, chambers of commerce, real estate boards, and like organizations   | Improving conditions in one or more lines of business  |
| (7)         | Social and recreational clubs  | Pleasure, recreation, and social activities  |
| (8)         | Fraternal beneficiary societies and associations   | Lodge providing for payment of life, sickness, accident, or other benefits to members  |
| (9)         | Voluntary employees' beneficiary associations (including Federal employees' voluntary beneficiary associations formerly covered by section 501(c)(10))   | Providing for payment of life, sickness, accident, or other benefits to members  |
| (10)        | Domestic fraternal societies and associations  | Lodges, societies, or associations devoting their net earnings to charitable, fraternal, and other specified purposes, without life, sickness, or accident benefits to members |
| (11)        | Teachers' retirement fund associations   | Fiduciary association providing for payment of retirement benefits   |
| (12)        | Benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, and like organizations  | Activities of a mutually beneficial nature implied by the description of the class of organization   |
| (13)        | Cemetery companies   | Arranging for burials and incidental related activities  |
| (14)        | State chartered credit unions and mutual reserve funds   | Providing loans to members   |

# Exempt Organization Business Income Tax Returns, 1991

## Appendix Types of Exempt Organizations Subject to the Unrelated Business Income Tax Provisions-- Continued

| IRC section | Description of organization  | General nature of activities   |
|-------------|--|--|
|             | (1)  | (2)  |
| 501(c)(15)  | Mutual insurance companies or associations other than life, if written premiums for the year do not exceed \$350,000                       | Providing insurance to members, substantially at cost  |
| (16)        | Corporations organized to finance crop operations  | Financing crop operations in conjunction with activities of a marketing or purchasing association  |
| (17)        | Supplemental unemployment benefit trusts   | Fiduciary agent for payment of supplemental unemployment compensation benefits   |
| (18)        | Employee funded pension trusts (created before June 25, 1959)  | Providing for payments of benefits under a pension plan funded by employees  |
| (19)        | Posts or organizations of past or present members of the armed forces  | Activities implied by the nature of the organization   |
| (20)        | Prepaid legal service funds <sup>1</sup>   | Providing legal services exclusively to employees  |
| (21)        | Black lung benefit trusts  | Created by coal mine operators to satisfy their liability for disability or death due to black lung disease  |
| (22)        | Withdrawal liability payment funds   | Providing funds to meet the liability of employers withdrawing from a multi-employee 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 |
| 501(e)      | Cooperative hospital service organizations   | Performing cooperative services for exempt hospitals   |
| 501(f)      | Cooperative service organizations of operating educational organizations   | Performing collective investment services for exempt educational organizations   |

<sup>1</sup> Beginning with tax years after June 30, 1992, section 501(c)(20) organizations were no longer tax-exempt.